

# Schwab Tax-Free Bond Funds

## Annual Report

August 31, 2005

Schwab Tax-Free  
YieldPlus Fund™

Schwab Short/Intermediate  
Tax-Free Bond Fund™

Schwab Long-Term  
Tax-Free Bond Fund™

Schwab California Tax-Free  
YieldPlus Fund™

Schwab California  
Short/Intermediate  
Tax-Free Bond Fund™

Schwab California Long-Term  
Tax-Free Bond Fund™

*charles* SCHWAB

*Six funds designed to offer tax-free income.<sup>1</sup>*

## In this report

Management's Discussion . . . . .	2
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### Performance and Fund Facts

Schwab Tax-Free YieldPlus Fund™ . . . . .	7
Schwab Short/Intermediate Tax-Free Bond Fund™ . . . . .	10
Schwab Long-Term Tax-Free Bond Fund™ . . . . .	12
Schwab California Tax-Free YieldPlus Fund™ . . . . .	14
Schwab California Short/Intermediate Tax-Free Bond Fund™ . . . . .	17
Schwab California Long-Term Tax-Free Bond Fund™ . . . . .	19

Fund Expenses . . . . .	21
-------------------------	----

### Financial Statements

Schwab Tax-Free YieldPlus Fund™ . . . . .	23
Schwab Short/Intermediate Tax-Free Bond Fund™ . . . . .	37
Schwab Long-Term Tax-Free Bond Fund™ . . . . .	47
Schwab California Tax-Free YieldPlus Fund™ . . . . .	56
Schwab California Short/Intermediate Tax-Free Bond Fund™ . . . . .	67
Schwab California Long-Term Tax-Free Bond Fund™ . . . . .	75

Financial Notes . . . . .	84
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Investment Advisory Agreement Approval . . . . .	88
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Trustees and Officers . . . . .	91
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Glossary . . . . .	95
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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM).  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

<sup>1</sup> A portion of income may be subject to the alternative minimum tax (AMT) and, for the national funds, state and local income taxes as well.

# From the Chairman



Charles Schwab  
Chairman

*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 1-800-435-4000. Please read the prospectus carefully before investing.*

*Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.*

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors looking for value, performance, and service. That mission continues to guide us today as we constantly innovate on behalf of investors. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have now grown to include 56 funds with over \$140 billion in assets serving over 5 million shareholder accounts as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., one of the largest mutual fund managers in the U.S. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models in the country. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

This commitment and experience is evident in our funds' performance. At this time, I'm especially pleased to highlight the strong performance of Schwab YieldPlus Fund which has placed in the top ten in its category since inception. With a target duration of just under a year, this fund is designed for your longer-term cash holdings. And, to respond to needs of our clients who are tax sensitive, we also offer the Schwab Tax-Free YieldPlus Fund and Schwab California Tax-Free YieldPlus Fund. (Source: Lipper Ultra Short Funds Category. For periods ending August 31, 2005, rankings were as follows, respectively, for Select Shares and Investor Shares: for the 1-year period: #3 and #8 out of 71 funds; for the 3-year period: #2 and #3 out of 50 funds; for the 5-year period: #3 and #6 out of 37 funds.)

In closing, I want to thank you for investing with us. We strive every day to warrant the trust you have placed in us; that will never change.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

# Management's Discussion for the year ended August 31, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

I'm pleased to bring you the annual report for Schwab Bond Funds. Lead by the popularity of Schwab YieldPlus Fund, our bond fund assets have grown to over \$9 billion as of the close of the report period.

Schwab Funds offers an array of taxable and tax free funds across a range of maturities to meet your fixed income investment needs. This includes our two newest tax-free funds—Schwab Tax-Free YieldPlus Fund and Schwab California Tax-Free YieldPlus Fund. These funds are designed to help you get more from your long-term cash investments. Further, in response to growing investor concern over the federal alternative minimum tax (AMT), neither of these two funds has invested in securities that generate income subject to AMT.

Since my previous message to you, we have expanded our fund offering. First of all, on July 1, 2005, Schwab Funds launched the Schwab Target Funds, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

More recently, on October 3, 2005, we added the Schwab Large-Cap Growth Fund to our suite of actively managed funds. These funds leverage Schwab Equity Ratings, Schwab's industry-recognized, disciplined methodology for identifying stocks with excellent performance potential. The Schwab Large-Cap Growth Fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion.

I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in cursive script that reads "Evelyn Dilsaver".

*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 1-800-435-4000. Please read the prospectus carefully before investing.*

*Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.*



**Joanne Larkin**, a vice president of the investment adviser, has had overall management responsibility for the funds since their inception. She joined the firm in 1992, and has worked in fixed-income asset management and research since 1984.

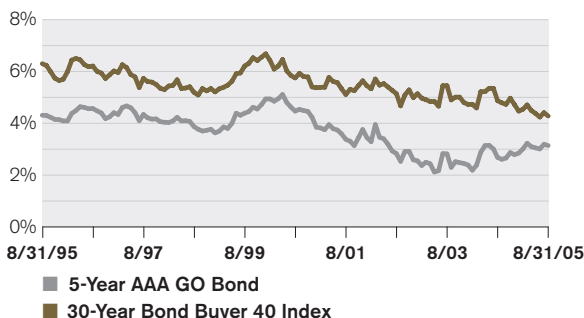
## The Investment Environment and the Funds

Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising rates eight times in the one-year report period. GDP continued to grow at a healthy pace, with the rate of growth decelerating during the report period. At the same time, the housing market remained strong, although some signs of softening had materialized by the end of the period. Finally, hurricane Katrina occurred just at the close of the report period. Although the economic impact of this event is unknown as of this time, the consensus is that it has potential to be significant, especially on the federal budget deficits.

The firming labor market kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investment grew only moderately, but consumers continued to spend. In fact, consumer confidence fluttered to cyclical highs, rising to levels not experienced since before September 11, 2001, although consumers continued to express concern about the future. In addition, lower-end retailers complained that high fuel prices have started to cut into their bottom lines. Despite these concerns, job and income growth remained positive for domestic consumption.

**Yields of Municipal Securities: Effective Yields of Five-Year and 30-Year Municipal Bonds**



Yields, or interest rates, represent the cost of borrowing money. Rapid economic growth, waning investor interest in bonds, an increase in the issuance of bonds, or the expectation of higher inflation can drive rates up, while the opposite conditions can push rates down.

Data source: Bloomberg L.P.



**Kim Daifotis, CFA**, a senior vice president and chief investment officer, fixed income, of the investment adviser, co-manages the tax-free YieldPlus funds. He joined the firm in 1997, and has worked in fixed-income asset management and research since 1982.

High energy prices remained a significant headwind for economic performance, but they were offset by gains in wealth from home price appreciation. At the end of the 12-month report period, a barrel of oil cost nearly \$69 versus \$42 at the beginning of the period.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, and slow growth in the money supply have mostly kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, also helped to keep long-term interest rates under control. These conditions caused the dollar to rally unexpectedly, which took pressure off the price of imported goods.

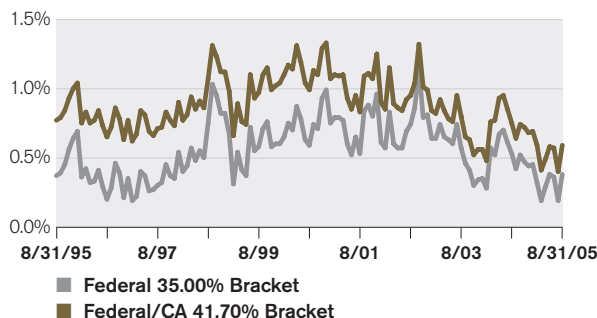
Amid signs of solidly expanding output and improved hiring, the Federal Reserve Open Market Committee continued to raise the benchmark Fed funds' rate. It increased short-term interest rates at 10 consecutive meetings, including eight times within the report period, ending the 12-month report period at a still moderate 3.50%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began and continued low bond yields.

The Fed's actions led investors to expect that rates would continue to rise, causing the yield curve to flatten. As the Fed raised rates during the report period, the 2-Year Treasury Note yield advanced 1.43% while the 10-Year Treasury Note yield declined about 0.10%, despite the Fed's rate increases.

**Yield Advantage of Munis over Treasuries: For Five-Year Bonds; Tax Brackets Shown are the Highest Applicable**

This chart shows how much more the average five-year muni yielded than the average five-year Treasury after federal (or combined California and federal) income tax.

Data source: Bloomberg L.P.



## Performance at a Glance

Total return for the 12 months ended 8/31/05, except where noted.

**The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).**

### Schwab Tax-Free YieldPlus Fund™

Total return for 12/16/04 – 8/31/05

Investor Shares . . . . .	<b>1.26%</b>
Select Shares® . . . . .	<b>1.31%</b>
Benchmark . . . . .	<b>0.95%</b>
Fund Category¹ . . . . .	<b>0.89%</b>

*Performance Details . . . . . page 7-8*

### Schwab Short/Intermediate Tax-Free Bond Fund™ . . . . .

	<b>0.94%</b>
Benchmark . . . . .	<b>0.84%</b>
Fund Category¹ . . . . .	<b>1.11%</b>

*Performance Details . . . . . page 10*

### Schwab Long-Term Tax-Free Bond Fund™ . . . . .

	<b>3.29%</b>
Benchmark . . . . .	<b>5.31%</b>
Fund Category¹ . . . . .	<b>4.89%</b>

*Performance Details . . . . . page 12*

## The municipal yield curve continued to flatten during the report period.

As the Federal Reserve increased the Fed Funds rate, short term rates increased. Contrary to expectation, longer term rates were largely unaffected, and declined slightly resulting in a flattening of the yield curve. Municipal volume continued to reach record levels, primarily due to refunding of outstanding debt by states and municipalities.

Because we were in a relatively low interest rate environment, investors sought higher yielding securities that tended to be more volatile. Consequently, high yield sectors performed well during the report period. These would include hospital and tobacco bonds, to name a couple. This trend is evident in the return of the Lehman Brothers Non-Investment Grade Index which outpaced the Lehman Brothers Municipal Bond Index by nearly 8% for the one-year report period.

**Schwab Tax-Free YieldPlus Fund and the Schwab California Tax-Free YieldPlus Fund** outperformed their benchmark, the Lehman Brothers 1-Year Municipal Bond Index, for the period since inception. Both classes of Schwab Tax-Free YieldPlus Fund additionally beat their category average. Both of these funds commenced operations on December 16, 2004 so their performance numbers are since inception, not for the full one year period. All bonds purchased by the funds were investment grade and neither fund invested in securities that generate income subject to AMT.

**Schwab Short/Intermediate Tax-Free Bond Fund and Schwab Long-Term Tax-Free Bond Fund** had mixed results for the report period relative to their respective benchmarks. The short/intermediate fund slightly beat its benchmark but lagged the category. The long-term fund had positive returns, but fell short of its benchmark and category average for the one-year report period. We managed the funds conservatively, buying higher quality issues and avoiding more volatile sectors

All fund and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

Expenses may be partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

A portion of income may be subject to the alternative minimum tax (AMT) and, for the national funds, state and local income tax as well.

¹ Source for category information: Morningstar, Inc.

## Performance at a Glance

Total return for the 12 months ended 8/31/05, except where noted.

**The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).**

### Schwab California Tax-Free YieldPlus Fund™

Total return for 12/16/04 – 8/31/05  
Investor Shares . . . . . **0.98%**  
Select Shares . . . . . **1.03%**  
Benchmark . . . . . **0.95%**  
Fund Category<sup>1</sup> . . . . . **2.12%**

*Performance Details . . . . page 14-15*

### Schwab California Short/Intermediate Tax-Free Bond Fund™

. . . . . **1.21%**  
Benchmark . . . . . **0.84%**  
Fund Category<sup>1</sup> . . . . . **3.09%**

*Performance Details . . . . . page 17*

### Schwab California Long-Term Tax-Free Bond Fund™

. . . . . **5.24%**  
Benchmark . . . . . **5.31%**  
Fund Category<sup>1</sup> . . . . . **5.90%**

*Performance Details . . . . . page 19*

that performed well during the period. We also emphasized downside protection, buying premium bonds, which trade above par value due to their coupons exceeding market rates. Historically, these bonds have tended to retain their value when interest rates rise. The funds' duration drifted downward during the period, but we remained short relative to our peers, which slightly hurt performance. Bear in mind that this discussion reflects the funds' performance for only a one-year period. Over the longer term, our fund management strategy has been effective in producing results that are in line with the funds' benchmarks and superior to their category averages, as shown in the next section of this report.

**Schwab California Short/Intermediate Tax-Free Bond Fund and Schwab California Long-Term Tax-Free Bond Fund** also had mixed results for the report period relative to their respective benchmarks as well as their category averages. The short/intermediate fund beat its benchmark, while the long-term fund nearly matched its benchmark, underperforming by just 0.08%. The positive performance of both funds was partially due to the three major credit-rating agencies upgrading their California ratings. The upgrades served to tighten the credit-quality spreads, which contributed to California's general obligation bonds outperforming their national counterparts. Similar to how we managed the national funds, these funds were also managed conservatively and ended the period overweight in higher quality securities relative to their respective benchmarks. The funds' duration drifted downward during the period, but we remained short relative to our peers, which slightly hurt performance. Bear in mind that this discussion reflects the funds' performance for only a one-year period. Over the longer term, our fund management strategy has been effective in producing results that are in line with the funds' benchmarks and superior to their category averages, as shown in the next section of this report.

All fund and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

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A portion of income may be subject to the alternative minimum tax (AMT) and, for the national funds, state and local income tax as well.

<sup>1</sup> Source for category information: Morningstar, Inc.  
Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.



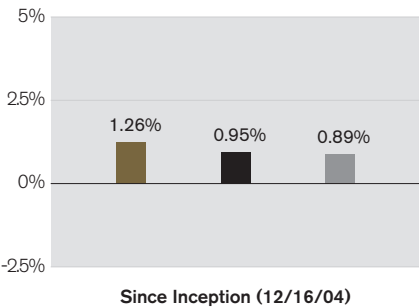
# Schwab Tax-Free YieldPlus Fund™

## Investor Shares Performance as of 8/31/05

### Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund's Investor Shares with its benchmark and Morningstar category.

- Fund: **Investor Shares** Ticker Symbol: SWYIX
- Benchmark: **Lehman Brothers 1-Year Municipal Bond Index**
- Fund Category: **Morningstar Municipal National Intermediate/Short Bond**

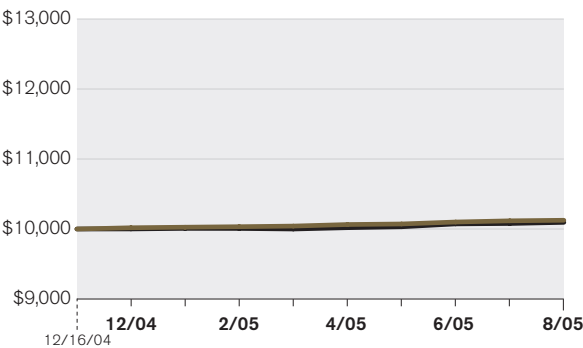


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund's Investor Shares compared with a similar investment in its benchmark.

- \$10,125 **Investor Shares**
- \$10,095 **Lehman Brothers 1-Year Municipal Bond Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

<sup>1</sup> Fund expenses have been absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

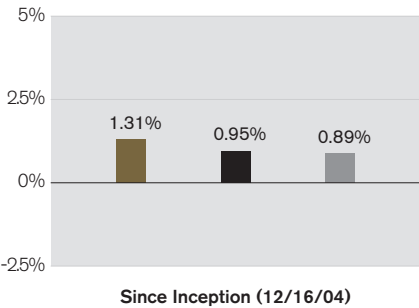
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 8/31/05

Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund's Select Shares with its benchmark and Morningstar category.

- Fund: **Select Shares** Ticker Symbol: SWYTX
- Benchmark: **Lehman Brothers 1-Year Municipal Bond Index**
- Fund Category: **Morningstar Municipal National Intermediate/Short Bond**

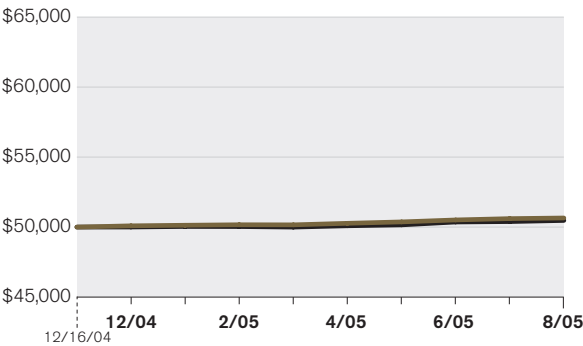


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$50,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in its benchmark.

- \$50,650 **Select Shares**
- \$50,474 **Lehman Brothers 1-Year Municipal Bond Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

<sup>1</sup> Fund expenses have been absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

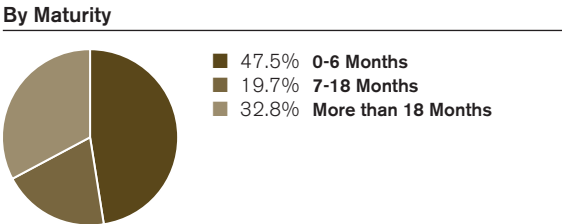
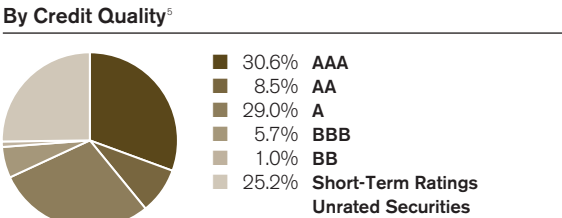
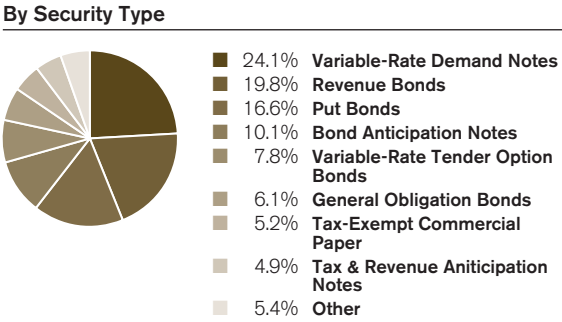
Fund Facts as of 8/31/05

Statistics	
Number of Holdings	100
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Short
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	
Investor Shares	2.26%
Select Shares	2.41%
30-Day SEC Yield-No Waiver <sup>3</sup>	
Investor Shares	2.20%
Select Shares	2.35%
Taxable-Equivalent Yield <sup>4</sup>	
Investor Shares	3.48%
Select Shares	3.71%
Weighted Average Maturity	0.9 yrs
Weighted Average Duration	0.7 yrs
Weighted Average Credit Quality	AA
Portfolio Turnover Rate	18%
Minimum Initial Investment	
Investor Shares (\$1,000 for custodial accounts)	\$2,500
Select Shares	\$50,000

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Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05, and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. The yields do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

<sup>4</sup> This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest federal tax bracket (35.00%). Your tax rate may be different.

<sup>5</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

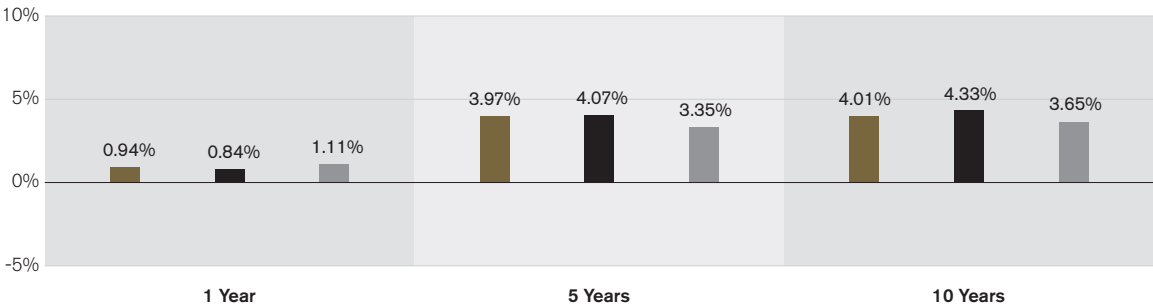
# Schwab Short/Intermediate Tax-Free Bond Fund™

Performance as of 8/31/05

## Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund with its benchmark and Morningstar category.

■ **Fund** Ticker Symbol: SWITX  
■ **Benchmark:** Lehman Brothers 3-Year Municipal Bond Index  
■ **Fund Category:** Morningstar Municipal Short Bond

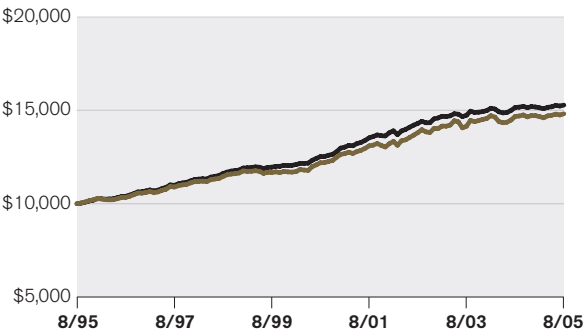


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in its benchmark.

■ \$14,814 **Fund**  
■ \$15,280 **Lehman Brothers 3-Year Municipal Bond Index**



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<sup>1</sup> Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

Fund Facts as of 8/31/05

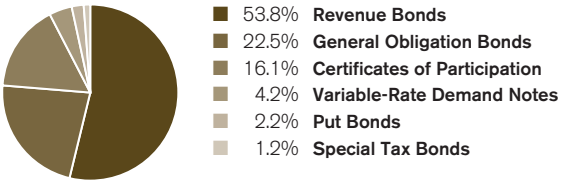
Statistics	
Number of Holdings	59
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Short
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	2.71%
Taxable-Equivalent Yield <sup>3</sup>	4.17%
12-Month Distribution Yield <sup>2</sup>	2.75%
Weighted Average Maturity	3.5 yrs
Weighted Average Duration	3.1 yrs
Weighted Average Credit Quality	AAA
Portfolio Turnover Rate	8%
Minimum Initial Investment	\$2,500
(\$1,000 for custodial accounts)	

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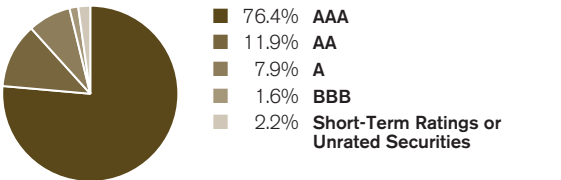
Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

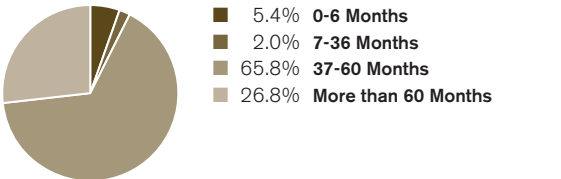
By Security Type



By Credit Quality<sup>4</sup>



By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

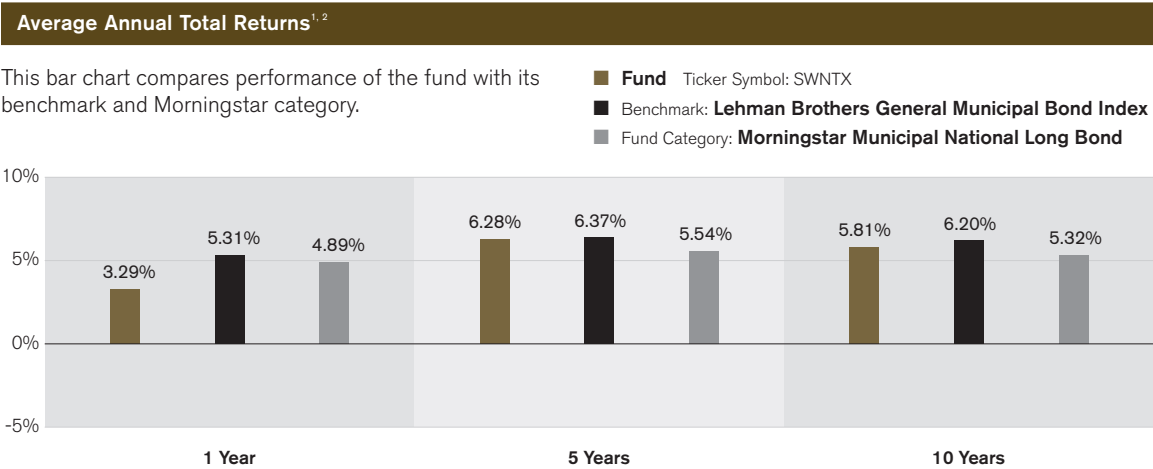
<sup>2</sup> The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest federal tax bracket (35.00%). Your tax rate may be different.

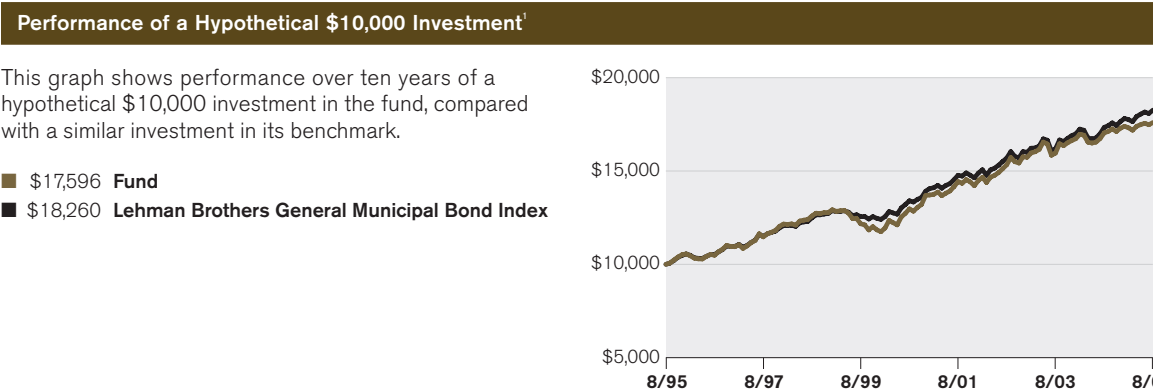
<sup>4</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

# Schwab Long-Term Tax-Free Bond Fund<sup>TM</sup>

Performance as of 8/31/05



The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

## Fund Facts as of 8/31/05

## Statistics

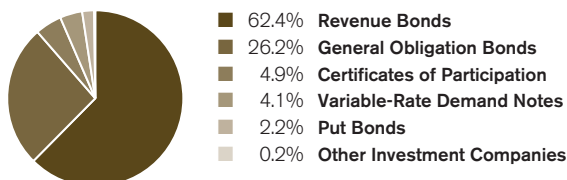
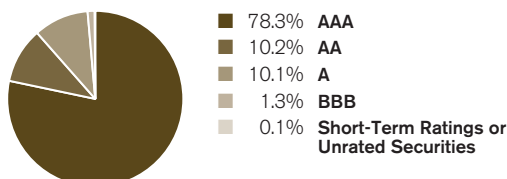
<b>Number of Holdings</b>	56
<b>Style Assessment<sup>1</sup></b>	
Interest Rate Sensitivity	Long
Credit Quality	High
<b>30-Day SEC Yield<sup>2</sup></b>	3.90%
<b>30-Day SEC Yield—No Waiver<sup>3</sup></b>	3.89%
<b>Taxable-Equivalent Yield<sup>4</sup></b>	6.00%
<b>12-Month Distribution Yield<sup>2</sup></b>	3.96%
<b>Weighted Average Maturity</b>	11.6 yrs
<b>Weighted Average Duration</b>	4.8 yrs
<b>Weighted Average Credit Quality</b>	AAA
<b>Portfolio Turnover Rate</b>	1%
<b>Minimum Initial Investment</b>	\$2,500
(\$1,000 for custodial accounts)	

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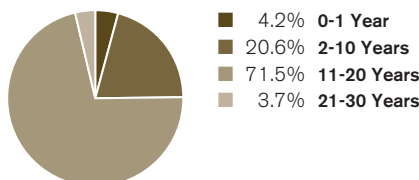
## Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

## By Security Type

By Credit Quality<sup>5</sup>

## By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

<sup>4</sup> This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest federal tax bracket (35.00%). Your tax rate may be different.

<sup>5</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

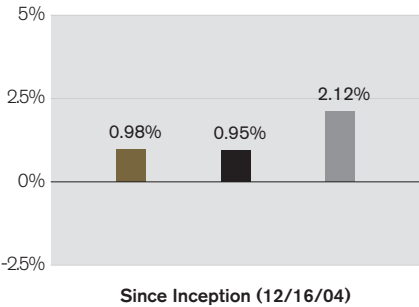
# Schwab California Tax-Free YieldPlus Fund™

## Investor Shares Performance as of 8/31/05

### Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund's Investor Shares with its benchmark and Morningstar category.

- Fund: **Investor Shares** Ticker Symbol: SWYKX
- Benchmark: **Lehman Brothers 1-Year Municipal Bond Index**
- Fund Category: **Morningstar Municipal California Intermediate/Short Bond**

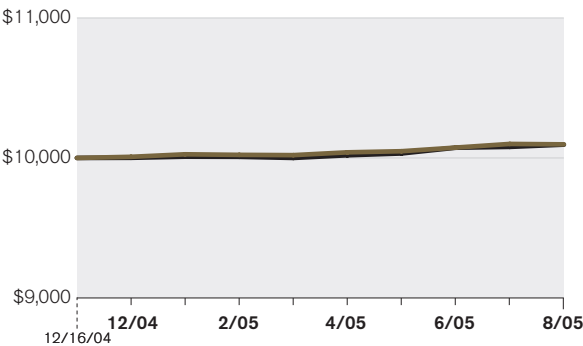


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund's Investor Shares compared with a similar investment in its benchmark.

- \$10,097 **Investor Shares**
- \$10,095 **Lehman Brothers 1-Year Municipal Bond Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

<sup>1</sup> Fund expenses have been absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

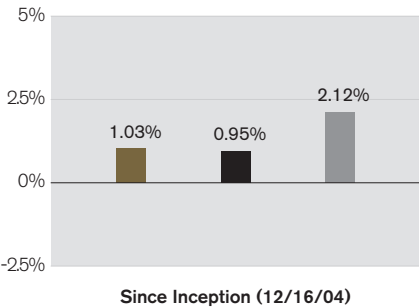


Select Shares® Performance as of 8/31/05

Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund's Select Shares with its benchmark and Morningstar category.

- Fund: **Select Shares** Ticker Symbol: SWYCX
- Benchmark: **Lehman Brothers 1-Year Municipal Bond Index**
- Fund Category: **Morningstar Municipal California Intermediate/Short Bond**

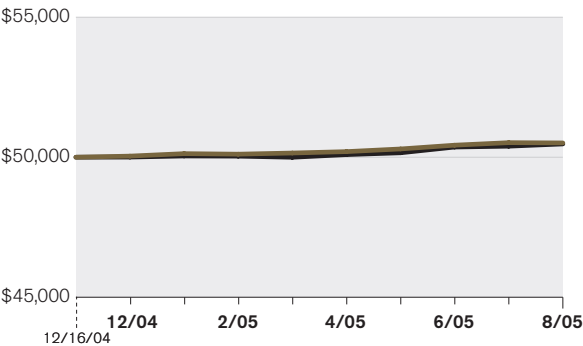


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$50,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in its benchmark.

- \$50,510 **Select Shares**
- \$50,474 **Lehman Brothers 1-Year Municipal Bond Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

<sup>1</sup> Fund expenses have been absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

Fund Facts as of 8/31/05

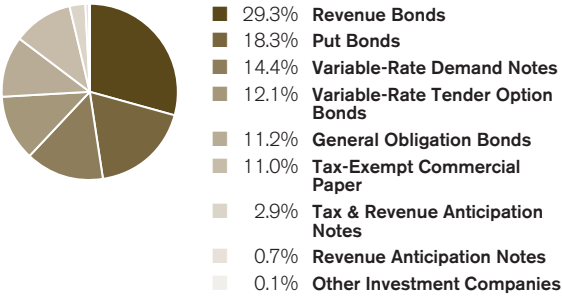
Statistics	
Number of Holdings	92
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Short
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	
Investor Shares	2.25%
Select Shares	2.40%
30-Day SEC Yield—No Waiver <sup>3</sup>	
Investor Shares	2.22%
Select Shares	2.37%
Taxable-Equivalent Yield <sup>4</sup>	
Investor Shares	3.86%
Select Shares	4.12%
Weighted Average Maturity	0.9 yrs
Weighted Average Duration	0.8 yrs
Weighted Average Credit Quality	AA
Portfolio Turnover Rate	52%
Minimum Initial Investment	
Investor Shares (\$1,000 for custodial accounts)	\$2,500
Select Shares	\$50,000

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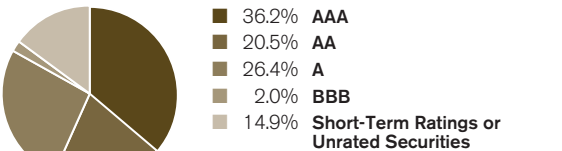
Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

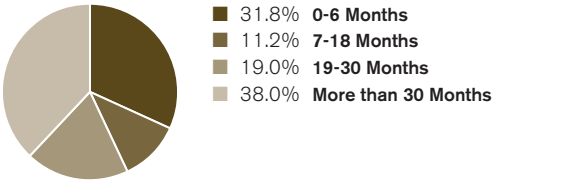
By Security Type



By Credit Quality<sup>5</sup>



By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05, and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. The yields do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

<sup>4</sup> This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest combined federal and California tax bracket (41.70%). Your tax rate may be different.

<sup>5</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

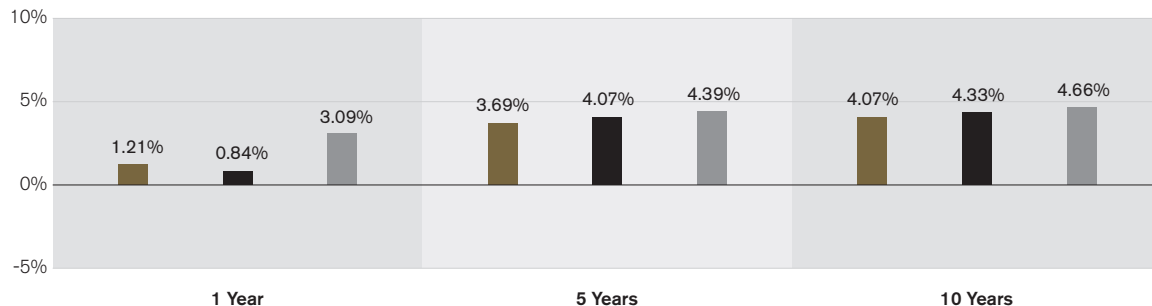
# Schwab California Short/Intermediate Tax-Free Bond Fund™

Performance as of 8/31/05

## Average Annual Total Returns<sup>1,2</sup>

This bar chart compares performance of the fund with its benchmark and Morningstar category.

■ **Fund** Ticker Symbol: SWCSX  
 ■ **Benchmark:** Lehman Brothers 3-Year Municipal Bond Index  
 ■ **Fund Category:** Morningstar Municipal California Intermediate/Short Bond

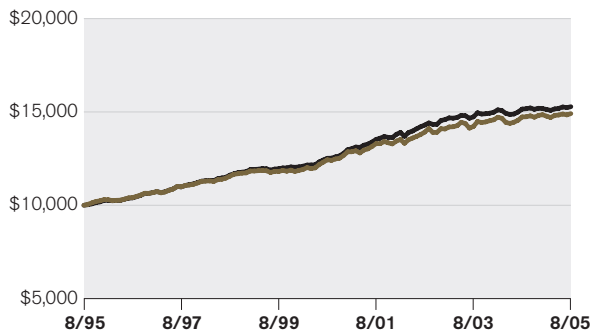


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in its benchmark.

■ \$14,909 **Fund**  
 ■ \$15,280 **Lehman Brothers 3-Year Municipal Bond Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

Fund Facts as of 8/31/05

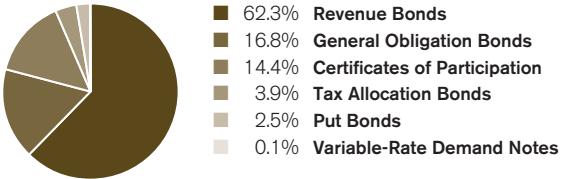
Statistics	
Number of Holdings	57
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Short
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	2.91%
Taxable-Equivalent Yield <sup>3</sup>	4.99%
12-Month Distribution Yield <sup>2</sup>	3.13%
Weighted Average Maturity	4.5 yrs
Weighted Average Duration	3.4 yrs
Weighted Average Credit Quality	AAA
Portfolio Turnover Rate	6%
Minimum Initial Investment	\$2,500
(\$1,000 for custodial accounts)	

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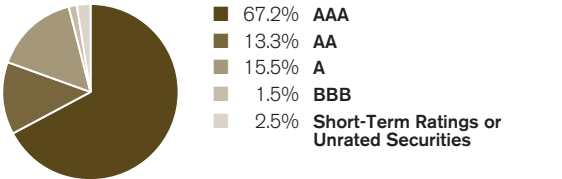
Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

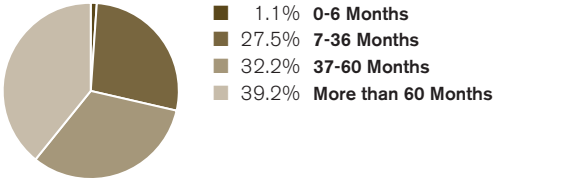
By Security Type



By Credit Quality<sup>4</sup>



By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest combined federal and California tax bracket (41.70%). Your tax rate may be different.

<sup>4</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

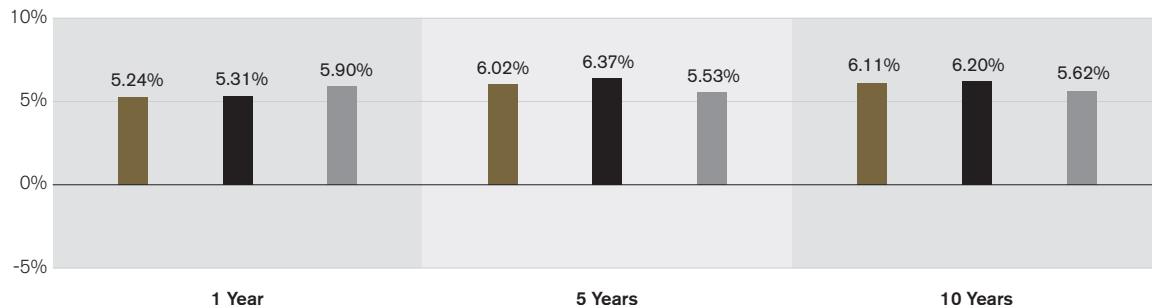
# Schwab California Long-Term Tax-Free Bond Fund<sup>TM</sup>

Performance as of 8/31/05

## Average Annual Total Returns<sup>1,2</sup>

This bar chart compares performance of the fund with its benchmark and Morningstar category.

■ **Fund** Ticker Symbol: SWCAX  
 ■ **Benchmark:** Lehman Brothers General Municipal Bond Index  
 ■ **Fund Category:** Morningstar Municipal California Long Bond

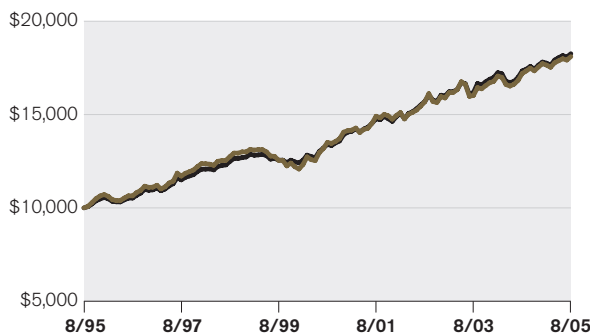


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in its benchmark.

■ \$18,102 **Fund**  
 ■ \$18,260 **Lehman Brothers General Municipal Bond Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

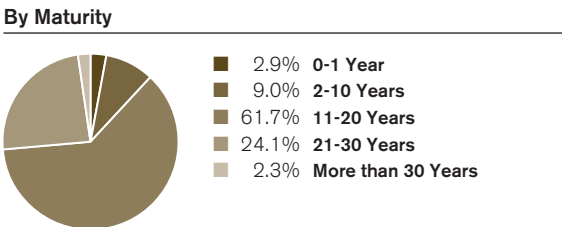
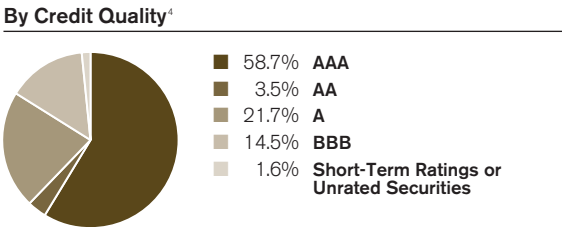
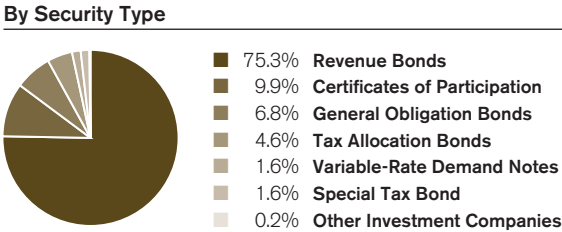
Fund Facts as of 8/31/05

Statistics	
Number of Holdings	77
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Long
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	4.25%
Taxable-Equivalent Yield <sup>3</sup>	7.27%
12-Month Distribution Yield <sup>2</sup>	4.21%
Weighted Average Maturity	16.1 yrs
Weighted Average Duration	5.6 yrs
Weighted Average Credit Quality	AA
Portfolio Turnover Rate <sup>4</sup>	8%
Minimum Initial Investment	\$2,500
(\$1,000 for custodial accounts)	

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Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 4.5 years; Medium, more than 4.5 years to less than seven years; Long, seven years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> This is the taxable-equivalent 30-day SEC yield for a hypothetical investor in the highest combined federal and California tax bracket (41.70%). Your tax rate may be different.

<sup>4</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

# Fund Expenses (unaudited)

## Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning March 1, 2005 and held through August 31, 2005, unless noted otherwise.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value  $\div$  \$1,000 = 8.6), then multiply the result by the number given for your fund or share class under the heading entitled "Expenses Paid During Period."

**Hypothetical Return** lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's or share class' actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 3/1/05	Ending Account Value (Net of Expenses) at 8/31/05	Expenses Paid During Period 3/1/05 –8/31/05
<b>Schwab Tax-Free YieldPlus Fund™</b>				
<i>Investor Shares</i>				
Actual Return	0.45%	\$1,000	\$1,009.10	\$2.28 <sup>2</sup>
Hypothetical 5% Return	0.45%	\$1,000	\$1,022.94	\$2.29 <sup>2</sup>
<i>Select Shares®</i>				
Actual Return	0.34%	\$1,000	\$1,009.60	\$1.72 <sup>2</sup>
Hypothetical 5% Return	0.34%	\$1,000	\$1,023.49	\$1.73 <sup>2</sup>
<b>Schwab Short/Intermediate Tax-Free Bond Fund™</b>				
Actual Return	0.63%	\$1,000	\$1,010.30	\$3.19 <sup>3</sup>
Hypothetical 5% Return	0.63%	\$1,000	\$1,022.03	\$3.21 <sup>3</sup>
<b>Schwab Long-Term Tax-Free Bond Fund™</b>				
Actual Return	0.65%	\$1,000	\$1,016.40	\$3.30 <sup>3</sup>
Hypothetical 5% Return	0.65%	\$1,000	\$1,021.93	\$3.31 <sup>3</sup>

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

<sup>2</sup> Schwab and the investment adviser agreed to limit the fund's annual operating expense (excluding interest, taxes and certain non-routine expenses) to 0.00% through 5/1/05. Effective 5/2/05, this expense limit has changed to 0.64% for Investor Shares and 0.49% for Select Shares. Had these expense limits been effective for the entire six-month period ended 8/31/05, the "Expenses Paid During Period" would have been: \$3.24 based on Actual Return and \$3.26 based on Hypothetical 5% Return for the Investor Shares; and \$2.48 based on Actual Return and \$2.50 based on Hypothetical 5% Return for Select Shares, respectively.

<sup>3</sup> Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 3/1/05	Ending Account Value (Net of Expenses) at 8/31/05	Expenses Paid During Period 3/1/05 –8/31/05
<b>Schwab California Tax-Free YieldPlus Fund™</b>				
<i>Investor Shares</i>				
Actual Return	0.47%	\$1,000	\$1,007.60	\$2.38 <sup>2</sup>
Hypothetical 5% Return	0.47%	\$1,000	\$1,022.84	\$2.40 <sup>2</sup>
<i>Select Shares®</i>				
Actual Return	0.34%	\$1,000	\$1,008.10	\$1.72 <sup>2</sup>
Hypothetical 5% Return	0.34%	\$1,000	\$1,023.49	\$1.73 <sup>2</sup>
<b>Schwab California Short/ Intermediate Tax-Free Bond Fund™</b>				
Actual Return	0.61%	\$1,000	\$1,009.10	\$3.09 <sup>3</sup>
Hypothetical 5% Return	0.61%	\$1,000	\$1,022.13	\$3.11 <sup>3</sup>
<b>Schwab California Long-Term Tax-Free Bond Fund™</b>				
Actual Return	0.60%	\$1,000	\$1,025.70	\$3.06 <sup>3</sup>
Hypothetical 5% Return	0.60%	\$1,000	\$1,022.18	\$3.06 <sup>3</sup>

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

<sup>2</sup> Schwab and the investment adviser agreed to limit the fund's annual operating expense (excluding interest, taxes and certain non-routine expenses) to 0.00% through 5/1/05. Effective 5/2/05, this expense limit has changed to 0.64% for Investor Shares and 0.49% for Select Shares. Had these expense limits been effective for the entire six-month period ended 8/31/05, the "Expenses Paid During Period" would have been: \$3.24 based on Actual Return and \$3.26 based on Hypothetical 5% Return for the Investor Shares; and \$2.48 based on Actual Return and \$2.50 based on Hypothetical 5% Return for Select Shares, respectively.

<sup>3</sup> Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.



# Schwab Tax-Free YieldPlus Fund™

## Financial Statements

### Financial Highlights

Investor Shares		12/16/04 <sup>1</sup> – 8/31/05
<b>Per-Share Data (\$)</b>		
Net asset value at beginning of period		10.00
Income from investment operations:		
Net investment income		0.16
Net realized and unrealized losses		(0.03)
Total income from investment operations		0.13
Less distributions:		
Dividends from net investment income		(0.16)
Net asset value at end of period		9.97
Total return (%)		1.26 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses		0.37 <sup>3</sup>
Gross operating expenses		0.69 <sup>3</sup>
Net investment income		2.25 <sup>3</sup>
Portfolio turnover rate		18 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)		30

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares	12/16/04 <sup>1</sup> – 8/31/05
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.16
Net realized and unrealized losses	(0.03)
Total income from investment operations	0.13
Less distributions:	
Dividends from net investment income	(0.16)
Net asset value at end of period	9.97
Total return (%)	1.31 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	0.28 <sup>3</sup>
Gross operating expenses	0.54 <sup>3</sup>
Net investment income	2.33 <sup>3</sup>
Portfolio turnover rate	18 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	435

<sup>1</sup> Commencement of operations.<sup>2</sup> Not annualized.<sup>3</sup> Annualized.

**Portfolio Holdings** as of August 31, 2005.

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbols below to designate certain characteristics of the securities.

- ✚ Credit-enhanced security
- ▷ Liquidity-enhanced security
- All or a portion of this security is held as collateral for futures contracts and delayed-delivery securities
- ▲ 144A security; restricted but deemed liquid
- ◆ Delayed-delivery security

For fixed-rate obligations, the rate shown is the

Issuer  
Project

Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Municipal Bonds</b> 102.7% of net assets				
<b>Fixed Rate Obligations 73.0%</b>				
<b>Alabama 2.3%</b>				
✚■ <b>Huntsville Health Care Authority</b>				
Revenue Bonds, Series 2005A	5.00%	03/03/08	10,000	<b>10,428</b>
<b>Alaska 1.0%</b>				
✚ <b>Alaska Housing Finance Corp.</b>				
General Mortgage Revenue Bonds, Series 1997A	5.90%	12/01/19	4,170	<b>4,391</b>
<b>Arizona 1.5%</b>				
<b>Phoenix Civic Improvement Corp.</b>				
Wastewater System				
Refunding Revenue Bonds, Series 2004B	5.00%	07/01/07	4,000	4,144
<b>Pinal County</b>				
Certificates of Participation, Series 2004	4.00%	12/01/06	1,435	1,448
Certificates of Participation, Series 2004	4.00%	12/01/07	1,150	1,164
				<b>6,756</b>

interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
<b>102.7% Municipal Bonds</b>	477,479	476,721
<b>0.0% Other Investment Companies</b>	134	134
<b>102.7% Total Investments</b>	<b>477,613</b>	<b>476,855</b>
<b>(2.7)% Other Assets and Liabilities</b>		(12,362)
<b>100.0% Net Assets</b>		<b>464,493</b>

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California 12.0%</b>				
<b>California Department of Water Resources</b>				
Power Supply Revenue Bonds, Series 2002A	5.50%	05/01/08	1,180	1,251
<b>California Pollution Control Financing Authority</b>				
<i>Southern California Edison Co.</i>				
Pollution Control Refunding Revenue Bonds, Series 1985A	2.00%	03/01/06	500	497
Pollution Control Refunding Revenue Bonds, Series 1985C	2.00%	03/01/06	7,000	6,953
Pollution Control Refunding Revenue Bonds, Series 1986C	2.00%	03/01/06	2,400	2,384
<b>California State</b>				
▶ General Obligation CP Notes	2.58%	10/06/05	5,000	5,000
▶ General Obligation CP Notes	2.58%	10/07/05	10,000	10,000
+ Various Purpose General Obligation Bonds	8.00%	11/01/07	3,000	3,163
<b>California Statewide Communities Development Authority</b>				
<i>Kaiser Permanente</i>				
Revenue Bonds, Series 2001A	2.55%	01/04/07	8,500	8,437
▶ <b>Los Angeles Unified School District</b>				
County of Los Angeles 2004-2005 TRAN Series A	2.39%	09/01/05	15,000	15,000
+ <b>Santa Clara Valley Transportation Authority</b>				
<i>Measure A</i>				
Sales Tax Revenue Bonds, Series 2003	4.00%	10/02/06	3,000	3,033
				<b>55,718</b>
<b>Colorado 0.6%</b>				
<b>Central Colorado Water Conservancy District</b>				
<i>Well Augmentation Subdistrict</i>				
Limited Tax General Obligation Notes, Series 2005	3.88%	03/01/07	1,500	1,497
<b>Colorado Health Facilities Authority</b>				
<i>Evangelical Lutheran Good Samaritan Society</i>				
Health Facilities Revenue Bonds, Series 2000	6.00%	12/01/06	1,365	1,375
				<b>2,872</b>
<b>Connecticut 0.5%</b>				
<b>Bristol Resource Recovery Facility Operating Committee</b>				
<i>Covanta Bristol</i>				
Solid Waste Revenue Refunding Bonds, Series 2005	3.75%	07/01/06	2,035	<b>2,048</b>
<b>District of Columbia 0.2%</b>				
+ <b>District of Columbia Housing Finance Agency</b>				
<i>Housing Authority Modernization</i>				
Capital Program Revenue Bonds, Series 2005	5.00%	07/01/08	1,000	<b>1,052</b>
<b>Florida 1.2%</b>				
<b>Escambia County Health Facilities Authority</b>				
<i>Ascension Health Credit Group</i>				
Revenue Bonds, Series 2003A	5.00%	11/15/07	1,500	1,554

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Orlando</b>				
Capital Improvement Special Revenue Bonds, Series 2005B	5.00%	04/01/08	2,460	2,580
<b>+ University of Florida Athletic Association, Inc.</b>				
Athletic Program Revenue Bonds, Series 2005	3.30%	10/01/08	1,500	1,503
				<b>5,637</b>
<b>Illinois 4.4%</b>				
<b>+ Chicago Transportation Authority</b>				
<i>Douglas Branch</i>				
Capital Grant Receipts Revenue Bonds, Series 2003A	4.25%	06/01/08	2,015	2,033
<b>Illinois Finance Authority</b>				
<i>Resurrection Health Care</i>				
Revenue Bonds, Series 2005A	3.75%	07/01/09	2,000	2,000
Revenue Bonds, Series 2005D	2.69%	05/15/35	6,115	6,115
Revenue Bonds, Series 2005E	3.05%	07/01/06	5,310	5,310
<b>Illinois Health Facilities Authority</b>				
<i>Advocate Health Care Network</i>				
Revenue Bonds, Series 2003B	2.30%	01/04/06	5,000	4,990
				<b>20,448</b>
<b>Indiana 2.0%</b>				
<b>Indiana Health Facility Financing Authority</b>				
<i>Ascension Health Subordinate Credit Group</i>				
Revenue Bonds, Series 2005 A-3	5.00%	05/01/08	6,000	6,268
<b>Seymour</b>				
<i>Union Camp Corp.</i>				
Economic Development Refunding Revenue Bonds, Series 1992	6.25%	07/01/12	2,670	2,996
				<b>9,264</b>
<b>Kentucky 1.8%</b>				
<b>■ Northern Kentucky Water District</b>				
Revenue Bond Anticipation Notes, Series 2005	3.25%	05/01/07	8,440	<b>8,440</b>
<b>Louisiana 0.2%</b>				
<b>Calcasieu Parish Industrial Development Board, Inc.</b>				
<i>Occidental Petroleum Corp.</i>				
Pollution Control Refunding Revenue Bonds, Series 2001	4.80%	12/01/06	1,000	<b>1,019</b>
<b>Massachusetts 8.5%</b>				
<b>Fall River</b>				
Bond Anticipation Notes	4.00%	07/26/06	10,000	10,068
<b>Massachusetts</b>				
▶ General Obligation CP Notes	2.68%	10/07/05	10,000	10,000
<i>Consolidated Loan of 1992</i>				
<b>+ General Obligation Bonds, Series D</b>	8.00%	05/01/06	965	997
General Obligation Bonds, Series D	6.00%	05/01/08	2,320	2,484

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Massachusetts Health &amp; Educational Facilities Authority</b>				
<i>Caritas Christi Obligated Group</i> Revenue Bonds, Series A	5.25%	07/01/07	5,960	6,106
<b>New Bedford</b> Bond Anticipation Notes	3.00%	09/29/05	10,000	10,003
				<b>39,658</b>
<b>Michigan 3.6%</b>				
<b>Detroit</b> Revenue Anticipation Notes, Series 2005	4.00%	04/03/06	5,000	5,031
+ <i>Unlimited Tax</i> General Obligation Refunding Bonds, Series 2005A	5.00%	04/01/06	4,300	4,354
<b>Kent Hospital Finance Authority</b> <i>Spectrum Health</i> Revenue Refunding Bonds, Series 2005B	5.00%	07/15/11	5,000	5,388
<b>Michigan State Hospital Finance Authority</b> <i>Ascension Health</i> Revenue Bonds, Series 1999B4	5.38%	11/15/07	2,000	2,086
				<b>16,859</b>
<b>Missouri 1.5%</b>				
<b>Kansas City International Airport</b> General Improvement Airport Refunding Revenue Bonds, Series 2005H	5.00%	09/01/08	6,480	<b>6,791</b>
<b>New Hampshire 1.5%</b>				
<b>Merrimack County</b> Tax Anticipation Notes, Series 2005	3.35%	12/28/05	7,000	<b>7,001</b>
<b>New Jersey 6.6%</b>				
<b>Hammonton</b> Bond Anticipation Notes	3.00%	01/12/06	5,000	4,998
<b>Jersey City</b> School Promissory Notes, Series 2005A	3.25%	02/24/06	6,000	6,009
<i>Real Property Tax Appeal</i> General Obligation Refunding Notes, Series 2005B	3.50%	09/09/05	7,000	7,001
+ <b>New Jersey Health Care Facilities Financing Authority</b> <i>St. Clare's Hospital</i> Refunding Revenue Bonds, Series 2004B	5.00%	07/01/08	2,085	2,194
+■ <b>New Jersey Transit Corp.</b> Capital Grant Anticipation Notes, Series 2000B	5.75%	02/01/07	2,000	2,074
+ <b>New Jersey Transportation Trust Fund Authority</b> Transportation System Bonds, Series 2005C	5.00%	06/15/08	7,985	8,383
				<b>30,659</b>

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>New Mexico 2.1%</b>				
<b>Farmington</b>				
<i>Public Service Co. of NM-San Juan and Four Corners</i> Pollution Control Refunding Revenue Bonds, Series 2003B	2.10%	04/01/06	5,000	4,961
+ <i>Southern California Edison Co. Four Corners</i> Pollution Control Refunding Bonds, Series 2005A	3.55%	04/01/10	4,850	4,874
				<b>9,835</b>
<b>New York 5.0%</b>				
<b>Board of Cooperative Education Services</b>				
<i>Cattaraugus, Allegany, Erie &amp; Wyoming Counties</i> Revenue Anticipation Notes, Series 2005	3.50%	12/30/05	3,000	3,006
<b>Metropolitan Transportation Authority</b>				
<i>Commuter Facilities</i> Service Contract Bonds, Series 1987-3	7.38%	07/01/08	1,425	1,527
<b>New York State Urban Development Corp.</b>				
<i>State Personal Income Tax</i> Revenue Bonds, Series 2004-A4	2.25%	03/15/06	2,045	2,040
■ Revenue Bonds, Series 2004-A4	4.00%	03/15/07	1,000	1,016
<b>New York City</b>				
General Obligation Bonds, Series 2002E	5.00%	08/01/06	6,215	6,329
General Obligation Bonds, Series 2005H	5.00%	08/01/06	6,000	6,110
<b>New York State Power Authority</b>				
General Purpose Bonds, Series W	6.50%	01/01/08	2,820	2,926
				<b>22,954</b>
<b>Ohio 0.4%</b>				
<b>Ohio State Water Development Authority</b>				
<i>Ohio-Edison Co.</i> Pollution Control Revenue Refunding Bonds, Series 1999A	3.35%	06/01/06	2,000	<b>1,996</b>
<b>Pennsylvania 4.4%</b>				
<b>Pennsylvania Higher Educational Facilities Authority</b>				
<i>University of Pennsylvania Health Services</i> Revenue Bonds, Series 1996A	5.75%	01/01/06	6,055	6,172
Revenue Bonds, Series 2005A	4.00%	08/15/06	1,000	1,007
<b>Philadelphia</b>				
Tax Revenue Anticipation Notes, Series 2005-6A	4.00%	06/30/06	8,000	8,059
<b>+ Southcentral General Authority</b>				
Guaranteed Revenue Bonds, Series 2001	4.50%	12/01/08	5,000	5,220
				<b>20,458</b>
<b>Puerto Rico 0.4%</b>				
<b>Puerto Rico</b>				
Public Improvement Refunding Revenue Bonds, Series 2003C	5.00%	07/01/08	1,900	<b>1,981</b>

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>South Carolina 0.2%</b>				
<b>Richland County</b> <i>International Paper Co.</i> Environmental Improvement Refunding Revenue Bonds, Series 2002A	4.25%	10/01/07	1,000	<b>1,012</b>
<b>Tennessee 1.1%</b>				
<b>+ Metropolitan Nashville &amp; Davidson County Health &amp; Educational Facilities Board</b> <i>Vanderbilt University</i> Revenue Bonds, Series 2005B	5.00%	04/01/08	5,000	<b>5,244</b>
<b>Texas 8.2%</b>				
<b>+ Dallas</b> Airport System Revenue Bonds, Series 2001	5.00%	04/01/07	6,000	6,183
<b>+ North Texas Tollway Authority</b> <i>Dallas North Tollway System</i> Refunding Revenue Bonds, Series 2003B	5.00%	07/01/08	3,000	3,136
<b>Spring Independent School District</b>				
<b>+ Schoolhouse Bonds, Series 2005A</b>	5.00%	08/15/08	5,000	5,245
<b>+ Unlimited Tax Schoolhouse Bonds, Series 2005A</b>	5.00%	08/15/06	3,000	3,053
<b>Texas</b>				
<b>■ Tax Revenue Anticipation Notes, Series 2005</b>	4.50%	08/31/06	15,000	15,225
<b>+ Texas Municipal Power Authority</b> Subordinate Lien Refunding Revenue Bonds, Series 2004A	6.00%	09/01/05	5,190	5,190
				<b>38,032</b>
<b>Virginia 0.6%</b>				
<b>Russel County</b> <i>Appalachian Power Co.</i> Pollution Control Refunding Revenue Bonds, Series I	2.70%	11/01/06	3,000	<b>2,970</b>
<b>Washington 1.2%</b>				
<b>King County</b> <i>Baseball Stadium</i> Limited Tax General Obligation Bonds, Series 1997D	5.60%	12/01/09	5,000	<b>5,359</b>
<b>Variable Rate Obligations 29.7%</b>				
<b>Alaska 0.2%</b>				
<b>+ Valdez</b> <i>Phillips Transportation Alaska, Inc.</i> Marine Terminal Revenue Bonds, Series 2002	3.03%	05/01/06	1,000	<b>1,000</b>



Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Arizona 1.1%</b>				
<b>◆◆▲ Arizona School Facilities Board</b>				
State School Trust Revenue Bonds, Series 2004A	2.53%	09/07/05	4,995	<b>4,995</b>
<b>Florida 3.5%</b>				
<b>◆◆▲ Florida Department of Transportation</b>				
Turnpike Revenue Bonds, Series 2000A	2.53%	09/07/05	10,820	10,820
<b>◆ Gulf Breeze</b>				
Capital Funding Revenue Bonds, Series 1997A	3.14%	12/01/05	5,095	5,564
				<b>16,384</b>
<b>Georgia 2.7%</b>				
<b>Burke County Development Authority</b>				
Georgia Power Company Plant Vogtle Pollution Control Revenue Bonds, Third Series 1994	2.70%	09/30/05	5,000	5,000
<b>◆▲ Columbus Development Authority</b>				
Foundation Properties Revenue Bonds, Series 2000	2.59%	09/07/05	3,845	3,845
<b>Fulton County Development Authority</b>				
General Motors Corp. Pollution Control Refunding Revenue Bonds, Series 1987	5.40%	09/07/05	3,525	3,525
				<b>12,370</b>
<b>Louisiana 3.5%</b>				
<b>Louisiana Public Facility Authority</b>				
Tiger Athletic Foundation				
◆◆ Revenue Bonds, Series 1999	2.84%	09/07/05	9,200	9,200
◆◆ Revenue Bonds, Series 2004	2.60%	09/07/05	7,200	7,200
				<b>16,400</b>
<b>New York 0.5%</b>				
<b>◆ New York City Municipal Water Finance Authority</b>				
Water & Sewer System Revenue Bonds, Series 1995A	2.25%	09/01/05	800	800
◆ Water & Sewer System, Revenue Bonds, Series 1994G	2.25%	09/01/05	500	500
<b>◆ New York City Transitional Finance Authority</b>				
Recovery Bonds Fiscal 2003, Series 2	2.25%	09/01/05	1,000	1,000
				<b>2,300</b>
<b>North Carolina 9.0%</b>				
<b>◆ North Carolina Medical Care Commission</b>				
Wake Forest University Health Sciences Health Care Facilities Revenue Bonds, Series 2002B	2.60%	09/30/05	41,860	<b>41,860</b>

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Ohio 3.9%</b>				
<b>+◆ Cuyahoga County</b>				
<i>Hathaway Brown School</i> Economic Development Revenue Bonds, Series 1999	2.52%	09/07/05	13,150	13,150
<b>■ Ohio Air Quality Development Authority</b>				
<i>Cincinnati Gas and Electric Co.</i> Air Quality Development Revenue Refunding Bonds, Series 1995A	2.42%	09/07/05	5,100	5,100
				<b>18,250</b>
<b>Pennsylvania 2.2%</b>				
<b>Alleghany County Hospital Development Authority</b>				
<i>University of Pittsburgh Medical Center</i> Revenue Bonds, Series 2004B-2	2.64%	09/07/05	10,225	<b>10,225</b>
<b>Puerto Rico 0.3%</b>				
<b>+▲ Puerto Rico</b>				
Public Improvement Bond, Series 2001A	2.52%	09/07/05	1,100	<b>1,100</b>
<b>Texas 2.8%</b>				
<b>+■ Amarillo Health Facility Corp.</b>				
<i>Evangelical Lutheran Good Samaritan Society</i> Health Facilities Revenue Refunding Bonds, Series 1997	2.54%	09/07/05	3,155	3,155
<b>+◆▲ Austin Electric, Water &amp; Sewer System</b>				
Water & Wastewater Revenue Refunding Bonds, Series 2001A & B	2.40%	09/07/05	5,200	5,200
<b>■ Brazos River Harbor Navigation District</b>				
<i>Dow Chemical Co.</i> Environmental Facilities Revenue Bonds, Series 2002B-1	2.45%	09/01/05	3,500	3,500
<b>Trinity River Authority</b>				
<i>General Motors Corp.</i> Pollution Control Revenue Refunding Bonds, Series 1987	4.95%	09/07/05	1,100	1,100
				<b>12,955</b>

## Security and number of shares

Other Investment Companies 0.0% of net assets

**Provident Institutional Funds—**

Muni Fund Portfolio 134,420

**134**

End of investments.

*In addition to the above, the fund held the following at 8/31/05. All numbers are x 1,000 except number of futures contracts.*

Futures Contracts			
	Number of Contracts	Contract Value	Unrealized Losses
5 Year, Short U.S. Treasury Note, expires 12/20/05	(60)	6,502	(62)
2 Year, Short U.S. Treasury Note, expires 12/30/05	(180)	37,277	(169)
			<u>(231)</u>

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$476,855
Receivables:	
Investments sold	5,207
Fund shares sold	1,131
Interest	4,023
Prepaid expenses	+ 73
<b>Total assets</b>	<b>487,289</b>

**Liabilities**

Payables:	
Fund shares redeemed	540
Dividends to shareholders	202
Investments bought	21,832
Due to brokers for futures	107
Investment adviser and administrator fees	12
Transfer agent and shareholder fee	4
Accrued expenses	+ 99
<b>Total liabilities</b>	<b>22,796</b>

**Net Assets**

<b>Total assets</b>	487,289
<b>Total liabilities</b>	- 22,796
<b>Net assets</b>	<b>\$464,493</b>

**Net Assets by Source**

Capital received from investors	465,449
Net investment income not yet distributed	74
Net realized capital losses	(41)
Net unrealized capital losses	(989)

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$29,876		2,995		\$9.97
Select Shares	\$434,617		43,585		\$9.97

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$477,613.

Includes restricted but deemed liquid securities comprised of 144A securities worth \$22,115 or 4.8% of the Fund's total net assets

Not counting short-term obligations, the fund's security transactions during the period were:

Purchases	\$261,053
Sales/maturities	\$27,234

The fund's total security transactions with other Schwab Funds during the period were \$412,376.

These derive from investments and futures.

**Federal Tax Data**

<b>Portfolio cost</b>	\$477,538
<b>Net unrealized gains and losses:</b>	
Gains	\$286
Losses	+ (969)
	<b>(\$683)</b>

**As of August 31, 2005:****Undistributed earnings:**

Tax-exempt income	\$202
Long-term capital gains	\$-

**Deferred capital losses** \$273

**Reclassifications:**

Net investment income not yet distributed	(\$42)
Reclassified as:	
Net realized capital gains	\$42

## Statement of

**Operations**

For December 16, 2004 (commencement of operations) through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	<b>\$6,517</b>
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**Net Realized Gains and Losses**

Net realized losses on investments	(232)
Net realized gains on futures contracts	149
<b>Net realized losses</b>	<b>(83)</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(758)
Net unrealized losses on short futures contracts	+ (231)
<b>Net unrealized losses</b>	<b>(989)</b>

**Expenses**

Investment adviser and administrator fees	871
Transfer agent and shareholder service fees	
Investor Shares	43
Select Shares	232
Trustees' fees	8
Custodian and portfolio accounting fees	44
Professional fees	19
Registration fees	117
Shareholder reports	29
Other expenses	+ 5
Total expenses	1,368
Expense reduction	- 653
<b>Net expenses</b>	<b>715</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	6,517
<b>Net expenses</b>	- 715
<b>Net investment income</b>	<b>5,802</b>
<b>Net realized losses</b>	(83)
<b>Net unrealized losses</b>	+ (989)
<b>Increase in net assets from operations</b>	<b>\$4,730</b>

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.35% of the first \$500 million and 0.30% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.05% of the fund's assets of each respective share class. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$530 from the investment advisor (CSIM) and \$118 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through November 15, 2005 as follows:

<b>Share Class</b>	<b>% of Average Daily Net Assets</b>
Investors Shares	0.64%
Select Shares	0.49%

This limit excludes interest, taxes and certain non-routine expenses.

For the period December 16, 2004 through May 1, 2005, the annual operating expenses were 0.00% for both Investors Shares and Select Shares.

These add up to a net loss on investments of \$1,072.

Statements of

**Changes in Net Assets**

For the current report period only. Because the fund commenced operations on December 16, 2004, it has no prior report period. All numbers are x 1,000.

Unless stated, all numbers x 1,000.

**Operations**

	12/16/04-8/31/05
Net investment income	\$5,802
Net realized losses	(83)
Net unrealized losses	+ (989)
<b>Increase in net assets from operations</b>	<b>4,730</b>

**Distributions Paid****Dividends from Net Investment Income**

Investor Shares	382
Select Shares	+ 5,304
<b>Total dividends from net investment income</b>	<b>\$5,686</b>

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

**Transactions in Fund Shares**

	12/16/04-8/31/05	
	SHARES	VALUE
<b>Shares sold</b>		
Investor Shares	4,884	\$48,796
Select Shares	+ 69,167	690,751
<b>Total shares sold</b>	<b>74,051</b>	<b>739,547</b>
<b>Shares Reinvested</b>		
Investor Shares	28	\$283
Select Shares	+ 394	3,934
<b>Total shares reinvested</b>	<b>422</b>	<b>\$4,217</b>
<b>Shares Redeemed</b>		
Investor Shares	(1,917)	(\$19,139)
Select Shares	+ (25,976)	(259,176)
<b>Total shares redeemed</b>	<b>(27,893)</b>	<b>(\$278,315)</b>
<b>Net transactions in fund shares</b>	<b>46,580</b>	<b>\$465,449</b>

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

**Shares Outstanding and Net Assets**

	12/16/04-8/31/05	
	SHARES	NET ASSETS
Beginning of period	—	\$ —
Total increase	+ 46,580	464,493
<b>End of period</b>	<b>46,580</b>	<b>\$464,493</b>

Includes net investment income not yet distributed in the amount of \$74 for the current period.

# Schwab Short/Intermediate Tax-Free Bond Fund™

## Financial Statements

### Financial Highlights

	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.69	10.59	10.63	10.42	10.08
Income from investment operations:					
Net investment income	0.29	0.29	0.30	0.35	0.39
Net realized and unrealized gains or losses	(0.19)	0.10	(0.04)	0.20	0.34
Total income from investment operations	0.10	0.39	0.26	0.55	0.73
Less distributions:					
Dividends from net investment income	(0.29)	(0.29)	(0.30)	(0.34)	(0.39)
Net asset value at end of period	10.50	10.69	10.59	10.63	10.42
Total return (%)	0.94	3.74	2.50	5.37	7.42
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.63	0.63	0.60	0.49	0.49
Gross operating expenses	0.63	0.63	0.63	0.70	0.73
Net investment income	2.73	2.73	2.83	3.29	3.84
Portfolio turnover rate	8	19	11	28	14
Net assets, end of period (\$ x 1,000,000)	141	161	159	139	109

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbols below to designate certain characteristics of the securities.

- + Credit-enhanced security
- ▷ Liquidity-enhanced security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>97.8%</b>	<b>Municipal Bonds</b>	136,294	138,158
<b>0.0%</b>	<b>Other Investment Companies</b>	21	21
<b>97.8%</b>	<b>Total Investments</b>	<b>136,315</b>	<b>138,179</b>
<b>2.2%</b>	<b>Other Assets and Liabilities</b>		3,052
<b>100.0%</b>	<b>Net Assets</b>		<b>141,231</b>

**Issuer****Project****Type of Security, Series****Rate****Maturity Date****Face Amount**  
(\$ x 1,000)**Value**  
(\$ x 1,000)**Municipal Bonds** 97.8% of net assets**Fixed-Rate Obligations 93.7%****Alabama 0.4%****Mobile Industrial Development Board***International Paper Co.*Pollution Control Refunding Revenue Bonds,  
Series 1994A4.65% 12/01/11 600 **621****Arizona 5.5%****+ Arizona State**Refunding Certificates of Participation,  
Series 2002B

5.00% 09/01/07 5,000 5,195

**Catalina Foothills Unified School District #16****+ General Obligation Refunding Bonds, Series 2004**

4.25% 07/01/06 1,235 1,249

**+ General Obligation Refunding Bonds, Series 2004**

5.00% 07/01/07 1,315 1,363

**7,807****California 4.4%****Alameda Public Financing Authority***1997 Revenue Bond Refinancing*

Revenue Bonds, Series 1999

4.95% 09/02/07 2,065 2,109

**California Department of Water Resources**

Power Supply Revenue Bonds, Series 2002A

5.50% 05/01/10 1,000 1,092



Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California Statewide Communities Development Authority</b> <i>Kaiser Permanente</i> Revenue Bonds, Series 2002D	4.35%	03/01/07	3,000	3,050
				<b>6,251</b>
<b>Colorado 1.4%</b>				
<b>+ Adams County School District #50</b> General Obligation Refunding Bonds, Series 2004	4.00%	12/01/07	2,000	<b>2,045</b>
<b>Connecticut 0.7%</b>				
<b>+ Connecticut State</b> General Obligation Refunding Bonds, Series 2004B	4.00%	12/01/09	1,000	<b>1,036</b>
<b>District of Columbia 2.9%</b>				
<b>+ Washington D.C. Convention Center Authority</b> Dedicated Tax Senior Lien Revenue Bonds, Series 1998	5.00%	10/01/06	4,000	<b>4,086</b>
<b>Georgia 4.9%</b>				
<b>+ Atlanta</b> Airport General Revenue Refunding Bonds, Series 2003RF-A	5.00%	01/01/10	3,660	3,916
<b>Georgia State</b> General Obligation Bonds, Series 2000D	6.00%	10/01/07	2,865	3,043
				<b>6,959</b>
<b>Indiana 1.6%</b>				
<b>+ Lake County</b> First Mortgage Lease Revenue Bonds, Series 2000	5.25%	08/01/09	2,040	<b>2,196</b>
<b>Kentucky 2.7%</b>				
<b>Kentucky Property &amp; Building Commission</b> <i>Project No. 71</i> Revenue Bonds	5.50%	08/01/09	3,500	<b>3,807</b>
<b>Louisiana 1.1%</b>				
<b>+ New Orleans</b> Refunding Certificates of Participation, Series 1998B	4.50%	12/01/05	1,600	<b>1,603</b>
<b>Massachusetts 3.5%</b>				
<b>+ Massachusetts</b> Special Obligation Revenue Bonds Consolidated Loan, Series 2002A	5.00%	06/01/10	2,000	2,159
<b>Massachusetts State</b> General Obligation Refunding Bonds, Series 2001A	5.50%	01/01/11	2,500	2,762
				<b>4,921</b>

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Michigan 3.7%</b>				
<b>+ Detroit</b>				
Capital Improvement Bonds, Series 2002A	5.00%	04/01/07	1,000	1,031
<b>+ Wayne County</b>				
Airport Refunding Revenue Bonds, Series 2002D	5.00%	12/01/10	3,900	4,168
				<b>5,199</b>
<b>Missouri 1.5%</b>				
<b>+ St. Louis Municipal Finance Corp.</b>				
Leasehold Refunding Revenue Bonds, Series 2003	5.25%	07/15/10	2,000	<b>2,185</b>
<b>Nevada 1.2%</b>				
<b>+ Henderson</b>				
<i>Seven Hills</i>				
Senior Limited Obligation Refunding Bonds, Series 2001A	4.63%	08/01/11	1,525	<b>1,631</b>
<b>New Jersey 3.6%</b>				
<b>+ Mercer County</b>				
<i>Regional Sludge Project</i>				
Refunding Revenue Bonds, Series 2003	5.00%	12/15/09	1,300	1,396
<b>+ New Jersey Transit Corp.</b>				
Certificates of Participation Federal Transit Administration Grants, Series 2000B	5.50%	09/15/07	3,500	3,664
				<b>5,060</b>
<b>New Mexico 1.1%</b>				
<b>Farmington</b>				
Pollution Control Refunding Revenue Bonds, Series 2003A	2.10%	04/01/06	1,500	<b>1,488</b>
<b>New York 9.9%</b>				
<b>+ Franklin County</b>				
General Obligation Public Improvement Bonds, Series 1998	4.25%	11/01/06	715	727
<b>New York City</b>				
General Obligation Bonds, Fiscal 1999 Series H	4.75%	03/15/07	1,705	1,749
General Obligation Bonds, Fiscal 2003 Series J	5.00%	06/01/09	2,080	2,206
General Obligation Bonds, Fiscal 2003 Series A	5.25%	08/01/09	1,825	1,957
General Obligation Bonds, Fiscal 2003 Series B	5.25%	08/01/09	1,000	1,072
<i>Refunded</i>				
General Obligation Bonds, Fiscal 1999 Series H	4.75%	03/15/07	1,295	1,332
General Obligation Bonds, Fiscal 2003 Series J	5.00%	06/01/09	420	449
<b>+ New York State Thruway Authority</b>				
<i>Second General Highway &amp; Bridge</i>				
Trust Fund Bonds, Series 2003A	5.25%	04/01/12	4,000	4,442
				<b>13,934</b>

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>North Carolina 8.2%</b>				
<b>Charlotte</b>				
<i>Fiscal Year 2004 Equipment Acquisition Project</i> Certificates of Participation, Series 2004C	4.00%	03/01/07	4,540	4,613
<b>+ Durham County</b> Enterprise System Revenue Bonds, Series 2002	5.00%	06/01/09	1,495	1,598
<b>North Carolina Municipal Power Agency</b>				
<i>Catawaba Electric</i>				
+ Revenue Bonds, Series 1995A	5.10%	01/01/07	2,000	2,054
+ Revenue Bonds, Series 1999A	5.75%	01/01/09	3,000	3,255
				<b>11,520</b>
<b>Ohio 4.9%</b>				
<b>Ohio</b>				
Higher Education Capital Facilities Bonds, Series II-2001A	5.50%	12/01/08	3,000	3,224
<i>Administrative Building Fund Projects</i> State Facilities Bonds, Series 1998A	5.13%	10/01/06	3,580	3,663
				<b>6,887</b>
<b>Oregon 2.0%</b>				
<b>+ Oregon State</b> <i>Department of Administrative Services</i> Refunding Certificates of Participation, Series 2002C	5.00%	11/01/07	2,705	<b>2,817</b>
<b>Pennsylvania 3.9%</b>				
<b>+ Pennsylvania Industrial Development Authority</b> Economic Development Revenue Bonds, Series 1994	7.00%	07/01/07	1,000	1,071
<b>+ Philadelphia</b> Water & Wastewater Refunding Revenue Bonds, Series 2001B	5.50%	11/01/11	4,000	4,481
				<b>5,552</b>
<b>Puerto Rico 1.5%</b>				
<b>+ Puerto Rico Highway and Transportation Authority</b> Transportation Refunding Revenue Bonds, Series 2003H	5.00%	07/01/35	2,000	<b>2,151</b>
<b>South Carolina 2.2%</b>				
<b>+ Charleston County</b> <i>Care Alliance Health Services</i> Revenue Bonds, Series 1999A	4.25%	08/15/07	3,000	<b>3,068</b>
<b>Texas 7.9%</b>				
<b>+ Dallas Water &amp; Sewer Utilities</b> Refunding & Improvement Revenue Bonds, Series 2003	5.00%	10/01/10	5,000	5,399

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Denton Utility System</b>				
Refunding & Improvement Revenue Bonds, Series 2001	5.00%	12/01/12	2,030	2,178
<b>Fort Worth</b>				
General Purpose Improvement & Refunding Bonds, Series 2001	5.00%	03/01/10	1,090	1,169
<b>+ Houston Port Authority</b>				
Port Improvement General Obligation Bonds, Series 2001B	5.25%	10/01/10	2,205	2,383
				<b>11,129</b>
<b>Washington 10.4%</b>				
<b>+ North Kitsap School District #400</b>				
Unlimited Tax General Obligation Refunding Bonds, Series 2005	5.13%	12/01/16	4,650	5,197
<b>+ Port of Seattle</b>				
<i>Passenger Facility Charge</i> Revenue Bonds, Series 1998B	5.00%	12/01/07	1,395	1,444
<b>+ Snohomish County</b>				
Refunding Limited General Obligation Bonds	4.50%	12/01/12	1,920	2,016
<b>+ Washington</b>				
<i>Department of Ecology State Office Building Project</i> Refunding Certificates of Participation, Series 2001	4.75%	04/01/12	1,710	1,805
<b>+ Washington Public Power Supply System</b>				
<i>Nuclear Project No. 2</i> Refunding Revenue Bonds, Series 1993A	5.70%	07/01/08	4,000	4,289
				<b>14,751</b>
<b>Wisconsin 2.6%</b>				
<b>Wisconsin Health &amp; Educational Facilities Authority</b>				
<i>Carroll College</i> Revenue Bonds, Series 1998	4.80%	10/01/06	1,000	1,010
<b>+ Wisconsin State</b>				
Master Lease Certificates of Participation, Series 2002D	5.00%	09/01/07	2,500	2,594
				<b>3,604</b>
<b>Variable Rate Obligations 4.1%</b>				
<b>California 0.1%</b>				
<b>+ California Department of Water Resources</b>				
Power Supply Revenue Bonds, Series 2002B-2	2.35%	09/01/05	150	<b>150</b>
<b>New York 4.0%</b>				
<b>+ New York City Municipal Water Finance Authority</b>				
Water & Sewer System, Revenue Bonds, Series 1994G	2.25%	09/01/05	5,700	<b>5,700</b>

Security and Number of Shares		Value (\$ x 1,000)
Other Investment Companies 0.0% of net assets		
Provident Institutional Funds— Muni Fund Portfolio	21,421	21
End of investments.		

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$138,179
Receivables:	
Investments sold	1,405
Fund shares sold	201
Interest	1,871
Prepaid expenses	+ 8
<b>Total assets</b>	<b>141,664</b>

**Liabilities**

Payables:	
Fund shares redeemed	285
Dividends to shareholders	106
Investment adviser and administrator fees	3
Transfer agent and shareholder service fees	3
Accrued expenses	+ 36
<b>Total liabilities</b>	<b>433</b>

**Net Assets**

<b>Total assets</b>	141,664
<b>Total liabilities</b>	- 433
<b>Net assets</b>	<b>\$141,231</b>

**Net Assets by Source**

Capital received from investors	139,743
Net investment income not yet distributed	24
Net realized capital losses	(400)
Net unrealized capital gains	1,864

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$141,231		13,453		\$10.50

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$136,315.

Not counting short-term obligations, the fund's security transactions during the period were:

Purchases	\$11,550
Sales/maturities	\$28,758

The fund's total security transactions with other Schwab Funds during the period were \$34,017.

**Federal Tax Data**

<b>Portfolio cost</b>	\$136,292
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**Net unrealized gains and losses:**

Gains	\$2,409
Losses	+ (522)
	<b>\$1,887</b>

**As of August 31, 2005:****Undistributed earnings:**

Tax-exempt income	\$106
Long-term capital gains	\$-

**Unused capital losses:**

Expires 08/31 of:	
2009	\$120
2010	+ 32
	<b>\$152</b>

<b>Deferred capital losses</b>	\$248
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**Reclassifications:**

Net investment income not yet distributed	(\$1)
Reclassified as:	
Net realized capital gains	\$1

## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	<b>\$5,009</b>
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**Net Realized Gains and Losses**

Net realized losses on investments	<b>(249)</b>
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**Net Unrealized Gains and Losses**

Net unrealized losses on investments	<b>(2,537)</b>
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**Expenses**

Investment adviser and administrator fees	447
Transfer agent and shareholder service fees	373
Trustees' fees	9
Custodian and portfolio accounting fees	15
Professional fees	30
Registration fees	29
Shareholder reports	20
Other expenses	+
	15
<b>Total expenses</b>	<b>938</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	5,009
<b>Total expenses</b>	- 938
<b>Net investment income</b>	<b>4,071</b>
<b>Net realized losses</b>	(249)
<b>Net unrealized losses</b>	+ (2,537)
<b>Increase in net assets from operations</b>	<b>\$1,285</b>

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

CSIM and Schwab have guaranteed that the annual operating expenses (excluding interest, taxes and certain non-routine expenses) will not exceed 0.65% of the fund's average daily net assets through November 15, 2005.

These add up to a net loss on investments of \$2,786.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Operations**

	9/1/04-8/31/05	9/1/03-8/31/04
Net investment income	\$4,071	\$4,557
Net realized gains or losses	(249)	323
Net unrealized gains or losses	+ (2,537)	303
<b>Increase in net assets from operations</b>	<b>1,285</b>	<b>5,183</b>

**Distributions Paid**

Dividends from net investment income	<b>\$4,067</b>	<b>\$4,553</b>
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**Transactions in Fund Shares**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	5,072	\$53,709	9,625	\$103,366
Shares reinvested	265	2,801	322	3,437
Shares redeemed	+ (6,979)	(73,888)	(9,895)	(105,377)
<b>Net transactions in fund shares</b>	<b>(1,642)</b>	<b>(\$17,378)</b>	<b>52</b>	<b>\$1,426</b>

**Shares Outstanding and Net Assets**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	15,095	\$161,391	15,043	\$159,335
Total increase or decrease	+ (1,642)	(20,160)	52	2,056
<b>End of period</b>	<b>13,453</b>	<b>\$141,231</b>	<b>15,095</b>	<b>\$161,391</b>

The fund has designated 100% of its dividends for the current and prior report periods as tax-exempt interest dividends.

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$24 and \$21 for the current and prior period, respectively.



# Schwab Long-Term Tax-Free Bond Fund™

## Financial Statements

### Financial Highlights

	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	11.33	11.04	11.05	10.87	10.24
Income from investment operations:					
Net investment income	0.45	0.45	0.45	0.49	0.50
Net realized and unrealized gains or losses	(0.08)	0.29	(0.01)	0.17	0.63
Total income from investment operations	0.37	0.74	0.44	0.66	1.13
Less distributions:					
Dividends from net investment income	(0.45)	(0.45)	(0.45)	(0.48)	(0.50)
Net asset value at end of period	11.25	11.33	11.04	11.05	10.87
Total return (%)	3.29	6.77	4.01	6.24	11.29
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.65	0.62	0.49	0.49
Gross operating expenses	0.66	0.66	0.65	0.74	0.74
Net investment income	3.98	4.00	4.06	4.49	4.73
Portfolio turnover rate	1	10	22	25	35
Net assets, end of period (\$ x 1,000,000)	93	83	81	85	88

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbols below to designate certain characteristics of the securities.

- + Credit-enhanced security
- Liquidity-enhanced security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>98.0%</b>	<b>Municipal Bonds</b>	85,522	90,905
<b>0.1%</b>	<b>Other Investment Companies</b>	141	141
<b>98.1%</b>	<b>Total Investments</b>	<b>85,663</b>	<b>91,046</b>
<b>1.9%</b>	<b>Other Assets and Liabilities</b>		1,748
<b>100.0%</b>	<b>Net Assets</b>		<b>92,794</b>

**Issuer****Project****Type of Security, Series****Rate****Maturity  
Date****Face Amount**  
(\$ x 1,000)**Value**  
(\$ x 1,000)**Municipal Bonds** 98.0% of net assets**Fixed-Rate Obligations 91.8%****California 4.9%****California Department of Water Resources**

Power Supply Revenue Bonds, Series 2002A

5.88% 05/01/16 2,000 2,275

**California State**

Various Purpose General Obligation Bonds

5.25% 11/01/17 2,000 2,213

**4,488****Colorado 3.7%****+ Colorado Department of Transportation**Transportation Revenue Anticipation Notes,  
Series 2002B

5.50% 06/15/15 2,000 2,307

**+ Denver City & County***Airport System*

Revenue Refunding Bonds, Series 2002E

5.50% 11/15/15 1,000 1,094

**3,401****District of Columbia 2.4%****+ District of Columbia**

Certificates of Participation, Series 2003

5.50% 01/01/17 2,000 **2,246****Florida 3.0%****+ Escambia County Health Facilities Authority***Ascension Health*

Revenue Bonds, Series 1999A-2

5.75% 11/15/09 2,500 **2,767**

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Georgia 1.4%</b>				
<b>+ Fulton County Development Authority</b>				
<i>TUFF Morehouse</i> Revenue Bonds, Series 2002A	5.50%	02/01/22	1,180	<b>1,306</b>
<b>Hawaii 1.8%</b>				
<b>+ Hawaii</b> General Obligation Bonds, Series 1999CT	5.88%	09/01/09	1,500	<b>1,669</b>
<b>Indiana 1.1%</b>				
<b>+ Marion County Convention &amp; Recreational Facilities Authority</b> Excise Taxes Lease Revenue Refunding Senior Bonds, Series 2001A	5.00%	06/01/21	1,000	<b>1,053</b>
<b>Kentucky 1.1%</b>				
<b>+ Jefferson County</b> <i>University Medical Center</i> Health Facilities Revenue Bonds, Series 1997	5.25%	07/01/22	1,000	<b>1,040</b>
<b>Maryland 0.3%</b>				
<b>Maryland Department of Housing &amp; Community Development</b> Housing Revenue Bonds, Series 1996A	5.88%	07/01/16	240	<b>249</b>
<b>Michigan 9.1%</b>				
<b>Delta County Economic Development Corp.</b> <i>MeadWestvaco-Escanaba Paper Co. Project</i> Environmental Improvement Revenue Refunding Bonds, Series 2002	6.25%	04/15/27	1,000	1,166
<b>+ Detroit</b> <i>Water Supply System</i> Revenue Refunding Senior Lien Bonds, Series 2003C	5.25%	07/01/16	2,620	2,905
<b>+ Detroit School District</b> School Building and Site Improvement Bonds, Series 2005A	5.00%	05/01/17	3,000	3,296
<b>+ Wayne County Community College</b> Improvement Bonds, Series 1999	5.50%	07/01/19	1,000	1,084
				<b>8,451</b>
<b>Mississippi 4.8%</b>				
<b>+ Mississippi Hospital Equipment &amp; Facilities Authority</b> <i>Mississippi Baptist Medical Center</i> Revenue Refunding Bonds, Series 1995	6.00%	05/01/13	2,150	2,194
<b>+ Walnut Grove Correctional Authority</b> <i>Walnut Grove Correctional Facility Project</i> Certificates of Participation, Series 1999	6.00%	11/01/19	2,000	2,253
				<b>4,447</b>

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Nevada 4.8%</b>				
<b>+ Nevada State</b>				
<i>Motor Vehicle Fuel Tax</i> Highway Improvement Revenue Bonds, Series 2004	5.50%	12/01/18	2,000	2,279
<b>+ Nevada State Department of Business &amp; Industry</b>				
<i>Las Vegas Monorail</i> First Tier Revenue Bonds, Series 2000	5.63%	01/01/32	2,000	2,191
				<b>4,470</b>
<b>New York 5.2%</b>				
<b>+ Metropolitan Transportation Authority</b>				
Transportation Revenue Refunding Bonds, Series 2002A	5.50%	11/15/18	2,000	2,250
<b>New York City</b>				
General Obligation Bonds Fiscal 2002, Series G	5.75%	08/01/16	1,325	1,489
General Obligation Bonds Fiscal 2005, Series B	5.25%	08/01/15	1,000	1,106
				<b>4,845</b>
<b>Oregon 4.1%</b>				
<b>+ Columbia River Peoples Utility District</b>				
Electric System Revenue Obligations, Series 2000B	5.50%	12/01/19	1,180	1,293
<b>+ Morrow County School District</b>				
General Obligation Bonds, Series 2001	5.63%	06/15/16	2,235	2,511
				<b>3,804</b>
<b>Pennsylvania 3.9%</b>				
<b>Pennsylvania State Higher Education Facilities Authority</b>				
<i>University of Pennsylvania Health Services</i> Revenue Bonds, Series 1996A	5.75%	01/01/17	2,000	2,039
<b>+ Seneca Valley Unified School District</b>				
General Obligation Refunding Bonds, Series 1998AA	5.15%	02/15/20	1,500	1,564
				<b>3,603</b>
<b>Rhode Island 0.0%</b>				
<b>Rhode Island Housing &amp; Mortgage Finance Corp.</b>				
Homeownership Opportunity Bonds, Series 10A	6.50%	10/01/22	20	20
<b>Texas 18.0%</b>				
<b>+ Austin Combined Utilities</b>				
Revenue Refunding Bonds, Series 1997	5.13%	11/15/16	3,000	3,120
<b>+ Brazos River Authority</b>				
<i>Houston Industries</i> Revenue Refunding Bonds, Series 1998A	5.13%	05/01/19	1,750	1,834
<b>Conroe Independent School District</b>				
<b>+ Unlimited Tax Schoolhouse &amp; Refunding Bonds, Series 1997</b>				
<i>Refunded</i> Unlimited Tax Schoolhouse & Refunding Bonds, Series 1997	5.25%	02/15/21	765	790
	5.25%	02/15/07	235	243

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Dallas Fort Worth International Airport</b> Joint Revenue Bonds, Series 2000A	6.00%	11/01/24	3,500	3,825
<b>Harris County</b> Permanent Improvement Refunding Bonds, Series 2004A	5.00%	10/01/18	1,885	2,048
<b>+ Harris County Hospital District</b> Revenue Refunding Bonds, Series 2000	6.00%	02/15/16	1,000	1,120
<b>+ North Texas Tollway Authority</b> Revenue Refunding Bonds, Series 2003C	5.00%	07/01/08	2,000	2,098
<b>+ Texas Public Finance Authority</b> <i>Texas Southern University</i> Revenue Refunding Bonds, Series 1998A-1	4.75%	11/01/17	1,545	1,597
				<b>16,675</b>
<b>Vermont 2.4%</b>				
<b>+ Vermont Education and Health Buildings Financing Agency</b> <i>Fletcher Allen Health Care</i> Hospital Revenue Bonds, Series 2000A	6.00%	12/01/23	2,000	<b>2,244</b>
<b>Washington 19.8%</b>				
<b>+ Clark County School District</b> Unlimited Tax General Obligation Bonds, Series 1999	5.50%	12/01/17	3,000	3,274
<b>Kent School District # 415</b> Unlimited Tax General Obligation Refunding Bonds, Series 1993A	5.55%	12/01/11	500	557
<b>King County</b> Limited Tax General Obligation Bonds, Series 1997D	5.75%	12/01/11	3,500	3,774
<b>+ King Street Center</b> Lease Revenue Bonds, Series 1997	5.13%	06/01/17	1,000	1,041
<b>+ North Kitsap School District # 400</b> Unlimited Tax General Obligation Refunding Bonds, Series 2005	5.13%	12/01/18	1,850	2,051
<b>+ Ocean Shores</b> Water and Sewer Revenue Bonds, Series 2001	5.50%	12/01/21	2,000	2,233
<b>Washington State Health Care Facilities Authority</b>				
<b>+ Catholic Health Initiatives</b> Revenue Bonds, Series 2000A	6.00%	12/01/20	3,000	3,336
<b>+ Swedish Health System</b> Revenue Bonds, Series 1998	5.13%	11/15/18	2,000	2,106
				<b>18,372</b>
<b>Variable Rate Obligations 6.2%</b>				
<b>Alaska 0.5%</b>				
<b>Valdez</b> <i>Exxon Pipeline Co.</i> Marine Terminal Revenue Refunding Bonds, Series 1993A	2.20%	09/01/05	450	<b>450</b>

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California 3.8%</b>				
<b>+ California</b> Economic Recovery Bonds, Series 2004C-6	2.20%	09/01/05	600	600
<b>+ California Department of Water Resources</b> Power Supply Revenue Bonds, Series 2002B-2	2.35%	09/01/05	100	100
<b>+ Irvine Assessment District</b> Limited Obligation Improvement Bonds, Series 2000	2.26%	09/01/05	265	265
<b>+ Natomas Union School District</b> Certificates of Participation, Series B	5.00%	02/01/06	1,865	1,990
<b>► Southern California Metropolitan Water District</b> Water Revenue Bonds 2000 Authorization, Series 2000B-1	2.20%	09/01/05	600	600
				<b>3,555</b>
<b>Mississippi 0.1%</b>				
<b>Jackson County</b> <i>Chevron USA</i> Pollution Control Revenue Refunding Bonds, Series 1993				
	2.30%	09/01/05	150	<b>150</b>
<b>New York 0.9%</b>				
<b>+ Long Island Power Authority</b> <i>Electric System</i> Subordinated Revenue Bonds, Series 2001 3-B	2.25%	09/01/05	700	700
<b>+► New York City</b> General Obligation Bonds, Fiscal 2002 Series A-6	2.25%	09/01/05	100	100
				<b>800</b>
<b>Wyoming 0.9%</b>				
<b>Uinta County</b> <i>Chevron USA Project</i> Pollution Control Refunding Revenue Bonds, Series 1993				
	2.30%	09/01/05	800	<b>800</b>

## Security and Number of Shares

<b>Other Investment Companies</b> 0.1% of net assets
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<b>Provident Institutional Funds— Muni Fund Portfolio</b> 141,278	<b>141</b>
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**End of investments.**

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$91,046
Receivables:	
Investments sold	800
Fund shares sold	21
Interest	1,066
Prepaid expenses	+ 10
<b>Total assets</b>	<b>92,943</b>

**Liabilities**

Payables:	
Fund shares redeemed	20
Dividends to shareholders	94
Investment adviser and administrator fees	2
Transfer agent and shareholder service fees	2
Accrued expenses	+ 31
<b>Total liabilities</b>	<b>149</b>

**Net Assets**

<b>Total assets</b>	92,943
<b>Total liabilities</b>	- 149
<b>Net assets</b>	<b>\$92,794</b>

**Net Assets by Source**

Capital received from investors	88,999
Net investment income not yet distributed	167
Net realized capital losses	(1,755)
Net unrealized capital gains	5,383

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$92,794		8,245		\$11.25

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$85,663.

Not counting short-term obligations, the fund's security transactions during the period were:

Purchases	\$10,292
Sales/maturities	\$974

The fund's total security transactions with other Schwab Funds during the period were \$20,890.

**Federal Tax Data**

<b>Portfolio cost</b>	\$85,497
<b>Net unrealized gains and losses:</b>	
Gains	\$5,592
Losses	+ (43)
	<b>\$5,549</b>

**As of August 31, 2005:****Undistributed earnings:**

Tax-exempt income	\$94
Long-term capital gains	\$-

**Unused capital losses:**

Expires 08/31 of:	
2009	\$1,755

<b>Capital losses utilized</b>	<b>\$8</b>
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**Reclassifications:**

Net investment income not yet distributed	(\$8)
Reclassified as:	
Net realized capital gains	\$8

## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	<b>\$4,067</b>
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**Net Unrealized Gains and Losses**

Net unrealized losses on investments	<b>(645)</b>
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**Expenses**

Investment adviser and administrator fees	263
Transfer agent and shareholder service fees	220
Trustees' fees	8
Custodian and portfolio accounting fees	10
Professional fees	29
Registration fees	23
Shareholder reports	14
Other expenses	+ 13
Total expenses	580
Expense reduction	- 9
<b>Net expenses</b>	<b>571</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	4,067
<b>Net expenses</b>	- 571
<b>Net investment income</b>	<b>3,496</b>
<b>Net unrealized losses</b>	+ (645)
<b>Increase in net assets from operations</b>	<b>\$2,851</b>

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the annual operating expenses of this fund through at least November 15, 2005, to 0.65% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.



Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Operations**

	9/1/04-8/31/05	9/1/03-8/31/04
Net investment income	\$3,496	\$3,302
Net realized gains	—	595
Net unrealized gains or losses	+ (645)	1,340
<b>Increase in net assets from operations</b>	<b>2,851</b>	<b>5,237</b>

**Distributions Paid**

Dividends from net investment income	<b>\$3,468</b>	<b>\$3,274</b>
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The fund has designated 100% of its dividends for the current and prior report periods as tax-exempt interest dividends.

**Transactions in Fund Shares**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,576	\$29,116	2,619	\$29,632
Shares reinvested	211	2,387	218	2,453
Shares redeemed	+ (1,846)	(20,848)	(2,901)	(32,623)
<b>Net transactions in fund shares</b>	<b>941</b>	<b>\$10,655</b>	<b>(64)</b>	<b>(\$538)</b>

**Shares Outstanding and Net Assets**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	7,304	\$82,756	7,368	\$81,331
Total increase or decrease	+ 941	10,038	(64)	1,425
<b>End of period</b>	<b>8,245</b>	<b>\$92,794</b>	<b>7,304</b>	<b>\$82,756</b>

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$167 and \$147 for the current and prior period, respectively.

# Schwab California Tax-Free YieldPlus Fund™

## Financial Statements

### Financial Highlights

Investor Shares	12/16/04 <sup>1</sup> – 8/31/05
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.15
Net realized and unrealized losses	(0.05)
Total income from investment operations	0.10
Less distributions:	
Dividends from net investment income	(0.15)
Net asset value at end of period	9.95
Total return (%)	0.98 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	0.40 <sup>3</sup>
Gross operating expenses	0.66 <sup>3</sup>
Net investment income	2.12 <sup>3</sup>
Portfolio turnover rate	52 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	19

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares	12/16/04 <sup>1</sup> – 8/31/05
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.15
Net realized and unrealized losses	(0.05)
Total income from investment operations	0.10
Less distributions:	
Dividends from net investment income	(0.15)
Net asset value at end of period	9.95
Total return (%)	1.03 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	0.28 <sup>3</sup>
Gross operating expenses	0.51 <sup>3</sup>
Net investment income	2.21 <sup>3</sup>
Portfolio turnover rate	52 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	516

<sup>1</sup> Commencement of operations.<sup>2</sup> Not annualized.<sup>3</sup> Annualized.

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbols below to designate certain characteristics of the securities.

- ✚ Credit-enhanced security
- ▷ Liquidity-enhanced security
- All or a portion of this security is held as collateral for futures contracts and delayed-delivery security.
- ◆ Delayed-delivery security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.1%</b>	<b>Municipal Bonds</b>	530,949	530,652
<b>0.1%</b>	<b>Other Investment Companies</b>	585	585
<b>99.2%</b>	<b>Total Investments</b>	<b>531,534</b>	<b>531,237</b>
<b>0.8%</b>	<b>Other Assets and Liabilities</b>		4,279
<b>100.0%</b>	<b>Net Assets</b>		<b>535,516</b>

<b>Issuer</b> <b>Project</b> <b>Type of Security, Series</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Municipal Bonds** 99.1% of net assets

**Fixed-Rate Obligations 72.6%****California 72.0%****✚■ Alameda County**

*Santa Rita Jail*

Refunding Certificates of Participation, Series 1993 5.38% 06/01/09 4,515 4,705

**California Department of Water Resources**

Power Supply Revenue Bonds, Series 2002A 5.50% 05/01/07 1,325 1,376

Power Supply Revenue Bonds, Series 2002A 5.50% 05/01/08 8,125 8,613

✚ Power Supply Revenue Bonds, Series 2002A 5.50% 05/01/13 10,000 11,295

**California Health Facilities Finance Authority**

*Cedars-Sinai Medical Center*

Refunding Revenue Bonds, Series 2005 5.00% 11/15/08 1,000 1,052

Refunding Revenue Bonds, Series 2005 5.00% 11/15/10 2,035 2,182

**California Infrastructure & Economic Development Bank**

*J. David Gladstone Institutes*

Revenue Bonds, Series 2001 4.00% 10/01/06 2,015 2,037

Revenue Bonds, Series 2001 4.00% 10/01/07 2,000 2,029

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California Pollution Control Financing Authority</b>				
<i>Southern California Edison Co.</i>				
Pollution Control Refunding Revenue Bonds, Series 1985A	2.00%	03/01/06	1,200	1,192
Pollution Control Refunding Revenue Bonds, Series 1985B	2.00%	03/01/06	3,165	3,144
■ Pollution Control Refunding Revenue Bonds, Series 1985C	2.00%	03/01/06	5,500	5,463
Pollution Control Refunding Revenue Bonds, Series 1986C	2.00%	03/01/06	2,400	2,384
<b>California State</b>				
+ Economic Recovery Bonds, Series 2004A	5.00%	07/01/12	3,950	4,344
Economic Recovery Bonds, Series 2004B-4	3.00%	07/01/07	1,000	1,001
Economic Recovery Bonds, Series 2004B-2	5.00%	07/01/07	15,000	15,546
+ Federal Highway Grant Anticipation Bonds, Series 2004A	5.00%	02/01/08	1,360	1,427
► General Obligation	2.60%	11/09/05	10,000	9,999
■ General Obligation Bonds	5.25%	11/01/10	12,050	13,184
General Obligation Bonds, Series 2001	4.00%	11/01/05	1,000	1,002
General Obligation Bonds, Series 2002	5.25%	02/01/11	23,310	25,433
► General Obligation CP Notes	2.58%	10/06/05	15,000	15,000
+ Various Purpose General Obligation Bonds	8.00%	11/01/07	4,100	4,323
■ Various Purpose General Obligation Bonds	5.00%	06/01/13	10,000	10,966
<b>+ California State Public Works Board</b>				
<i>University of California</i>				
Lease Revenue Bonds, Series 1997C	5.50%	09/01/08	5,185	5,548
<i>Butterfield State Office Complex</i>				
Lease Revenue Bonds, Series 2005A	5.00%	06/01/07	3,285	3,400
Lease Revenue Bonds, Series 2005A	5.00%	06/01/08	4,515	4,742
Lease Revenue Bonds, Series 2005A	5.00%	06/01/09	1,940	2,059
+ <i>Department of Corrections (State Prison-Coalinga)</i>				
Lease Refunding Revenue Bonds, Series 2004D	4.50%	12/01/07	3,550	3,680
<b>California State University Channel Islands Financing Authority</b>				
<b>+ Channel Islands</b>				
Rental Housing Revenue Bonds, Series 2001	3.15%	08/01/08	5,105	5,122
<b>+■ For-Sale Housing Construction</b>				
Revenue Bonds, 2004A	2.50%	08/01/07	15,750	15,622
<b>+ Rental Housing &amp; Town Center</b>				
Revenue Bonds, Series 2004A	2.50%	08/01/07	8,000	7,920
<b>California Statewide Communities Development Authority</b>				
<b>+ Chadwick School</b>				
Revenue Bonds, Series 2002	2.25%	12/01/06	8,000	8,000
<i>Daughters of Charity Health System</i>				
Revenue Bonds, Series 2005F	5.00%	07/01/08	1,240	1,292
Revenue Bonds, Series 2005F	5.00%	07/01/09	2,330	2,455
Revenue Bonds, Series 2005F	5.00%	07/01/10	2,455	2,602
Revenue Bonds, Series 2005G	5.25%	07/01/11	1,000	1,078

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<i>Huntington Memorial Hospital</i>				
Revenue Bonds, Series 2005	5.00%	07/01/06	3,300	3,350
Revenue Bonds, Series 2005	5.00%	07/01/09	3,250	3,442
<i>Kaiser Permanente</i>				
Revenue Bonds, Series 2001A	2.55%	01/04/07	7,000	6,948
Revenue Bonds, Series 2002D	4.35%	03/01/07	2,500	2,542
Revenue Bonds, Series 2004G	2.30%	05/01/07	2,425	2,389
Revenue Bonds, Series 2004H	2.63%	05/01/08	1,345	1,321
<b>+ Sweep Loan Program</b>				
CP Revenue Notes, Series 2005 A & B	2.34%	09/07/05	10,000	10,000
<b>+ Vehicle License Fee</b>				
Revenue Anticipation Notes, Series 2005B-1	4.00%	11/15/06	3,500	3,550
<b>+ Chula Vista Public Financing Authority</b>				
Refunding Revenue Bonds, Series 2005A	4.00%	09/01/12	2,980	3,100
<b>Del Mar Race Track Authority</b>				
◆ Revenue Bonds, Series 2005	4.00%	08/15/06	400	403
◆ Revenue Bonds, Series 2005	5.00%	08/15/07	250	258
◆ Revenue Bonds, Series 2005	5.00%	08/15/08	250	260
◆ Revenue Bonds, Series 2005	5.00%	08/15/09	500	525
<b>► East Bay Municipal Utility District</b>				
Water System CP	2.45%	09/06/05	6,000	6,000
<b>Golden State Tobacco Securitization Corp.</b>				
Enhanced Tobacco Settlement Asset-Backed Bonds, Series 2003B	5.00%	06/01/13	9,055	9,949
Enhanced Tobacco Settlement Asset-Backed Bonds, Series 2005A	5.00%	06/01/17	5,500	5,660
<b>Los Angeles</b>				
2005 TRAN	4.00%	06/30/06	15,000	15,142
<b>Los Angeles Convention &amp; Exhibition Center Authority</b>				
Certificates of Participation, Series 1985	9.00%	12/01/05	6,270	6,362
<b>+ Los Angeles County Capital Asset Leasing Corp.</b>				
Lease Revenue CP Notes	2.43%	09/06/05	5,000	5,000
<b>Los Angeles County Metropolitan Transportation Authority</b>				
<b>+ Second Subordinate Sales Tax Revenue CP Notes, Series A</b>	2.45%	09/28/05	12,294	12,293
<b>+■ Gold Line Eastside Extension</b>				
Capital Grant Receipts Revenue Bonds, Series 2005A	5.00%	10/01/11	21,000	22,766
<b>+■ Los Angeles County Public Works Financing Authority</b>				
<i>2005 Master Refunding</i>				
Lease Refunding Revenue Bonds, Series 2005A	4.00%	12/01/06	10,000	10,148
Lease Refunding Revenue Bonds, Series 2005A	5.00%	12/01/08	1,000	1,064
<b>+► Los Angeles Unified School District</b>				
Refunding Certificates of Participation, Series 2005C	4.00%	10/02/06	3,000	3,033
<b>+■ Modesta Irrigation District Financing Authority</b>				
Refunding Revenue Bonds, Series A	6.00%	10/01/15	7,000	7,365

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Orange County Public Financing Authority</b> Lease Refunding Revenue Bonds, Series 2005	5.00%	07/01/10	7,155	7,749
<b>+ Santa Barbara Redevelopment Agency</b> Central City Redevelopment Tax Allocation Refunding Bonds Sr, Series 1995A	6.00%	03/01/08	3,400	3,553
<b>+ Santa Clara</b> Insurance Funding Bonds, Series 1987	3.00%	04/01/08	5,000	5,004
<b>Santa Clara County Financing Authority</b> <i>Measure B</i> Special Obligation Bonds, Series 2003	4.00%	08/01/06	3,000	3,029
<b>Santa Clara Valley Transportation Authority</b> <i>Measure A</i>				
<b>+ Sales Tax Revenue Bonds, Series 2003</b>	4.00%	10/02/06	6,000	6,066
<b>+ Sales Tax Revenue Bonds, Series 2004B</b>	5.00%	10/02/06	6,000	6,129
				<b>385,617</b>
<b>Puerto Rico 0.6%</b>				
<b>Puerto Rico</b> Public Improvement Refunding Revenue Bonds, Series 2003C	5.00%	07/01/08	3,000	<b>3,128</b>
<b>Variable Rate Obligations 26.5%</b>				
<b>California 22.4%</b>				
<b>+■ Association of Bay Area Governments</b> <i>Lease Purchase Program</i> Lease Revenue Pass-Through Obligations, Series 2003A	2.58%	09/07/05	7,000	7,000
<b>California</b>				
▶ Economic Recovery Bonds, Series 2004C-4	2.23%	09/07/05	2,000	2,000
▶■ Economic Recovery Bonds, Series 2004A	2.39%	09/07/05	10,000	10,000
▶ Economic Recovery Bonds, Series 2004C-12	2.27%	09/07/05	2,400	2,400
▶ Economic Recovery Bonds, Series 2004C-15	2.30%	09/07/05	2,135	2,135
<b>+ California Department of Water Resources</b> Power Supply Revenue Bonds, Series 2002B-2	2.35%	09/01/05	12,300	12,300
<b>+■ California Department Water Resources</b> <i>Central Valley Water</i> Water System Revenue Bonds, Series AD	2.06%	09/07/05	32,152	32,152
<b>+ Diamond Bar Public Financing Authority</b> <i>Community/Senior Center</i> Lease Revenue Bonds, Series 2002A	2.45%	09/07/05	3,945	3,945
<b>▶ Fontana Unified School District</b> <i>2004 School Facility Bridge Funding Program</i> Certificates of Participation, Series 2004B	3.00%	09/07/05	1,250	1,250
<b>+■ Irvine</b> <i>Capital Improvement</i> Lease Revenue Bonds, Series 1985	2.42%	09/07/05	11,330	11,330

Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Irvine Assessment District # 04-20</b> Limited Obligation Improvement Bonds, Series A	2.20%	09/01/05	11,000	11,000
<b>+■ Mount San Jacinto Winter Park Authority</b> <i>Palm Springs Aerial Tramway</i> Certificates of Participation, Series 1998	2.45%	09/07/05	3,835	3,835
<b>+ Orange County</b> <i>Vintage Woods</i> Apartment Development Refunding Revenue Bonds, Series 1998H	2.44%	09/07/05	3,500	3,500
<b>► Orange County Sanitation District</b> Refunding Certificates of Participation, Series 2000B	2.20%	09/01/05	2,730	2,730
<b>+► Pittsburgh Redevelopment Agency</b> <i>Los Medanos Community Development</i> Subordinate Tax Allocation Bonds, Series 2004A	2.22%	09/01/05	14,165	14,165
				<b>119,742</b>
<b>Puerto Rico 4.1%</b>				
<b>Puerto Rico</b>				
<b>+►■ Public Improvement Bond, Series 2001A</b>	2.52%	09/07/05	11,335	11,335
<b>+► Public Improvement Bonds, Series 2000</b>	2.49%	09/07/05	1,930	1,930
<b>+► Public Improvement Bonds, Series 2001B</b>	2.51%	09/07/05	5,000	5,000
<b>+► Puerto Rico Public Buildings Authority</b> Government Facilities Revenue Bonds, Series B	2.51%	09/07/05	3,900	3,900
				<b>22,165</b>

## Security and number of shares

<b>Other Investment Companies</b>	0.1% of net assets
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<b>Provident Institutional Funds— California Money Fund Portfolio</b>	584,776	<b>585</b>
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End of investments.



In addition to the above, the fund held the following at 8/31/05. All numbers are x 1,000 except number of futures contracts.

Futures Contracts			
	Number of Contracts	Contract Value	Unrealized Losses
5 Year, Short U.S. Treasury Note, expires 12/20/05	(655)	70,986	(681)
2 Year, Short U.S. Treasury Note, expires 12/30/05	(165)	18,493	(205)
10 Year, Short U.S. Treasury Note, expires 12/20/05	(350)	72,483	(328)
			<u>(1,214)</u>

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$531,237
Cash	667
Receivables:	
Investments sold	324
Fund shares sold	3,145
Interest	3,847
Prepaid expenses	+ 4
<b>Total assets</b>	<b>539,224</b>

**Liabilities**

Payables:	
Fund shares redeemed	1,365
Dividends to shareholders	227
Investments bought	1,444
Due to brokers for futures	543
Investment adviser and administrator fee	14
Transfer agent and shareholder services fees	5
Accrued expenses	+ 110
<b>Total liabilities</b>	<b>3,708</b>

**Net Assets**

<b>Total assets</b>	539,224
<b>Total liabilities</b>	- 3,708
<b>Net assets</b>	<b>\$535,516</b>

**Net Assets by Source**

Capital received from investors	537,484
Net investment income not yet distributed	76
Net realized capital losses	(533)
Net unrealized capital losses	(1,511)

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$19,068		1,916		\$9.95
Select Shares	\$516,448		51,886		\$9.95

Unless stated, all numbers x 1,000.

The amortized cost of the fund's securities was \$531,534.

Not counting short-term obligations, the fund's security transactions during the period were:

Purchases	\$408,379
Sales/maturities	\$99,029

The fund's total security transactions with other Schwab Funds during the period were \$547,428.

These derive from investments and futures.

**Federal Tax Data**

<b>Portfolio cost</b>	\$531,458
<b>Net unrealized gains and losses:</b>	
Gains	\$816
Losses	+ (1,037)
	<b>(\$221)</b>

**As of August 31, 2005:****Undistributed earnings:**

Tax-exempt income	\$227
Long-term capital gains	\$—

**Deferred capital losses** \$1,747

## Statement of

**Operations**

From December 16, 2004 (commencement of operations) through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	<b>\$ 7,340</b>
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**Net Realized Gains and Losses**

Net realized losses on investments	(978)
Net realized gains on futures sold	+ 445
<b>Net realized losses</b>	<b>(533)</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(297)
Net unrealized losses on futures contracts	+ (1,214)
<b>Net unrealized losses</b>	<b>(1,511)</b>

**Expenses**

Investment adviser and administrator fees	1,028
Transfer agent and shareholder service fees	
Investor Shares	26
Select Shares	284
Trustees' fees	8
Custodian and portfolio accounting fees	48
Professional fees	19
Registration fees	65
Shareholder reports	30
Other expenses	+ 4
Total expenses	1,512
Expense reduction	- 676
<b>Net expenses</b>	<b>836</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	7,340
<b>Net expenses</b>	- 836
<b>Net investment income</b>	<b>6,504</b>
<b>Net realized losses</b>	(533)
<b>Net unrealized losses</b>	+ (1,511)
<b>Increase in net assets from operations</b>	<b>\$ 4,460</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.35% of the first \$500 million and 0.30% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.05% of the fund's assets of each respective share class. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$539 from the investment advisor (CSIM) and \$132 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses through November 15, 2005 as follows:

<b>Share Class</b>	<b>% of Average Daily Net Assets</b>
Investor Shares	0.64%
Select Shares	0.49%

This limit excludes interest, taxes and certain non-routine expenses.

For the period December 16, 2004 through May 1, 2005, the annual operating expenses were 0.00% for both Investors Shares and Select Shares.

These add up to a net loss on investments of \$2,044.

## Statements of

**Changes in Net Assets**

For the current report period only. Because the fund commenced operations on December 16, 2004, it has no prior report period. All numbers are x 1,000.

Unless stated, all numbers x 1,000.

**Operations**

	12/16/04-8/31/05
Net investment income	\$6,504
Net realized losses	(533)
Net unrealized losses	+ (1,511)
<b>Increase in net assets from operations</b>	<b>4,460</b>

**Distributions Paid****Dividends from Net Investment Income**

Investor Shares	215
Select Shares	+ 6,213
<b>Total dividends from net investment income</b>	<b>\$6,428</b>

The fund hereby designates 100% of its dividends for the current report period as tax-exempt interest dividends.

**Transactions in Fund Shares**

	12/16/04-8/31/05	
	SHARES	VALUE
<b>Shares sold</b>		
Investor Shares	2,663	\$26,571
Select Shares	+ 76,735	766,122
<b>Total shares sold</b>	<b>79,398</b>	<b>\$792,693</b>
<b>Shares Reinvested</b>		
Investor Shares	13	\$133
Select Shares	+ 464	4,620
<b>Total shares reinvested</b>	<b>477</b>	<b>\$4,753</b>
<b>Shares Redeemed</b>		
Investor Shares	(760)	(\$7,577)
Select Shares	+ (25,313)	(252,385)
<b>Total shares redeemed</b>	<b>(26,073)</b>	<b>(\$259,962)</b>
<b>Net transactions in fund shares</b>	<b>53,802</b>	<b>\$537,484</b>

Figures for shares represent shares sold plus shares reinvested minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

**Shares Outstanding and Net Assets**

	12/16/04-8/31/05	
	SHARES	NET ASSETS
Beginning of period	—	\$ —
Total increase	+ 53,802	535,516
<b>End of period</b>	<b>53,802</b>	<b>\$535,516</b>

Includes net investment income not yet distributed in the amount of \$76 for the current period.

# Schwab California Short/Intermediate Tax-Free Bond Fund<sup>™</sup>

## Financial Statements

### Financial Highlights

	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.63	10.57	10.66	10.51	10.22
Income from investment operations:					
Net investment income	0.33	0.31	0.32	0.34	0.40
Net realized and unrealized gains or losses	(0.20)	0.06	(0.09)	0.15	0.29
Total income from investment operations	0.13	0.37	0.23	0.49	0.69
Less distributions:					
Dividends from net investment income	(0.33)	(0.31)	(0.32)	(0.34)	(0.40)
Net asset value at end of period	10.43	10.63	10.57	10.66	10.51
Total return (%)	1.21	3.59	2.15	4.66	6.95
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.61	0.61	0.58	0.49	0.49
Gross operating expenses	0.61	0.61	0.60	0.66	0.67
Net investment income	3.10	2.97	2.96	3.29	3.83
Portfolio turnover rate	6	17	11	17	30
Net assets, end of period (\$ x 1,000,000)	136	164	174	184	145

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbols below to designate certain characteristics of the securities.

- + Credit-enhanced security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>98.9%</b>	<b>Municipal Bonds</b>	131,248	134,257
<b>0.0%</b>	<b>Other Investment Companies</b>	58	58
<b>98.9%</b>	<b>Total Investments</b>	<b>131,306</b>	<b>134,315</b>
<b>1.1%</b>	<b>Other Assets and Liabilities</b>		1,476
<b>100.0%</b>	<b>Net Assets</b>		<b>135,791</b>

**Issuer****Project**

Type of security, series

Rate

Maturity  
dateFace Amount  
(\$ x 1,000)Value  
(\$ x 1,000)**Municipal Bonds** 98.9% of net assets**Fixed-Rate Obligations** 98.8%**California** 94.2%**Alameda County***Refunding & Capital Projects*

- + Certificates of Participation, Series 1998A
- + Certificates of Participation, Series 2001A

**+ Association of Bay Area Governments***Brandeis Hillel Day School*

Revenue Bonds, Series 2001

**+ Burbank Unified School District***1997 Election*

General Obligation Bonds, Series C

**California Department of Water Resources**

Power Supply Revenue Bonds, Series 2002A

**California Health Facilities Finance Authority***Kaiser Permanente*

Revenue Bonds, Series 1998B

**California State**

- + Economic Recovery Bonds Series 2004A
- + General Obligation Bonds, Series 1992
- + General Obligation Bonds, Series 1998
- + General Obligation Bonds, Series 2002
- + General Obligation Refunding Bonds, Series 2002

5.00%	12/01/06	3,480	3,574
5.38%	12/01/09	5,000	5,471
3.75%	08/01/31	4,000	4,031
3.00%	08/01/06	1,820	1,824
5.50%	05/01/10	1,315	1,436
5.00%	10/01/08	2,500	2,655
5.25%	07/01/14	3,000	3,383
6.30%	09/01/06	2,235	2,309
5.50%	12/01/11	1,665	1,872
5.25%	02/01/11	3,500	3,819
5.00%	02/01/12	4,000	4,377

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California State Public Works Board</b>				
+ Energy Efficiency Revenue Refunding Bonds, Series 1998B <i>Regents of the University of California</i>	4.00%	09/01/06	1,155	1,167
Lease Revenue Refunding Bonds, Series 1998A	5.25%	12/01/07	2,000	2,105
+ <i>UCLA Replacement Hospitals</i> Lease Revenue Bonds, Series 2002A	4.75%	10/01/09	3,005	3,193
<b>California Statewide Communities Development Authority</b>				
<i>Kaiser Permanente</i> Revenue Bonds, Series 2002D	4.35%	03/01/07	2,000	2,033
+ <i>Sherman Oaks</i> Revenue Refunding Bonds, Series 1998A	5.00%	08/01/06	2,500	2,548
+ <b>El Dorado County Public Agency Financing Authority</b> Revenue Bonds, Series 1996	5.60%	02/15/12	3,000	3,099
<b>Fremont Union High School District</b>				
<i>Election of 1998</i> General Obligation Bonds, Series 2000B	5.75%	09/01/08	1,520	1,644
<b>Golden State Tobacco Securitization Corp.</b>				
Enhanced Tobacco Settlement Asset-Backed Bonds, Series 2005A	5.00%	06/01/19	2,500	2,618
<b>Intermodal Container Transfer Facility Joint Powers Authority</b>				
+ Refunding Revenue Bonds, Series 1999A	5.00%	11/01/08	1,210	1,287
+ Refunding Revenue Bonds, Series 1999A	5.00%	11/01/09	1,375	1,484
<b>Long Beach</b>				
Harbor Revenue Bonds, Series 2000A	5.50%	05/15/10	4,000	4,325
<b>+ Los Angeles</b>				
<i>American Academy of Dramatic Arts</i> Certificates of Participation, Series 2000A	4.70%	11/01/05	1,300	1,304
<b>Los Angeles Community Redevelopment Agency</b>				
+ Pooled Financing Refunding Bonds, Series 1998F <i>Bunker Hill Project</i>	5.00%	09/01/07	810	844
Subordinate Lien Tax Allocation Bonds, Series 2004	4.00%	03/01/10	1,950	1,958
+ <i>Vermont Manchester Social Services</i> Lease Revenue Bonds, Series 2005	5.00%	09/01/14	1,995	2,184
<b>+ Los Angeles County Metropolitan Transportation Authority</b>				
<i>Gold Line Eastside Extension</i> Capital Grant Receipts Revenue Bonds, Series 2005A	5.00%	10/01/11	4,000	4,336
<b>+ Los Angeles State Building Authority</b>				
<i>California Department of General Services</i> Lease Revenue Refunding Bonds, Series 1993A	5.63%	05/01/11	3,500	3,843
<b>Los Angeles Unified School District</b>				
<i>1997 Election</i> General Obligation Bonds, Series 2000D	5.50%	07/01/10	4,000	4,408
<b>Northern California Power Agency</b>				
<i>Geothermal 3</i> Refunding Revenue Bonds, Series 1993A	5.60%	07/01/06	2,000	2,047

## Portfolio Holdings continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Oakland</b>				
<i>Oakland Museum</i>				
+ Refunding Certificates of Participation, Series 2002A	5.00%	04/01/10	2,015	2,181
+ Refunding Certificates of Participation, Series 2002A	5.00%	04/01/11	1,460	1,594
<b>+ Oceanside Community Development Commission</b>				
<i>Vista Del Oro Apartments</i>				
Multi-Family Rental Housing Refunding Revenue Bonds, Series 2001A	4.45%	04/01/31	1,250	1,306
<b>+ Orange County</b>				
Recovery Certificates of Participation, Series 1996A	6.00%	07/01/08	3,000	3,252
<b>+ Port of Oakland</b>				
Revenue Bonds, Series 2000K	5.50%	11/01/08	3,000	3,194
<b>+ Rancho California Water District Financing Authority</b>				
Refunding Revenue Bonds, Series 1995	5.88%	11/01/10	1,500	1,537
<b>+ Redding Joint Powers Financing Authority</b>				
Electric System Revenue Bonds, Series 1996A	5.50%	06/01/11	2,000	2,077
<b>Riverside</b>				
<i>Capital Improvement Projects</i>				
+ Certificates of Participation, Series 2003	5.00%	09/01/14	1,470	1,628
+ Certificates of Participation, Series 2003	5.00%	09/01/15	1,545	1,696
<b>+ Riverside County Asset Leasing Corp.</b>				
<i>Riverside County Hospital</i>				
Leasehold Revenue Bonds, Series 2003A	5.00%	06/01/09	2,555	2,720
<b>Sacramento Finance Authority</b>				
Refunding Revenue Bonds, Series 2002	4.50%	07/01/08	2,865	2,963
<b>+ San Bernardino County</b>				
Multi-Family Housing Refunding Revenue Bonds, Series 2001A	4.45%	05/01/31	1,300	1,379
<b>+ San Diego Unified School District</b>				
<i>1998 Election</i>				
General Obligation Bonds, Series 2004F	5.00%	07/01/15	1,095	1,212
<b>San Francisco Airports Commission</b>				
<i>San Francisco International Airport</i>				
+ Second Series Revenue Bonds, Issue 15A	5.50%	05/01/09	2,000	2,137
+ Second Series Revenue Bonds, Issue 22	5.25%	05/01/11	3,065	3,236
<b>San Francisco Bay Area Transit Financing Authority</b>				
Bridge Toll Notes, Series 1999	5.00%	02/01/07	500	510
<b>San Francisco State University</b>				
<i>Auxiliary Organization</i>				
Student Housing Revenue Bonds, Series 1999	5.00%	07/01/08	400	414
<b>+ San Jose</b>				
Airport Revenue Refunding Bonds, Series 2002B	5.00%	03/01/11	2,625	2,801
<b>+ San Jose Redevelopment Agency</b>				
<i>Merged Area Redevelopment</i>				
Tax Allocation Bonds, Series 2002	4.00%	08/01/10	5,000	5,208



Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>+ Santa Clara County Financing Authority</b>				
VMC Facility				
Lease Revenue Bonds, Series 1994A	7.75%	11/15/10	1,000	1,211
<b>+ Temecula Valley Unified School District</b>				
General Obligation Refunding Bonds, Series 2004	6.00%	08/01/07	1,000	1,059
<b>Vernon</b>				
Malburg Generating Station				
+ Electric System Revenue Bonds, Series 2003C	5.00%	04/01/11	1,320	1,390
+ Electric System Revenue Bonds, Series 2003C	5.25%	04/01/15	1,905	2,018
				<b>127,901</b>
<b>Puerto Rico 4.6%</b>				
<b>+ Puerto Rico Aqueduct &amp; Sewerage Authority</b>				
Refunding Bonds, Series 1995	6.00%	07/01/06	3,000	3,079
<b>+ Puerto Rico Electric Power Authority</b>				
Power Revenue Refunding Bonds, Series CC	5.50%	07/01/08	3,000	3,177
				<b>6,256</b>

**Variable Rate Obligations 0.1%****California 0.1%**

<b>+ California Department of Water Resources</b>				
Power Supply Revenue Bonds, Series 2002B-2	2.35%	09/01/05	100	<b>100</b>

**Security and number of shares****Other Investment Companies** 0.0% of net assets

<b>Provident Institutional Funds - California Money Fund Portfolio</b>	<b>58,328</b>	<b>58</b>
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End of investments.

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$134,315
Receivables:	
Fund shares sold	30
Interest	1,637
Prepaid expenses	<u>2</u>
<b>Total assets</b>	<b>135,984</b>

**Liabilities**

Payables:		
Fund shares redeemed		35
Dividends to shareholders		113
Investment adviser and administrator fees		3
Transfer agent and shareholder service fees		3
Accrued expenses	+	39
<b>Total liabilities</b>		<b>193</b>

**Net Assets**

Total assets	135,984
Total liabilities	— 193
Net assets	<u>\$135,791</u>

**Net Assets by Source**

Capital received from investors	132,848
Net investment income not yet distributed	8
Net realized capital losses	(74)
Net unrealized capital gains	3,009

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$135,791		13,018		\$10.43

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$131,306.

Not counting short-term obligations, the fund's security transactions during the period were:

Purchases	\$9,095
Sales/maturities	\$24,170

The fund's total security transactions with other Schwab Funds during the period were \$35,870.

**Federal Tax Data**

Portfolio cost	\$131,297
Net unrealized gains and losses:	
Gains	\$3,167
Losses	+ (149)
	<u>\$3,018</u>

**As of August 31, 2005:****Undistributed earnings:**

Tax-exempt income	\$113
Long-term capital gains	\$—

**Unused capital losses:**

Expires 08/31 of:	
2008	\$28
2012	10
2013	+ 22
	<hr/>
	<b>\$60</b>

<b>Deferred capital losses</b>	\$14
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**Reclassifications:**

Net investment income not yet distributed	(\$4)
Reclassified as:	
Net realized capital gains	\$4

## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	<b>\$5,581</b>
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**Net Realized Gains and Losses**

Net realized losses on investments	<b>(18)</b>
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**Net Unrealized Gains and Losses**

Net unrealized losses on investments	<b>(2,927)</b>
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**Expenses**

Investment adviser and administrator fees	451
Transfer agent and shareholder service fees	376
Trustees' fees	8
Custodian and portfolio accounting fees	15
Professional fees	31
Registration	3
Shareholder reports	17
Other expenses	+ 16
<b>Total expenses</b>	<b>917</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	5,581
<b>Total expenses</b>	- 917
<b>Net investment income</b>	<b>4,664</b>
<b>Net realized losses</b>	(18)
<b>Net unrealized losses</b>	+ (2,927)
<b>Increase in net assets from operations</b>	<b>\$1,719</b>

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

CSIM and Schwab have guaranteed that the annual operating expenses (excluding interest, taxes and certain non-routine expenses) will not exceed 0.65% of the fund's average daily net assets through November 15, 2005.

These add up to a net loss on investments of \$2,945.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Operations**

	9/1/04-8/31/05	9/1/03-8/31/04
Net investment income	\$4,664	\$5,034
Net realized losses	(18)	(47)
Net unrealized gains or losses	+ (2,927)	896
<b>Increase in net assets from operations</b>	<b>1,719</b>	<b>5,883</b>

**Distributions Paid**

Dividends from net investment income	<b>\$4,662</b>	<b>\$5,029</b>
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The fund has designated 100% of its dividends for the current and prior report periods as tax-exempt interest dividends.

**Transactions in Fund Shares**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,259	\$23,744	4,542	\$48,371
Shares reinvested	312	3,282	361	3,835
Shares redeemed	+ (4,934)	(51,844)	(5,948)	(63,157)
<b>Net transactions in fund shares</b>	<b>(2,363)</b>	<b>(\$24,818)</b>	<b>(1,045)</b>	<b>(\$10,951)</b>

**Shares Outstanding and Net Assets**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	15,381	\$163,552	16,426	\$173,649
Total decrease	+ (2,363)	(27,761)	(1,045)	(10,097)
<b>End of period</b>	<b>13,018</b>	<b>\$135,791</b>	<b>15,381</b>	<b>\$163,552</b>

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$8 and \$10 for the current and prior period, respectively.

# Schwab California Long-Term Tax-Free Bond Fund™

## Financial Statements

### Financial Highlights

	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	11.78	11.45	11.69	11.63	11.06
Income from investment operations:					
Net investment income	0.51	0.50	0.49	0.53	0.55
Net realized and unrealized gains or losses	0.10	0.33	(0.24)	0.05	0.57
Total income from investment operations	0.61	0.83	0.25	0.58	1.12
Less distributions:					
Dividends from net investment income	(0.50)	(0.50)	(0.49)	(0.52)	(0.55)
Distributions from net realized gains	(0.05)	—	—	—	—
Total distributions	(0.55)	(0.50)	(0.49)	(0.52)	(0.55)
Net asset value at end of period	11.84	11.78	11.45	11.69	11.63
Total return (%)	5.24	7.36	2.14	5.14	10.38
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.61	0.61	0.58	0.49	0.49
Gross operating expenses	0.61	0.61	0.60	0.64	0.65
Net investment income	4.27	4.30	4.16	4.58	4.86
Portfolio turnover rate	8	15	29	34	37
Net assets, end of period (\$ x 1,000,000)	199	180	194	238	215

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbols below to designate certain characteristics of the securities.

- + Credit-enhanced security
- Liquidity-enhanced security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>98.6%</b>	<b>Municipal Bonds</b>	184,949	196,705
<b>0.2%</b>	<b>Other Investment Companies</b>	408	408
<b>98.8%</b>	<b>Total Investments</b>	<b>185,357</b>	<b>197,113</b>
<b>1.2%</b>	<b>Other Assets and Liabilities</b>		2,360
<b>100.0%</b>	<b>Net Assets</b>		<b>199,473</b>

**Issuer  
Project**

<b>Type of Security, Series</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>Municipal Bonds</b> 98.6% of net assets				
<b>Fixed-Rate Obligations</b> 97.1%				
<b>California</b> 97.1%				
+ <b>Alameda Corridor Transportation Authority</b> Senior Lien Revenue Bonds, Series 1999A	5.13%	10/01/16	1,170	1,272
+ <b>Alameda County</b> <i>Alameda County Medical Center</i> Certificates of Participation, Series 1998	5.38%	06/01/18	3,400	3,643
+ <b>Anaheim Public Financing Authority</b> Senior Lease Revenue Bonds, Series 1997A	6.00%	09/01/24	5,000	6,170
<b>Association of Bay Area Governments</b>				
+ <i>Brandeis Hillel Day School</i> Revenue Bonds, Series 2001	3.75%	08/01/31	1,700	1,713
+ <i>California Redevelopment Agency Pool</i> Tax Allocation Revenue Bonds, Series 1997A-6	5.25%	12/15/17	1,200	1,280
<i>Lytton Gardens</i> Revenue Certificates of Participation, Series 1999	6.00%	02/15/30	3,000	3,197
<i>Schools of the Sacred Heart</i> Revenue Bonds, Series 2000A	6.45%	06/01/30	1,500	1,624
+ <b>Brea Olinda Unified School District</b> General Obligation Bonds, Series 1999A	5.60%	08/01/20	1,000	1,105
<b>Burbank Public Finance Authority</b> <i>Golden State Redevelopment</i>				
+ Revenue Bonds, Series 2003A	5.25%	12/01/17	2,825	3,161
+ Revenue Bonds, Series 2003A	5.25%	12/01/18	2,175	2,417

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>California Department of Water Resources</b> Power Supply Revenue Bonds, Series 2002A	5.75%	05/01/17	3,000	3,379
<b>California Educational Facilities Authority</b> <i>California College of Arts and Crafts</i> Revenue Bonds, Series 2001	5.75%	06/01/25	1,800	1,912
+ <i>Pepperdine University</i> Revenue Bonds, Series 2000	5.75%	09/15/30	3,000	3,272
<b>California Health Facilities Finance Authority</b> + <i>Cedars-Sinai Medical Center</i> Revenue Bonds, Series 1999A	6.13%	12/01/19	2,750	3,104
+ <i>Childrens Hospital - San Diego</i> Hospital Revenue Refunding Bonds, Series 1996	5.38%	07/01/16	5,180	5,381
<b>California Housing Finance Agency</b> Multi-unit Rental Housing Revenue Bonds II, Series 1992B	6.70%	08/01/15	730	736
<b>California Infrastructure &amp; Economic Development Bank</b> <i>J. David Gladstone Institutes</i> Revenue Bonds, Series 2001	5.50%	10/01/19	1,250	1,363
<b>California State</b> General Obligation Bonds, Series 2000	5.63%	05/01/18	1,000	1,107
Various Purpose General Obligation Bonds	5.25%	11/01/17	3,000	3,320
+ <i>Department of Veterans Affairs</i> Home Purchase Revenue Bonds, Series 2002A	5.30%	12/01/21	5,000	5,379
<b>California State Public Works Board</b> <i>Department of Corrections</i> Lease Revenue Bonds, Series 2003	5.50%	06/01/17	6,970	7,712
<b>California Statewide Communities Development Authority</b> + Collateralized Revenue Bonds, Series 2001A	7.00%	04/20/36	4,000	4,584
<i>Daughters of Charity Health System</i> Revenue Bonds, Series 2005A	5.25%	07/01/24	1,500	1,592
Revenue Bonds, Series 2005G	5.00%	07/01/22	1,000	1,047
Revenue Bonds, Series 2005H	5.25%	07/01/25	1,000	1,059
<i>Huntington Memorial Hospital</i> Revenue Bonds, Series 2005	5.00%	07/01/18	6,190	6,683
<i>Internext Group</i> Certificates of Participation, Series 1999	5.38%	04/01/17	5,000	5,167
+ <b>Colton Public Finance Authority</b> Special Tax Revenue Bonds, Series 1996	5.45%	09/01/19	3,020	3,149
<b>Contra Costa County Public Financing Authority</b> Tax Allocation Revenue Bonds, Series 2003A	5.63%	08/01/33	5,000	5,316
<b>East Bay Municipal Utility District</b> <i>Water System</i> Subordinate Revenue Bonds, Series 1998	5.25%	06/01/19	2,600	2,773
+ Subordinate Revenue Bonds, Series 2005A	5.00%	06/01/35	4,000	4,280
+ <b>Escondido</b> Revenue Certificates of Participation, Series 2000A	6.00%	09/01/31	1,945	2,192

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Fontana Redevelopment Agency</b>				
<i>Jurupa Hills</i> Tax Allocation Refunding Bonds, Series 1997A	5.50%	10/01/19	3,500	3,668
<b>+ Foothill-Eastern Transportation Corridor Agency</b>				
Toll Road Refunding Revenue Bonds, Series 1999	5.13%	01/15/19	5,000	5,369
<b>Golden State Tobacco Securitization Corp.</b>				
Enhanced Tobacco Settlement Asset-Backed Bonds, Series 2005A	5.00%	06/01/19	2,500	2,618
<b>+ Huntington Beach</b>				
<i>Capital Improvement Financing</i> Lease Revenue Bonds, Series 2000A	5.50%	09/01/20	1,500	1,647
<b>+ Inglewood Redevelopment Agency</b>				
<i>Merged Redevelopment</i> Tax Allocation Refunding Revenue Bonds, Series 1998A	5.25%	05/01/16	1,000	1,134
<b>+ Los Angeles Community Redevelopment Agency</b>				
<i>Vermont Manchester Social Services</i> Lease Revenue Bonds, Series 2005	5.00%	09/01/17	2,310	2,514
<b>+ Lynwood Public Financing Authority</b>				
<i>Public Capital Improvement</i> Lease Revenue Refunding Bonds, Series 2003	5.00%	09/01/18	1,000	1,083
<b>+ Montclair Financing Authority</b>				
<i>Public Facilities</i> Lease Revenue Bonds Series 2005	4.60%	10/01/25	2,000	2,045
<b>Oakland Joint Power Financing Authority</b>				
Reassessment Revenue Bonds, Series 1999	5.50%	09/02/24	990	1,062
<b>+ Oakland Redevelopment Agency</b>				
<i>Central District Redevelopment</i> Subordinated Tax Allocation Bonds, Series 2003	5.50%	09/01/14	1,615	1,832
<b>+ Orange County</b>				
Recovery Certificates of Participation, Series 1996A	5.70%	07/01/10	1,450	1,514
<b>+ Port of Oakland</b>				
Revenue Bonds, Series 2000K	5.75%	11/01/29	3,500	3,765
<b>Riverside Public Finance Authority</b>				
<i>Riverside County Redevelopment</i> Tax Allocation Revenue Bonds, Series 1997A	5.63%	10/01/33	4,905	5,114
<b>Sacramento County Sanitation District</b>				
Revenue Bonds, Series 2000A	5.88%	12/01/27	1,000	1,018
<b>Sacramento Finance Authority</b>				
<b>+</b> Capital Improvement Revenue Bonds, Series 1999	5.88%	12/01/29	3,000	3,390
<b>+</b> Revenue Bonds, Series 2002A	5.38%	12/01/20	2,875	3,260
<b>+ California EPA Building Project</b>				
Lease Revenue Bonds, Series 1998A	5.25%	05/01/19	1,575	1,689
<b>+ Salinas Valley Solid Waste Authority</b>				
Revenue Bonds, Series 2002	5.13%	08/01/22	2,210	2,346



Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>San Diego Redevelopment Agency</b> <i>Horton Plaza Redevelopment</i> Subordinate Tax Allocation Bonds, Series 2000	5.80%	11/01/21	2,500	2,702
<b>San Francisco Airports Commission</b> <i>San Francisco International Airport</i>				
+ Second Series Revenue Bonds, Issue 12B	5.63%	05/01/21	2,000	2,054
+ Second Series Revenue Bonds, Issue 22	5.00%	05/01/19	2,000	2,071
+ Second Series Revenue Bonds, Issue 30	5.00%	05/01/17	2,000	2,175
<b>San Francisco Bay Area Rapid Transit</b>				
+ Sales Tax Revenue Bonds, Series 1999	5.50%	07/01/26	1,000	1,099
+ Sales Tax Revenue Bonds, Series 1999	5.50%	07/01/34	2,500	2,748
<b>+ San Francisco Port Commission</b> Refunding Revenue Bonds, Series 2004	4.00%	07/01/08	1,200	1,235
<b>San Francisco State University</b> <i>Auxiliary Organization</i> Student Housing Revenue Bonds, Series 1999	5.20%	07/01/19	1,150	1,194
<b>+ San Luis Obispo County Finance Authority</b> <i>Lopez Dam</i> Improvement Revenue Bonds, Series 2000A	5.38%	08/01/24	1,000	1,077
<b>+ Santa Ana Unified School District</b> <i>Election of 1999</i> General Obligation Bonds, Series 2000	5.70%	08/01/29	6,000	6,727
<b>+ Santa Clara County Financing Authority</b> <i>VMC Facility</i> Lease Revenue Bonds, Series 1994A	7.75%	11/15/10	1,460	1,768
<b>+ Santa Clara Redevelopment Agency</b> <i>Bayshore North</i> Tax Allocation Revenue Refunding Bonds, Series 1992	7.00%	07/01/10	1,500	1,664
<b>+ South Orange County Public Financing Authority</b> Special Tax Revenue Bonds, Series 1999A	5.25%	08/15/18	3,095	3,343
<b>Stockton Community Facilities District</b> <i>Mello Roos Community Facilities District # 1</i> Revenue Bonds, Series 1998A	5.80%	09/01/14	5,875	6,180
<b>+ Taft City Elementary School District</b> General Obligation Bonds, Series 2001A	4.90%	08/01/20	1,080	1,154
<b>+ Tri-City Hospital District</b> Refunding Revenue Bonds, Series 1996A	5.63%	02/15/17	1,000	1,031
<b>+ Truckee Public Financing Authority</b> Lease Revenue Bonds, Series 2000A	5.88%	11/01/25	1,490	1,639
<b>+ University of California</b> <i>UC Davis Medical Center</i> Hospital Revenue Bonds, Series 1996	5.75%	07/01/06	500	517
<b>+ Vallejo</b> <i>Water Improvement</i> Refunding Revenue Bonds, Series 1996A	5.70%	05/01/16	2,000	2,076

**Portfolio Holdings** continued

Issuer Project Type of Security, Series	Rate	Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>West Basin Water District</b>				
+ Revenue Refunding Certificates of Participation, Series 1997A	5.50%	08/01/22	1,000	1,055
+ Revenue Refunding Bonds, Series 2003A	5.25%	08/01/14	2,500	2,818
<b>Whittier</b>				
<i>Presbyterian Intercommunity Hospital</i> Revenue Bonds, Series 2002	5.60%	06/01/22	2,000	2,121
				<b>193,605</b>

**Variable Rate Obligations 1.5%****California 1.5%**

<b>California Department of Water Resources</b>				
Power Supply Revenue Bonds, Series 2002B-2	2.35%	09/01/05	1,800	1,800
<b>California State</b>				
Economic Recovery Bonds, Series 2004C-3	2.26%	09/01/05	1,000	1,000
<b>Orange County Sanitation District</b>				
Refunding Certificates of Participation, Series 2000A	2.20%	09/01/05	300	300
				<b>3,100</b>

## Security and number of shares

**Other Investment Companies** 0.2% of net assets

<b>Provident Institutional Funds—</b>		
<b>California Money Fund Portfolio</b>	408,089	<b>408</b>

End of investments.

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$197,113
Receivables:	
Fund shares sold	75
Interest	2,650
Prepaid expenses	<u>2</u>
<b>Total assets</b>	<b>199,840</b>

**Liabilities**

Payables:		
Fund shares redeemed		37
Dividends to shareholders		277
Investment adviser and administrator fees		5
Transfer agent and shareholder service fees		4
Accrued expenses	+	44
<b>Total liabilities</b>		<b>367</b>

**Net Assets**

Total assets	199,840
Total liabilities	— 367
Net assets	<u>\$199,473</u>

**Net Assets by Source**

Capital received from investors	187,246
Net investment income not yet distributed	279
Net realized gains	192
Net unrealized capital gains	11,756

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$199,473		16,844		\$11.84

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$185,357.

Not counting short-term obligations, the fund's security transactions during the period were:

Purchases	\$29,695
Sales/maturities	\$14,702

The fund's total security transactions with other Schwab Funds during the period were \$38,610.

**Federal Tax Data**

Portfolio cost	\$185,079
<b>Net unrealized gains and losses:</b>	
Gains	\$12,059
Losses	+ (25)
	<u>\$12,034</u>

**As of August 31, 2005:****Undistributed earnings:**

Tax-exempt income	\$277
Ordinary income	\$23
Long-term capital gains	\$169

**Reclassifications:**

Net investment income not yet distributed	(8)
Reclassified as:	
Net realized capital gains	\$8

## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	<b>\$9,141</b>
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**Net Realized Gains and Losses**

Net realized gains on investments	<b>184</b>
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**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>1,411</b>
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**Expenses**

Investment adviser and administrator fees	564	
Transfer agent and shareholder service fees	470	
Trustees' fees	8	
Custodian and portfolio accounting fees	18	
Professional fees	32	
Registration fees	4	
Shareholder reports	19	
Other expenses	+	19
<b>Total expenses</b>		<b>1,134</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	9,141	
<b>Total expenses</b>	-	1,134
<b>Net investment income</b>		<b>8,007</b>
<b>Net realized gains</b>		184
<b>Net unrealized gains</b>	+	1,411
<b>Increase in net assets from operations</b>		<b>\$9,602</b>

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

These add up to a net realized gain on investments \$1,595.

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

**Operations**

	9/1/04-8/31/05	9/1/03-8/31/04
Net investment income	\$8,007	\$8,065
Net realized gains	184	828
Net unrealized gains	+ 1,411	4,282
<b>Increase in net assets from operations</b>	<b>9,602</b>	<b>13,175</b>

**Distributions Paid**

Dividends from net investment income	\$7,936	\$8,013
Distributions from net realized gains	+ 723	—
<b>Total distributions</b>	<b>\$8,659</b>	<b>\$8,013</b>

**Transactions in Fund Shares**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,394	\$51,886	2,403	\$28,163
Shares reinvested	440	5,188	452	5,275
Shares redeemed	+ (3,283)	(38,729)	(4,468)	(52,007)
<b>Net transactions in fund shares</b>	<b>1,551</b>	<b>\$18,345</b>	<b>(1,613)</b>	<b>(\$18,569)</b>

**Shares Outstanding and Net Assets**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	15,293	\$180,185	16,906	\$193,592
Total increase or decrease	+ 1,551	19,288	(1,613)	(13,407)
<b>End of period</b>	<b>16,844</b>	<b>\$199,473</b>	<b>15,293</b>	<b>\$180,185</b>

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions for the period ended 08/31/05 are:

Tax-exempt income	\$7,936
Ordinary income	\$51
Long-term capital gains	\$672

**Prior year:**

Tax-exempt income	\$8,013
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The fund has designated 100% of its dividends from net investment income for the current and prior report periods as tax-exempt interest dividends.

Figures for shares represent shares sold plus shares reinvested minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$279 and \$254 for the current and prior period, respectively.

# Financial Notes

## Business Structure of the Funds

**Each of the funds discussed in this report is a series of Schwab Investments, a no-load, open-end management investment company.** The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

**Both Schwab Tax-Free YieldPlus Fund™ and Schwab California Tax-Free YieldPlus Fund™ offer two share classes:** Investor Shares and Select Shares®. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums. Schwab Short/Intermediate Tax-Free Bond Fund, Schwab Long-Term Tax-Free Bond Fund, California Short/Intermediate Tax-Free Bond Fund, and California Long-Term Tax-Free Bond Fund each offers one share class.

Shares are bought and sold at net asset value, or NAV, which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trustees may issue as many shares as necessary.

## The Trust and Its Funds

This list shows all of the funds included in Schwab Investments. The funds discussed in this report are highlighted.

**Schwab Investments** organized October 26, 1990

Schwab 1000 Fund  
 Schwab YieldPlus Fund  
 Schwab Short-Term Bond Market Fund  
 Schwab Total Bond Market Fund  
 Schwab GNMA Fund  
 Schwab Tax-Free YieldPlus Fund  
 Schwab Short/Intermediate Tax-Free Bond Fund  
 Schwab Long-Term Tax-Free Bond Fund  
 Schwab California Tax-Free YieldPlus Fund  
 Schwab California Short/Intermediate Tax-Free Bond Fund  
 Schwab California Long-Term Tax-Free Bond Fund

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

**The funds declare dividends every day they are open for business.** These dividends, which are substantially equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

**The funds may buy securities on a delayed-delivery basis.** In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

**The funds may invest in futures contracts.** Futures contracts involve certain risks because they can be very sensitive to market movements.

One risk is that the price of a futures contract may not move in perfect correlation with the price of the underlying securities. Another risk is that, at certain times, it may be impossible for a fund to close out a position in a futures contract, due to a difference in trading hours or to market conditions that may reduce the liquidity for a futures contract or its underlying securities.

Because futures carry inherent risks, a fund must give the broker a deposit of cash and/or securities (the "initial margin") whenever it enters into the futures contract. The amount of the deposit may vary from one contract to another, but it is generally a percentage of the contract amount.

Futures are traded publicly on exchanges, and their market value changes daily. A fund records the change in market value of futures, and also the change in the amount of margin deposit required (“variation margin”).

**The funds pay fees to affiliates of the investment adviser for various services.** Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund’s Statement of Operations.

**The funds may engage in certain transactions involving affiliates.** The funds may make direct transactions with certain other Schwab Funds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds®. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

**Trustees may include people who are officers and/or directors of the investment adviser or Schwab.** Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these

limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

**The funds may borrow money from banks and custodians.** The funds may obtain temporary bank loans through the trusts to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A., and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically. There was no borrowing for any funds during the period.

**The funds intend to meet federal income and excise tax requirements for regulated investment companies.** Accordingly, the funds distribute substantially all of their net investment income and realized net capital gains (if any) to their respective shareholders each year. As long as a fund meets the tax requirements, it is not required to pay federal income tax.

**Under the funds’ organizational documents, the officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds.** In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds’ maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the funds. However, based on experience, the funds expect the risk of loss to be remote.

## Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

**The funds value the securities in their portfolios every business day.** The funds use the following policies to value various types of securities:

**Bonds and notes:** valued at halfway between the most recent bid and asked quotes or, if such quotes are unavailable, at prices for securities of comparable maturity, credit quality and type. Valuations for bonds and notes are provided by an independent bond-pricing service.

**Securities for which no quoted value is available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the fund's Board of Trustees. In the determination of a fair valuation the guidelines include but are not limited to the use of analytical data, business conditions, recent trades, general and/or specific market trends and any emergency or significant events that could have a material impact on the value of the security.

**Futures:** open contracts are valued at their settlement prices as of the close of their exchanges. When a fund closes out a futures position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.

**Short-term securities (60 days or less to maturity):** valued at amortized cost.

**Security transactions** are recorded as of the date the order to buy or sell the security is executed.

**Interest income** is recorded as it accrues. If a fund buys a debt security at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the

case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

**Realized gains and losses** from security transactions are based on the identified costs of the securities involved.

**Expenses** that are specific to a fund or a class are charged directly to that fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their net assets.

**For funds offering multiple share classes,** all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

**Each fund maintains its own account for purposes of holding assets and accounting,** and is considered a separate entity for tax purposes. Within its account, each fund also may keep certain assets in segregated accounts, required by securities law.

**The accounting policies described above conform with accounting principles generally accepted in the United States of America.** Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.



## Report of Independent Registered Public Accounting Firm

### To the Board of Trustees and Shareholders of

Schwab Tax-Free YieldPlus Fund

Schwab Short/Intermediate Tax-Free Bond Fund

Schwab Long-Term Tax-Free Bond Fund

Schwab California Tax-Free YieldPlus Fund

Schwab California Short/Intermediate Tax-Free Bond Fund

Schwab California Long-Term Tax-Free Bond Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Tax-Free YieldPlus Fund, Schwab Short/Intermediate Tax-Free Bond Fund, Schwab Long-Term Tax-Free Bond Fund, Schwab California Tax-Free YieldPlus Fund, Schwab California Short/Intermediate Tax-Free Bond Fund, and Schwab California Long-Term Tax-Free Bond Fund (the “Funds”) at August 31, 2005, the results of each of their operations for the period then ended, and the changes in each of their net assets and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, CA

October 18, 2005

# Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Investments (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab Tax-Free YieldPlus Fund, the Schwab Short/Intermediate Tax-Free Bond Fund, the Schwab Long-Term Tax-Free Bond Fund, the Schwab California Tax-Free YieldPlus Fund, the Schwab California Short/Intermediate Tax-Free Bond Fund, and the Schwab California Long-Term Tax-Free Bond, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive

data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from counsel to the Independent Trustees regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from their counsel, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement for an additional one year period. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

**Nature, Extent and Quality of Services.** The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported renewal of the Agreement.

**Fund Performance.** The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both market risk and shareholder risk expectations for such fund. Following such evaluation,

the Board concluded, within the context of its full deliberations, that the performance of the funds supported renewal of the Agreement.

**Fund Expenses.** With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported renewal of the Agreement.

**Profitability.** With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement

and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreement.

**Economies of Scale.** The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

A fund’s Board of Trustees is responsible for protecting the interests of that fund’s shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers		
Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.  Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.

<sup>1</sup> The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

<sup>2</sup> In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

## Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	2005 (all trusts).	Executive Vice President and President, Asset Management Products Enterprise & Services, Charles Schwab & Co; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From September 2002 to July 2004</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co. <i>Prior to September 2002</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (June 2001 to August 2002); Chief Investment Officer, Fixed, American Century Companies, Inc. (January 1997 to June 2001).

## Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 5/4/55	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 4/5/55	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
<b>Kimon Daifotis</b> 7/10/59	Senior Vice President, Chief Investment Officer (all trusts).	Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : Senior Vice President, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 9/29/63	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 11/11/60	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/04</i> : Vice President, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.

## Officers of the Trust continued

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	Senior Vice President, Chief Counsel and Assistant Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 6/9/64	Treasurer, Principal Financial Officer (all trusts)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. <i>From September 1999 to December 1999</i> , Chief Financial Officer, Commerzbank Capital Markets. <i>Prior to September 1999</i> , Managing Director at the New York Stock Exchange.

## Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital; Director, Pacific Mutual Holding Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : Vice President of Business Affairs, CFO.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	<i>Until February 2004</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Solelectron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).

## Independent Trustees continued

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).



# Glossary

**Alternative Minimum Tax (AMT)** A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

**asset allocation** The practice of dividing a portfolio among different asset classes, with each asset class assigned a particular percentage.

**asset-backed securities** Bond or other debt securities that represent ownership in a pool of assets such as credit card debt.

**asset class** A group of securities with similar structure and basic characteristics. Stocks, bonds and cash are the three main examples of asset classes.

**average rate** The average rate of interest paid annually by the fixed-income securities in a fund or portfolio.

**bond** A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond's market value prior to call or maturity. There is no guarantee that a bond's yield to call or maturity will provide a positive return over the rate of inflation.

**bond fund** A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund's net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

**call** An early repayment of a bond's principal by the issuer, usually done because the issuer is able to refinance its bond debt at a lower rate.

**call protection** A term used in reference to a bond that cannot be called by the issuer before maturity, or at least for many years from the present date. A bond that offers call protection can more reliably be expected to provide a given yield over a given number of years than a bond that could be called (assuming both bonds are of the same credit quality).

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss

is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

**certificate of participation** A municipal bond that is repaid from an annual budget appropriation rather than being backed by the full faith and credit of the issuer.

**coupon, coupon rate** The annual rate of interest paid until maturity by the issuer of a debt security.

**credit-enhanced securities** Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security's value, are designed to help lower the risk of default on a security and may also make the security more liquid.

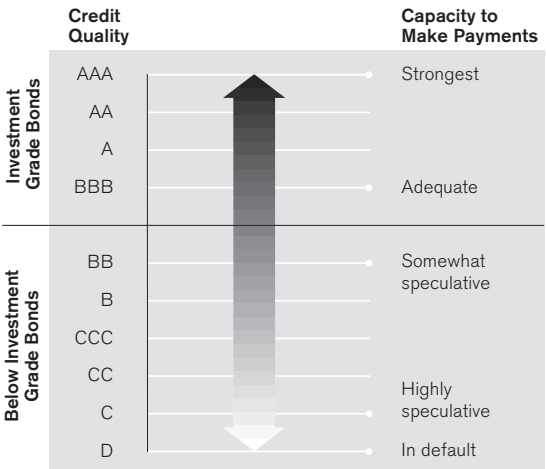
**credit quality** The capacity of an issuer to make its interest and principal payments. See chart below.

**credit risk** The risk that a bond issuer may be unable to pay interest or principal to its bondholders.

**discount rate** The implied rate on a debt security that does not pay interest but is bought at a discount and redeemed at face value when it matures.

## Credit Ratings

Most major bond issuers arrange with a recognized independent rating organization, such as Standard & Poor's (S&P) or Moody's Investors Service, to rate the credit-worthiness of their bonds. The spectrum of these ratings is divided into two major categories: investment grade and below investment grade (sometimes called “junk bonds”). Bonds rated below investment grade range from those that are considered to have some vulnerability to default to those that appear on the brink of default or are in default.



**dividend** Money from earnings that is distributed to shareholders as a given amount per share.

**duration** A measure of a bond's sensitivity to interest rates. Calculations of duration generally take into account the investment's yield, interest payments, maturity date and call features. Like maturity, duration is expressed in years, but is more accurate than maturity in determining the effect of interest rate movements on a bond investment's price. The duration of a portfolio equals the market value weighted average of the duration of the bonds held in the portfolio.

**expense ratio** The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

**general obligation bonds** Municipal bonds that are secured by the issuer's full faith and credit, which typically is backed by the power of the issuer to levy taxes.

**interest** Payments to bondholders (usually made twice a year) as compensation for loaning the bond principal to the issuer.

**interest rate risk** The risk that a bond's value will fluctuate if market interest rates change or are expected to change. Bond prices tend to move in the opposite direction of interest rates: when interest rates rise, bond prices tend to fall.

**liquidity-enhanced security** A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

**market risk** Those elements of risk that are common to all securities in an asset class, and therefore cannot be significantly reduced by diversification within the asset class. Also known as "systematic risk."

**maturity** The date a bond is scheduled to be "retired" and its principal amount returned to the bondholder.

**mortgage-backed securities** Bond or other debt securities that represent ownership in a pool of mortgage loans.

**muni, municipal bonds, municipal securities** Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

**net asset value (NAV)** The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding.

**outstanding shares, shares outstanding** When speaking of a company or mutual fund, indicates all shares currently held by investors.

**prepayment risk** The risk that a mortgage-backed security may be paid off early, typically because interest rates have fallen and the homeowners who hold the underlying mortgages have refinanced those mortgages at lower rates. In this type of situation, the investor who held the mortgage-backed security will usually have to settle for a lower rate when reinvesting the principal.

**restricted securities** Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

**revenue bonds** Municipal bonds that are issued to finance public works projects and are secured by revenue generated by the project (such as water and sewer fees) rather than the full faith and credit of the issuer.

**section 4(2)/144A securities** Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

**taxable-equivalent yield** The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of  $6.0\% (4.5\% \div [1 - 0.25\%] = 6.0\%)$ .

**total return** The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

**weighted average** For mutual funds, an average that gives the same weight to each security as the security represents in the fund's portfolio.

**weighted average maturity** For mutual funds, the maturity of all the bonds in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk.

**yield** The income paid out by an investment, expressed as a percentage of the investment's market value.

**yield to maturity** The annualized rate of return a bondholder could expect if the bond were held to maturity. In addition to interest payments, yield to maturity also factors in any difference between a bond's current price and its principal amount, or face value.

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

### Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

#### TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

#### Mail

Write to Schwab Funds at:  
P.O. Box 3812  
Englewood, CO  
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

### Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds), the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds) or the SEC's website at <http://www.sec.gov>.

## The Schwab Funds Family®

### Stock Funds

Schwab S&P 500 Index Fund  
Schwab 1000 Index® Fund  
Schwab Small-Cap Index Fund®  
Schwab Total Stock Market Index Fund®  
Schwab International Index Fund®  
Schwab Premier Equity Fund™  
Schwab Core Equity Fund™  
Schwab Dividend Equity Fund™  
Schwab Small-Cap Equity Fund™  
Schwab Hedged Equity Fund™  
Schwab Large-Cap Growth Fund™  
Schwab Financial Services Fund™  
Schwab Health Care Fund™  
Schwab Technology Fund™  
Schwab Institutional Select® S&P 500 Fund

### Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™  
Schwab MarketTrack Growth Portfolio™  
Schwab MarketTrack Balanced Portfolio™  
Schwab MarketTrack Conservative Portfolio™  
Schwab Target 2010 Fund  
Schwab Target 2020 Fund  
Schwab Target 2030 Fund  
Schwab Target 2040 Fund  
Schwab Retirement Income Fund

### Bond Funds

Schwab YieldPlus Fund®  
Schwab Short-Term Bond Market Fund™  
Schwab Total Bond Market Fund™  
Schwab GNMA Fund™  
Schwab Tax-Free YieldPlus Fund™  
Schwab Short/Intermediate Tax-Free Bond Fund™  
Schwab Long-Term Tax-Free Bond Fund™  
Schwab California Tax-Free YieldPlus Fund™  
Schwab California Short/Intermediate Tax-Free Bond Fund™  
Schwab California Long-Term Tax-Free Bond Fund™

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

<sup>2</sup> Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

<sup>3</sup> Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

**Investment Adviser**

Charles Schwab Investment Management, Inc.  
101 Montgomery Street, San Francisco, CA 94104

**Distributor**

Charles Schwab & Co., Inc. (Schwab)

**Funds**

Schwab Funds®  
P.O. Box 3812, Englewood, CO 80155-3812

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MFR13656-08

# Schwab Bond Funds

## **Annual Report**

August 31, 2005

Schwab YieldPlus Fund®

Schwab Short-Term  
Bond Market Fund™

Schwab Total  
Bond Market Fund™

Schwab GNMA Fund™

*charles* SCHWAB

*Four smart, cost-effective ways investors can use  
bonds in an asset allocation strategy.*

**In this report**

Management’s Discussion . . . . .	2
<b>Performance and Fund Facts</b>	
Schwab YieldPlus Fund® . . . . .	7
Schwab Short-Term Bond Market Fund™ . . . . .	10
Schwab Total Bond Market Fund™ . . . . .	12
Schwab GNMA Fund™ . . . . .	14
Fund Expenses . . . . .	17
<b>Financial Statements</b>	
Schwab YieldPlus Fund® . . . . .	18
Schwab Short-Term Bond Market Fund™ . . . . .	36
Schwab Total Bond Market Fund™ . . . . .	45
Schwab GNMA Fund™ . . . . .	55
Financial Notes . . . . .	62
Investment Advisory Agreement Approval . . . . .	67
Trustees and Officers . . . . .	70
Glossary . . . . .	74

# From the Chairman



Charles Schwab  
Chairman

*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 1-800-435-4000. Please read the prospectus carefully before investing.*

*Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.*

Dear Shareholder,

I founded Schwab over thirty years ago to be a home for serious investors looking for value, performance, and service. That mission continues to guide us today as we constantly innovate on behalf of investors. By continuing to provide the highest quality products and services—at a great price—we remain true to our heritage.

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have now grown to include 56 funds with over \$140 billion in assets serving over 5 million shareholder accounts as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

Schwab Funds is managed by Charles Schwab Investment Management, Inc., one of the largest mutual fund managers in the U.S. Our portfolio managers share a passion for market analysis and use some of the most sophisticated financial models in the country. I am proud of their depth of experience, which reflects an average tenure of more than 15 years in the investment industry. Furthermore, I am impressed with the commitment that our managers bring to the stewardship of the funds, for you, their shareholders.

This commitment and experience is evident in our funds' performance. At this time, I'm especially pleased to highlight the strong performance of Schwab YieldPlus Fund which has placed in the top ten in its category since inception. With a target duration of just under a year, this fund is designed for your longer-term cash holdings. And, to respond to needs of our clients who are tax sensitive, we also offer the Schwab Tax-Free YieldPlus Fund and Schwab California Tax-Free YieldPlus Fund. (Source: Lipper Ultra Short Funds Category. For periods ending August 31, 2005, rankings were as follows, respectively, for Select Shares and Investor Shares: for the 1-year period: #3 and #8 out of 71 funds; for the 3-year period: #2 and #3 out of 50 funds; for the 5-year period: #3 and #6 out of 37 funds.)

In closing, I want to thank you for investing with us. We strive every day to warrant the trust you have placed in us; that will never change.

Sincerely,

A handwritten signature in cursive script that reads "Charles Schwab".

# Management's Discussion for the year ended August 31, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. She joined the firm in 1992 and has held a variety of executive positions at Schwab.

Dear Shareholder,

I'm pleased to bring you the annual report for Schwab Bond Funds. Lead by the popularity of Schwab YieldPlus Fund, our bond fund assets have grown to over \$9 billion as of the close of the report period.

Schwab Funds offers an array of taxable and tax free funds across a range of maturities to meet your fixed income investment needs. This includes our two newest tax-free funds—Schwab Tax-Free YieldPlus Fund and Schwab California Tax-Free YieldPlus Fund. These funds are designed to help you get more from your long-term cash investments. Further, in response to growing investor concern over the federal alternative minimum tax (AMT), neither of these two funds has invested in securities that generate income subject to AMT.

Since my previous message to you, we have expanded our fund offering. First of all, on July 1, 2005, Schwab Funds launched the Schwab Target Funds, a suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime. With a single investment in a Schwab Target Fund, you can avoid a common investment mistake—failing to adjust your portfolio over time.

More recently, on October 3, 2005, we added the Schwab Large-Cap Growth Fund to our suite of actively managed funds. These funds leverage Schwab Equity Ratings, Schwab's industry-recognized, disciplined methodology for identifying stocks with excellent performance potential. The Schwab Large-Cap Growth Fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion.

I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in dark ink that reads "Evelyn Dilsaver". The signature is fluid and cursive, with a large initial "E".

*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 1-800-435-4000. Please read the prospectus carefully before investing.*

*Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.*





**Kim Daifotis, CFA**, a senior vice president and chief investment officer, fixed income, of the investment adviser, has overall responsibility for management of the funds. He joined the firm in 1997, and has worked in fixed-income asset management and research since 1982.



**Matthew Hastings, CFA**, a vice president and senior portfolio manager, has day-to-day co-management responsibility for the funds. He joined the firm in 1999 and has worked in fixed income and asset management since 1996.

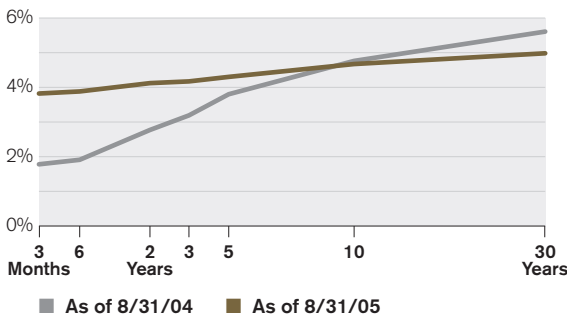
## The Investment Environment and the Funds

Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising rates eight times in the one-year report period. GDP continued to grow at a healthy pace, with the rate of growth decelerating during the report period. At the same time, the housing market remained strong, although some signs of softening had materialized by the end of the period. Finally, hurricane Katrina occurred just at the close of the report period. Although the economic impact of this event is unknown as of this time, the consensus is that it has potential to be significant, especially on the federal budget deficits.

The firming labor market kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investment grew only moderately, but consumers continued to spend. In fact, consumer confidence fluttered to cyclical highs, rising to levels not experienced since before September 11, 2001, although consumers continued to express concern about the future. In addition, lower-end retailers complained that high fuel prices have started to cut into their bottom lines. Despite these concerns, job and income growth remained positive for domestic consumption.

**Yield Curve: Average Yields of AAA Securities of Seven Maturities**



This chart shows where yields stood at the beginning of the report period and at the end of the period. For debt securities of comparable quality, those with longer maturities typically pay higher interest rates, in part because they are presumed to carry higher risk.

Data source: Bloomberg L.P.



**Steven Hung**, a director and portfolio manager of the investment adviser, has day-to-day co-responsibility for the management of the funds. He joined the firm in 1998, and has worked in fixed-income asset management since 1999.

High energy prices remained a significant headwind for economic performance, but they were offset by gains in wealth from home price appreciation. At the end of the 12-month report period, a barrel of oil cost nearly \$69 versus \$42 at the beginning of the period.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, and slow growth in the money supply have mostly kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, also helped to keep long-term interest rates under control. These conditions caused the dollar to rally unexpectedly, which took pressure off the price of imported goods.

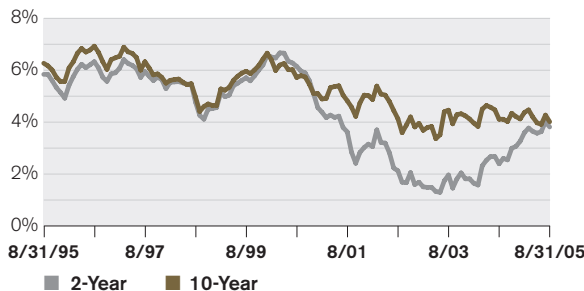
Amid signs of solidly expanding output and improved hiring, the Federal Reserve Open Market Committee continued to raise the benchmark Fed funds' rate. It increased short-term interest rates at 10 consecutive meetings, including eight times within the report period, ending the 12-month report period at a still moderate 3.50%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began and continued low bond yields.

The Fed's actions led investors to expect that rates would continue to rise, causing the yield curve to flatten. As the Fed raised rates during the report period, the 2-Year Treasury Note yield advanced 1.43% while the 10-Year Treasury Note yield declined about 0.10%, despite the Fed's rate increases.

#### Yields of U.S. Treasury Securities: Effective Yields of Two- and Ten-Year Treasuries

Yields, or interest rates, represent the cost of borrowing money. Rapid economic growth, waning investor interest in bonds, an increase in the issuance of bonds, or the expectation of higher inflation can drive rates up, while the opposite conditions can push rates down.

Data source: Bloomberg L.P.



## Performance at a Glance

Total return for the 12 months ended 8/31/05

**The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).**

### Schwab YieldPlus Fund®

Investor Shares . . . . .	<b>2.82%</b>
Select Shares® . . . . .	<b>3.08%</b>
Benchmark . . . . .	<b>1.81%</b>
Fund Category¹ . . . . .	<b>2.07%</b>

*Performance Details . . . . . pages 7-8*

### Schwab Short-Term

<b>Bond Market Fund™ . . . . .</b>	<b>1.68%</b>
Benchmark . . . . .	<b>1.52%</b>
Fund Category¹ . . . . .	<b>1.66%</b>

*Performance Details . . . . . page 10*

### Schwab Total Bond

<b>Market Fund™ . . . . .</b>	<b>4.31%</b>
Benchmark . . . . .	<b>4.15%</b>
Fund Category¹ . . . . .	<b>3.74%</b>

*Performance Details . . . . . page 12*

### Schwab GNMA Fund™

Investor Shares . . . . .	<b>3.47%</b>
Select Shares . . . . .	<b>3.67%</b>
Benchmark . . . . .	<b>4.01%</b>
Fund Category¹ . . . . .	<b>3.16%</b>

*Performance Details . . . . . pages 14-15*

**The corporate bond market was affected by downgrades of two of the largest corporate issuers, Ford and General Motors.** Both companies' debt ratings were reduced from solid investment grade levels to below investment grade categories during the report period. Another event of note was the U.S. Treasury's announcement in May of their intent to resume issuing 30-year Treasury Bonds in 2006. While this news signals potential for increased future supply of this security, as of the end of the report period, we had not seen a major market reaction.

The yield curve continued its flattening trend, with rates rising at the short end on prospects for more rate hikes. Generally speaking, a flattening trend in the yield curve suggests confidence that the Fed believes inflation is under control. Within this economic environment, we believed rates would move higher in the short to intermediate range, but had less conviction on the direction of longer term rates, and managed the portfolios accordingly.

**Schwab YieldPlus Fund** was positioned for continued economic expansion and performed very well, with both share classes of the fund beating both the benchmark and category-average. The fund's emphasis on medium to higher quality corporate bonds helped performance in an environment in which the spreads between the low and high quality bonds remained narrow. The portfolio also carried a sizable investment in floating rate securities and in asset-backed securities, particularly home equity loans. During the report period, we took steps to reduce our exposure to lower quality investments, including those in the corporate and asset-backed sectors. We took this step because we believed that the incremental reward offered by higher risk securities did not compensate for the added risk.

All fund and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

Expenses may be partially absorbed by fund management. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

¹ Source for category information: Morningstar, Inc.

**Schwab Short-Term Bond Market Fund and Schwab Total Bond Market Fund** were positioned to take advantage of an expanding economy. Both funds outperformed their respective benchmarks, the Lehman Brothers Mutual Fund Short (1-5 Year) U.S. Government/Credit Index and the Lehman Brothers U.S. Aggregate Bond Index, as well as their respective category averages for the one year report period. The funds' performances were helped by significant holdings in floating rate securities, which benefit from rising interest rates as they capture the rise in market rates while avoiding most of the principal erosion from higher interest rates. We also kept the funds generally underweight in the weak performing automotive sector during the period. In addition, our holdings in the auto sector emphasized shorter term issues backed by their more "stable" finance subsidiaries.

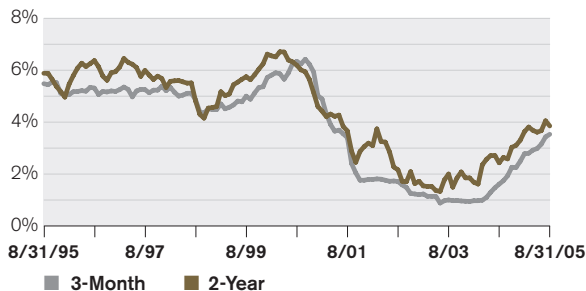
**Schwab GNMA Fund** also reported positive returns and beat its category average, while underperforming its benchmark, the Lehman Brothers GNMA Index. We managed the fund conservatively due to our concern with leverage in the U.S. housing market. Our concern stemmed from the introduction of new mortgage products with lowered monthly payments, which could have the effect of increasing prices, coupled with borrowers increasing their loans as they consolidated their debt. As a result, the portfolio's duration was shorter than the benchmark, and this detracted somewhat from the fund's return as prices on shorter term issues declined during the report period.

Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

### Yields of U.S. Treasury Securities: Effective Yields of Three-Month and Two-Year Treasuries

Yields, or interest rates, represent the cost of borrowing money. Rapid economic growth, waning investor interest in bonds, an increase in the issuance of bonds, or the expectation of higher inflation can drive rates up, while the opposite conditions can push rates down.

Data source: Bloomberg L.P.



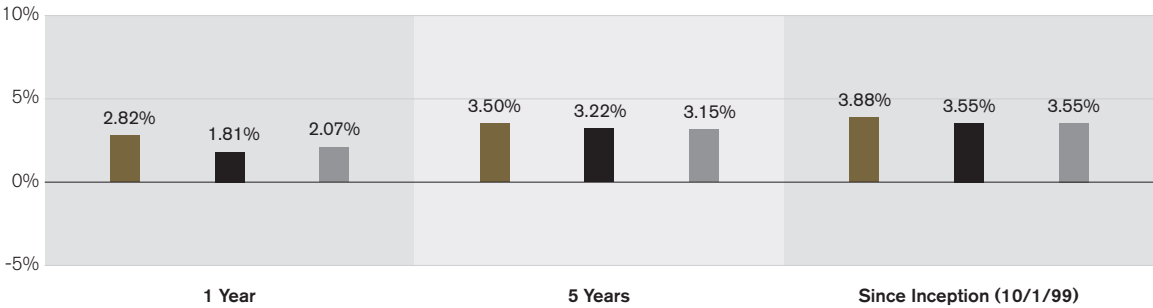
# Schwab YieldPlus Fund®

## Investor Shares Performance as of 8/31/05

### Average Annual Total Returns<sup>1,2</sup>

This bar chart compares performance of the fund's Investor Shares with its benchmark and Morningstar category.

- Fund: **Investor Shares** Ticker Symbol: SWYPX
- Benchmark: **Lehman Brothers U.S. Short Treasury: 9-12 Months Index**
- Fund Category: **Morningstar Ultrashort Bond**

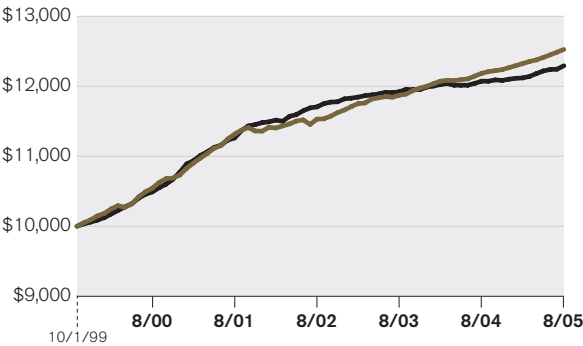


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund's Investor Shares compared with a similar investment in its benchmark.

- \$12,526 **Investor Shares**
- \$12,293 **Lehman Brothers U.S. Short Treasury: 9-12 Months Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

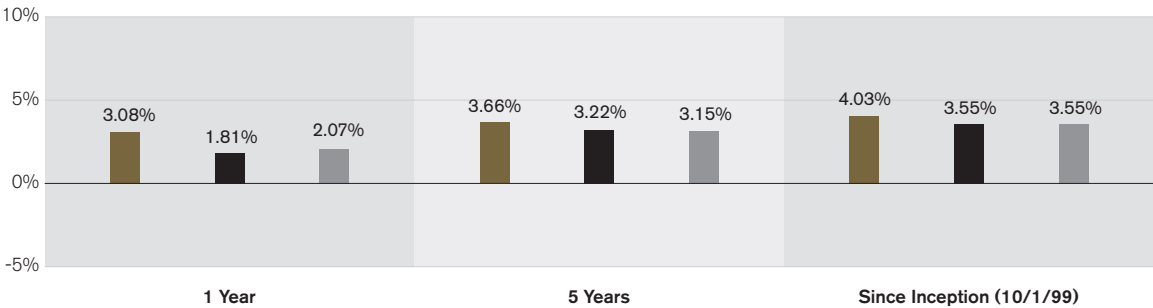
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 8/31/05

Average Annual Total Returns<sup>1,2</sup>

This bar chart compares performance of the fund's Select Shares with its benchmark and Morningstar category.

- Fund: **Select Shares** Ticker Symbol: SWYSX
- Benchmark: **Lehman Brothers U.S. Short Treasury: 9-12 Months Index**
- Fund Category: **Morningstar Ultrashort Bond**

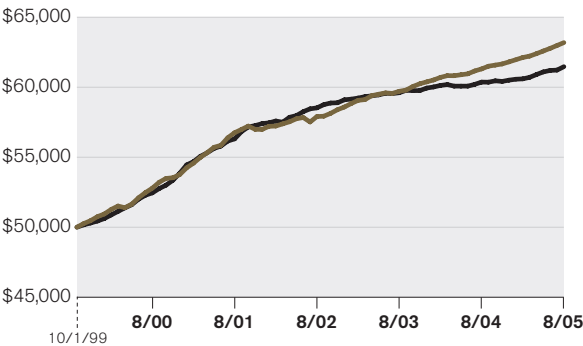


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$50,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in its benchmark.

- \$63,185 **Select Shares**
- \$61,466 **Lehman Brothers U.S. Short Treasury: 9-12 Months Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

Fund Facts as of 8/31/05

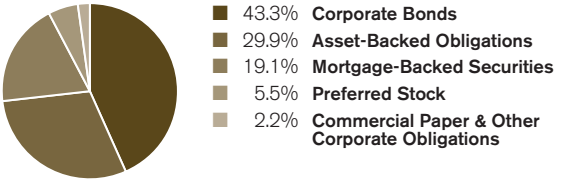
Statistics	
Number of Holdings	629
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Short
Credit Quality	Medium
30-Day SEC Yield <sup>2</sup>	
Investor Shares	3.91%
Select Shares	4.06%
12-Month Distribution Yield <sup>2</sup>	
Investor Shares	3.09%
Select Shares	3.24%
Weighted Average Maturity	0.4 yrs
Weighted Average Duration	0.5 yrs
Weighted Average Credit Quality	A
Portfolio Turnover Rate	76%
Minimum Initial Investment	
Investor Shares (\$1,000 for retirement and custodial accounts)	\$2,500
Select Shares	\$50,000

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

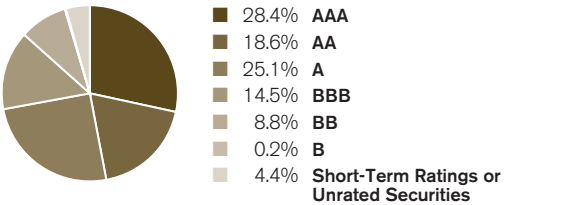
Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

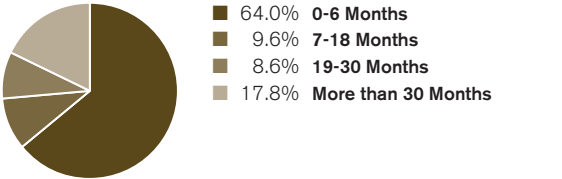
By Security Type



By Credit Quality<sup>3</sup>



By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05, and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> The yields do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

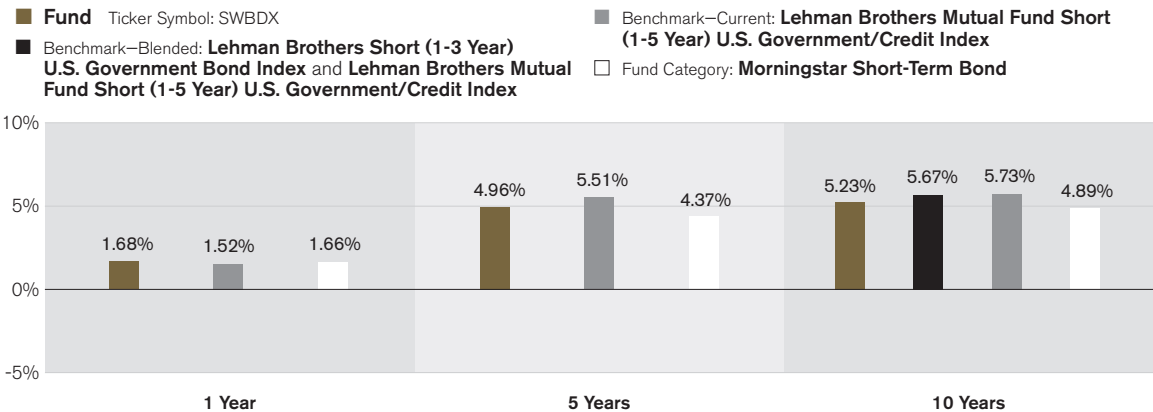
<sup>3</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

# Schwab Short-Term Bond Market Fund<sup>TM</sup>

Performance as of 8/31/05

## Average Annual Total Returns<sup>1,2</sup>

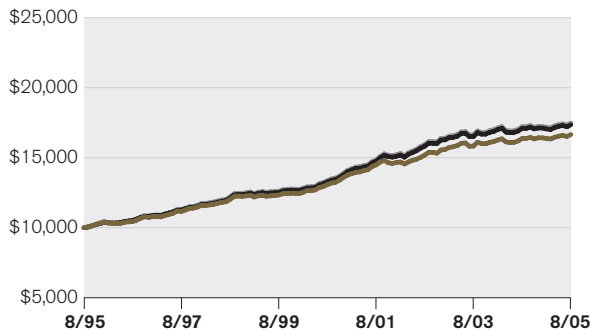
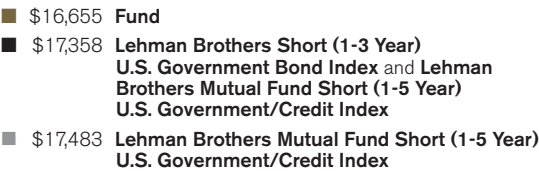
This bar chart compares performance of the fund with its benchmark indices and Morningstar category.



The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in its benchmark indices.



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> The fund changed its benchmark on 2/28/98, when it changed from being a government bond fund to its current strategy. Benchmark performance shown here is the Lehman Brothers Short (1-3 Year) U.S. Government Bond Index from fund inception through 2/28/98 and the Lehman Brothers Mutual Fund Short (1-5 Year) U.S. Government/Credit Index from 3/1/98 through the end of the report period. Benchmark performance for the one- and five-year periods is the Lehman Brothers Mutual Fund Short (1-5 Year) U.S. Government/Credit Index. Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.



## Fund Facts as of 8/31/05

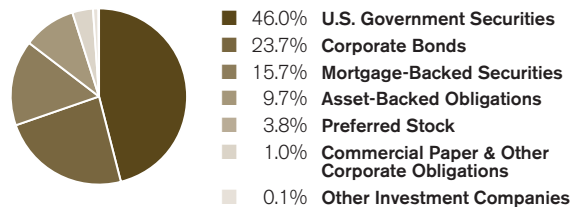
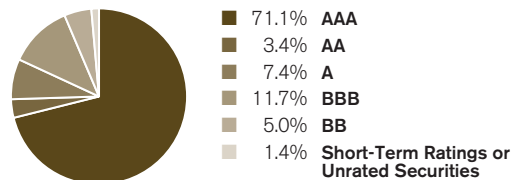
Statistics	
<b>Number of Holdings</b>	130
<b>Style Assessment<sup>1</sup></b>	
Interest Rate Sensitivity	Short
Credit Quality	High
<b>30-Day SEC Yield<sup>2</sup></b>	3.90%
<b>30-Day SEC Yield—No Waiver<sup>3</sup></b>	3.88%
<b>12-Month Distribution Yield<sup>2</sup></b>	3.10%
<b>Weighted Average Maturity</b>	2.6 yrs
<b>Weighted Average Duration</b>	2.3 yrs
<b>Weighted Average Credit Quality</b>	AA
<b>Portfolio Turnover Rate</b>	109%
<b>Minimum Initial Investment</b>	\$2,500
(\$1,000 for retirement and custodial accounts)	

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

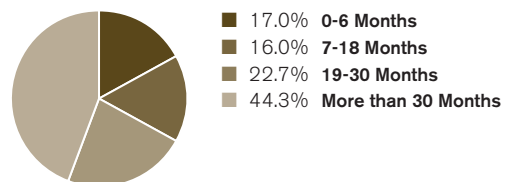
## Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

## By Security Type

By Credit Quality<sup>4</sup>

## By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

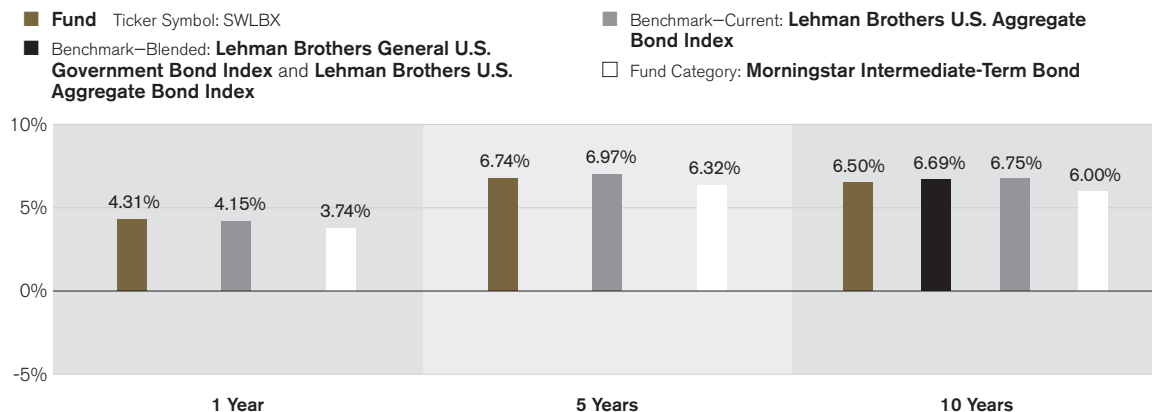
<sup>4</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

# Schwab Total Bond Market Fund™

Performance as of 8/31/05

## Average Annual Total Returns<sup>1,2</sup>

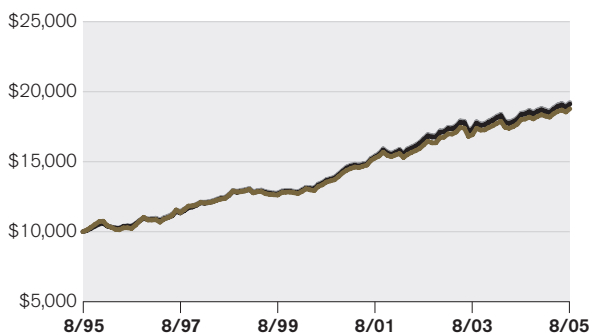
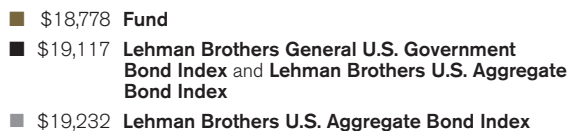
This bar chart compares performance of the fund with its benchmark indices and Morningstar category.



The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund, compared with a similar investment in its benchmark indices.



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> The fund changed its benchmark on 2/28/98, when it changed from being a government bond fund to its current strategy. Benchmark performance shown here is the Lehman Brothers General U.S. Government Bond Index from fund inception through 2/28/98 and the Lehman Brothers U.S. Aggregate Bond Index from 3/1/98 through the end of the report period. Benchmark performance for the one- and five-year periods is the Lehman U.S. Aggregate Bond Index. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

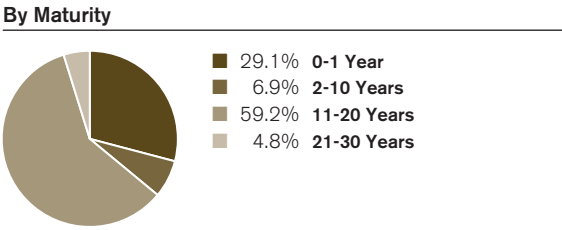
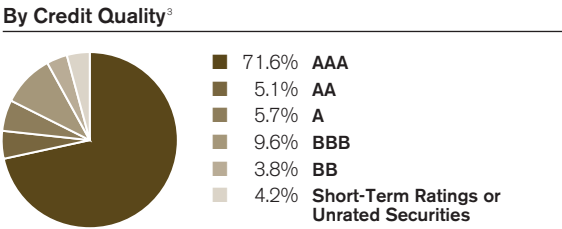
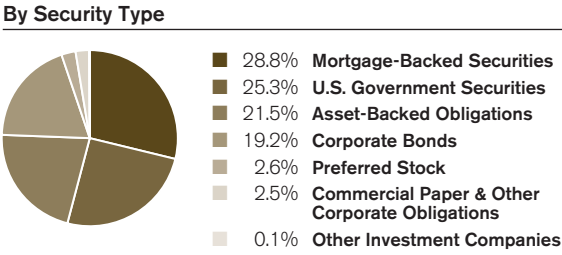
Fund Facts as of 8/31/05

Statistics	
Number of Holdings	347
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Medium
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	4.02%
12-Month Distribution Yield <sup>2</sup>	3.54%
Weighted Average Maturity	5.6 yrs
Weighted Average Duration	4.0 yrs
Weighted Average Credit Quality	AA
Portfolio Turnover Rate	221%
Minimum Initial Investment	\$2,500
(\$1,000 for retirement and custodial accounts)	

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Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

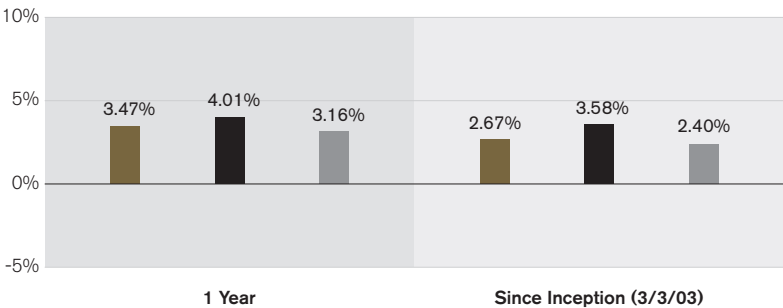
# Schwab GNMA Fund™

## Investor Shares Performance as of 8/31/05

### Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund's Investor Shares with its benchmark and Morningstar category.

■ Fund: **Investor Shares** Ticker Symbol: SWGIX  
■ Benchmark: **Lehman Brothers GNMA Index**  
■ Fund Category: **Morningstar Intermediate Government**

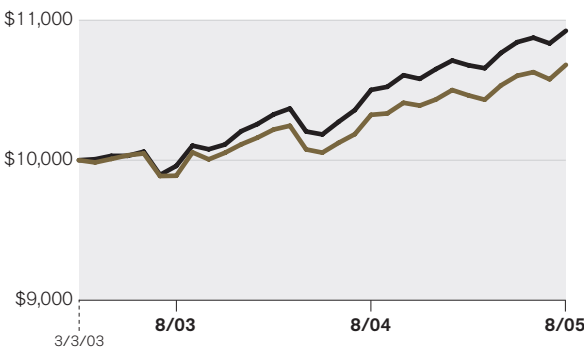


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund's Investor Shares compared with a similar investment in its benchmark.

■ \$10,681 **Investor Shares**  
■ \$10,924 **Lehman Brothers GNMA Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

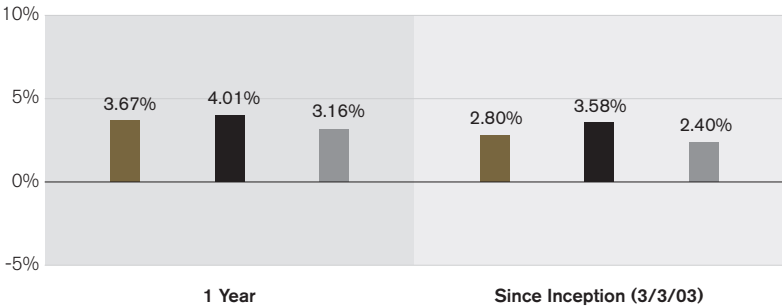
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 8/31/05

Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares performance of the fund's Select Shares with its benchmark and Morningstar category.

Fund: **Select Shares** Ticker Symbol: SWGSX  
Benchmark: **Lehman Brothers GNMA Index**  
Fund Category: **Morningstar Intermediate Government**

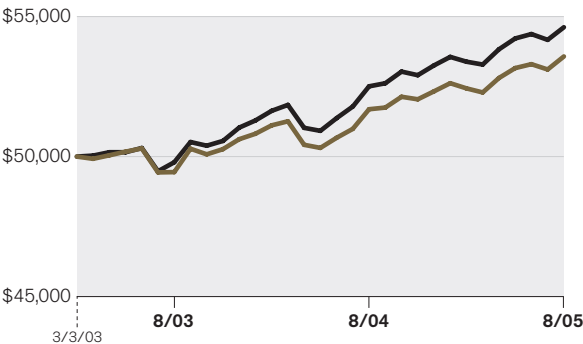


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$50,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in its benchmark.

\$53,575 **Select Shares**  
\$54,618 **Lehman Brothers GNMA Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's total return would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>2</sup> Source for category information: Morningstar, Inc.

Fund Facts as of 8/31/05

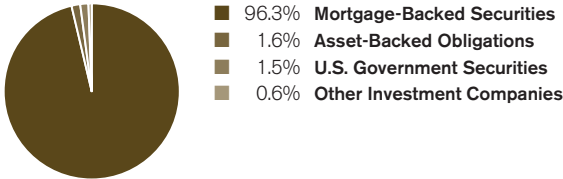
Statistics	
Number of Holdings	83
Style Assessment <sup>1</sup>	
Interest Rate Sensitivity	Medium
Credit Quality	High
30-Day SEC Yield <sup>2</sup>	
Investor Shares	3.71%
Select Shares	3.91%
30-Day SEC Yield—No Waiver <sup>3</sup>	
Investor Shares	3.44%
Select Shares	3.59%
12-Month Distribution Yield <sup>2</sup>	
Investor Shares	4.04%
Select Shares	4.23%
Weighted Average Maturity	3.9 yrs
Weighted Average Duration	2.4 yrs
Weighted Average Credit Quality	AAA
Portfolio Turnover Rate	131%
Minimum Initial Investment	
Investor Shares (\$1,000 for retirement and custodial accounts)	\$2,500
Select Shares	\$50,000

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. To obtain performance information current to the most recent month end, please visit [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

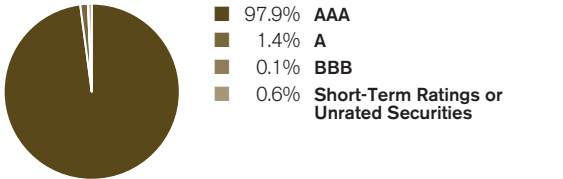
Portfolio Composition % of Investments

These charts show three different views of the fund's portfolio: by type of security, credit quality of the security and remaining maturity.

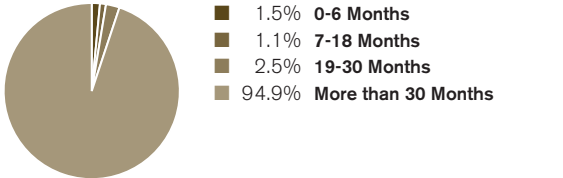
By Security Type



By Credit Quality<sup>4</sup>



By Maturity



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. Interest rate sensitivity and credit quality are two main components of bond performance. The assessment reflects the fund's portfolio as of 8/31/05 and is not a precise indication of risk or performance—past, present or future. Definitions of style assessments: Sensitivity (measured as duration): Short, up to 3.5 years; Medium, more than 3.5 years to less than six years; Long, six years or greater. Credit quality: High, AA or better; Medium, A or BBB; Low, BB or lower.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. The yields do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>3</sup> Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

<sup>4</sup> Based on ratings from Moody's. Where Moody's ratings are not available, Standard & Poor's ratings are used. The fund may use different ratings provided by other ratings agencies for purposes of determining compliance with the fund's investment policies.

# Fund Expenses (unaudited)

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning March 1, 2005 and held through August 31, 2005.

**Actual Return** lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund or share class under the heading entitled “Expenses Paid During Period.”

**Hypothetical Return** lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's or share class' actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

	Expense Ratio <sup>1</sup> (Annualized)	Beginning Account Value at 3/1/05	Ending Account Value (Net of Expenses) at 8/31/05	Expenses Paid During Period <sup>2</sup> 3/1/05 –8/31/05
<b>Schwab YieldPlus Fund<sup>®</sup></b>				
<i>Investor Shares</i>				
Actual Return	0.58%	\$1,000	\$1,016.40	\$2.95
Hypothetical 5% Return	0.58%	\$1,000	\$1,022.28	\$2.96
<i>Select Shares<sup>®</sup></i>				
Actual Return	0.44%	\$1,000	\$1,017.20	\$2.24
Hypothetical 5% Return	0.44%	\$1,000	\$1,022.99	\$2.24
<b>Schwab Short-Term Bond Market Fund<sup>™</sup></b>				
Actual Return	0.55%	\$1,000	\$1,016.90	\$2.80
Hypothetical 5% Return	0.55%	\$1,000	\$1,022.43	\$2.80
<b>Schwab Total Bond Market Fund<sup>™</sup></b>				
Actual Return	0.53%	\$1,000	\$1,028.60	\$2.71
Hypothetical 5% Return	0.53%	\$1,000	\$1,022.53	\$2.70
<b>Schwab GNMA Fund<sup>™</sup></b>				
<i>Investor Shares</i>				
Actual Return	0.74%	\$1,000	\$1,020.90	\$3.77
Hypothetical 5% Return	0.74%	\$1,000	\$1,021.48	\$3.77
<i>Select Shares</i>				
Actual Return	0.55%	\$1,000	\$1,021.80	\$2.80
Hypothetical 5% Return	0.55%	\$1,000	\$1,022.43	\$2.80

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

<sup>2</sup> Expenses for each fund or share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

# Schwab YieldPlus Fund®

## Financial Statements

### Financial Highlights

Investor Shares	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	9.71	9.70	9.75	10.00	9.92
Income from investment operations:					
Net investment income	0.29	0.24	0.30	0.42	0.62
Net realized and unrealized gains or losses	(0.02)	0.01	(0.02)	(0.23)	0.08
Total income from investment operations	0.27	0.25	0.28	0.19	0.70
Less distributions:					
Dividends from net investment income	(0.30)	(0.24)	(0.33)	(0.44)	(0.62)
Net asset value at end of period	9.68	9.71	9.70	9.75	10.00
Total return (%)	2.82	2.63	2.95	1.89	7.33
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.59	0.59	0.59	0.55	0.55
Gross operating expenses	0.59	0.59	0.59	0.62	0.71
Net investment income	3.00	2.43	3.08	4.36	6.03
Portfolio turnover rate	76	89	109	42	106
Net assets, end of period (\$ x 1,000,000)	741	639	410	392	185



Select Shares	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	9.70	9.70	9.75	10.00	9.92
Income from investment operations:					
Net investment income	0.30	0.25	0.32	0.44	0.64
Net realized and unrealized gains or losses	(0.01)	0.01	(0.02)	(0.24)	0.08
Total income from investment operations	0.29	0.26	0.30	0.20	0.72
Less distributions:					
Dividends from net investment income	(0.31)	(0.26)	(0.35)	(0.45)	(0.64)
Net asset value at end of period	9.68	9.70	9.70	9.75	10.00
Total return (%)	3.08	2.67	3.10	2.04	7.50
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.44	0.45	0.44	0.40	0.40
Gross operating expenses	0.44	0.45	0.44	0.47	0.56
Net investment income	3.18	2.57	3.23	4.52	6.18
Portfolio turnover rate	76	89	109	42	106
Net assets, end of period (\$ x 1,000,000)	5,091	3,030	1,476	1,443	772

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbol below to designate certain characteristics of the securities.

- ▶ Variable-rate security
- Callable security
- All or a portion of this security is held as collateral for futures contracts and delayed-delivery security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

Holdings by Category		Cost (\$x1,000)	Value (\$x1,000)
<b>43.1%</b>	<b>Corporate Bonds</b>	2,506,417	2,511,123
<b>29.8%</b>	<b>Asset-Backed Obligations</b>	1,729,129	1,735,069
<b>19.0%</b>	<b>Mortgage-Backed Securities</b>	1,108,978	1,109,537
<b>0.0%</b>	<b>U.S. Government Securities</b>	2,365	2,365
<b>2.2%</b>	<b>Commercial Paper &amp; Other Corporate Obligations</b>	126,039	126,022
<b>5.4%</b>	<b>Preferred Stock</b>	317,169	316,372
<b>0.0%</b>	<b>Other Investment Companies</b>	1,091	1,091
<b>99.5%</b>	<b>Total Investments</b>	<b>5,791,188</b>	<b>5,801,579</b>
<b>0.5%</b>	<b>Other Assets and Liabilities</b>		30,432
<b>100.0%</b>	<b>Net Assets</b>		<b>5,832,011</b>

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Corporate Bonds** 43.1% of net assets**Finance** 22.3%**Banking** 12.5%**AB Spintab, 144A**

▶ 4.68%, 10/31/05	6,500	6,495
■ 7.50%, 08/14/49	2,100	2,162

**▶ Allied Irish Banks, 144A**

4.47%, 10/17/05	17,575	17,789
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Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**■ Artesia Overseas, Ltd.**

4.59%, 11/25/05	10,000	10,051
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**■ BBVA Bancomer Capital Trust I, 144A**

10.50%, 02/16/11	24,900	25,684
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**BNP Paribas**

▶ 4.06%, 09/20/05	42,700	42,891
▶ 4.06%, 09/20/05	724	728

**▶ Citigroup, Inc.**

3.75%, 11/02/05	35,000	35,017
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**Countrywide Home Loan**

▶ 3.60%, 09/29/05	49,000	49,010
▶ 3.76%, 10/31/05	24,500	24,499

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Countrywide Home Loans</b>		
▶ 3.68%, 10/12/05	3,860	3,861
▶ 4.01%, 11/25/05	4,735	4,740
▶ <b>Credit Suisse First Boston, Inc.</b> 5.25%, 10/27/05	440	441
▶ <b>Deutsche Bank Capital Trust, 144A</b> Class B 5.29%, 09/30/05	48,400	50,041
▶ <b>Deutsche Bank Luxembourg, 144A</b> 4.63%, 12/28/05	5,000	5,061
<b>Doral Financial Corp.</b>		
▶ 3.99%, 09/07/05	26,905	26,803
▶ 4.45%, 10/20/05	8,785	8,379
▶ <b>Fleet Capital Trust V</b> 4.43%, 09/19/05	42,300	42,588
▶ <b>Intesa Bank Overseas Ltd.</b> 4.38%, 10/03/05	31,000	31,117
▶ <b>JP Morgan Chase &amp; Co.</b> 3.48%, 09/14/05	15,200	15,228
■ <b>Koram Bank</b> 5.64%, 09/26/12	25,300	25,873
▶ <b>Nationwide Building Society, 144A</b> 3.51%, 09/12/05	30,000	30,058
▶ <b>RBS Capital Trust IV</b> 4.29%, 09/30/05	39,800	40,460
▶ <b>Republic New York Corp.</b> 4.15%, 01/30/06	44,700	44,414
▶ <b>Royal Bank of Scotland PLC, 144A</b> 3.66%, 10/21/05	49,800	49,816
▶ <b>Societe Generale</b> 4.26%, 10/21/05	28,000	28,213
▶ <b>Southtrust Bank NA</b> 3.48%, 09/29/05	150	150
▶ <b>Sovereign Bancorp.</b> 4.17%, 11/25/05	16,000	16,037
▶ <b>Wachovia Corp.</b> 3.72%, 10/24/05	31,000	31,042
<b>Wells Fargo &amp; Co.</b>		
▶ 3.42%, 09/12/05	24,000	24,024
▶ 3.51%, 09/23/05	8,450	8,465
▶ 3.54%, 09/29/05	29,767	29,811
		<b>730,948</b>

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Brokerage 3.0%</b>		
▶ <b>Credit Suisse Financial Products</b> 4.10%, 09/06/05	20,770	20,858
<b>Goldman Sachs Group, Inc.</b>		
▶ 3.59%, 09/30/05	34,280	34,324
▶ 3.69%, 10/11/05	15,500	15,524
▶ 3.73%, 10/25/05	25,000	25,001
▶ <b>Lehman Brothers E-Capital Trust I, 144A</b> 4.59%, 11/21/05	9,900	9,916
▶ <b>Merrill Lynch &amp; Co.</b> 3.30%, 09/06/05	19,880	19,940
<b>Morgan Stanley</b>		
▶ 3.70%, 10/12/05	2,605	2,608
▶ 3.79%, 10/27/05	6,940	6,954
▶ 3.92%, 11/15/05	41,250	41,306
		<b>176,431</b>
<b>Finance Companies 2.9%</b>		
▶ <b>American General Finance</b> 3.61%, 09/27/05	30,000	30,044
<b>General Electric Capital Corp.</b>		
▶ 3.30%, 09/02/05	37,900	36,848
▶ 3.86%, 11/21/05	12,500	12,518
▶ <b>International Lease Finance Corp.</b> 3.54%, 10/17/05	10,000	10,028
▶ <b>MBNA Europe Funding PLC, 144A</b> 3.97%, 09/07/07	15,000	15,000
▶ <b>Residential Capital Corp., 144A</b> 4.84%, 09/29/05	25,000	25,154
▶ <b>Washington Mutual, Inc.</b> 3.98%, 11/03/05	38,595	38,607
		<b>168,199</b>
<b>Insurance 2.9%</b>		
▶ <b>ASIF Global Finance XXII, Series 144A</b> 3.99%, 11/28/05	31,700	31,743
▶ <b>AXA</b> 3.95%, 09/06/05	64,600	64,796
▶ <b>Marsh &amp; McLennan Cos., Inc.</b> 3.71%, 10/13/05	28,560	28,417
▶ <b>Twin Reefs Pass-Through, Section 3c7, 144A</b> 4.35%, 09/12/05	22,900	22,853

## Portfolio Holdings continued

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
▶ <b>Xllic Global Fund</b> 3.54%, 09/02/05	22,300	22,322	■ <b>Nextel Partners, Inc.</b> 12.50%, 11/15/09	24,979	26,915
		<b>170,131</b>	▶ <b>Rogers Wireless, Inc.</b> 6.54%, 09/15/05	2,990	3,132
<b>Real Estate Investment Trust 1.0%</b>			■ <b>SBA Telecommunications Corp.</b> 0.00%, 12/15/11	18,820	17,362
▶ <b>Duke Realty Corp.</b> 3.70%, 09/22/05	18,265	18,287	■ <b>TCI Communications Financing III</b> 9.65%, 03/31/27	34,170	38,649
■ <b>Host Marriott LP</b> 9.50%, 01/15/07	13,630	14,379			<b>184,207</b>
▶ <b>Westfield Capital Corp., 144A</b> 4.00%, 11/02/05	23,400	23,453	<b>Consumer Cyclical 8.7%</b>		
		<b>56,119</b>	▶ <b>Archstone I PLC, 144A</b> Series 2005-1 Class A1 4.23%, 09/20/05	34,600	34,730
<b>Industrial 16.8%</b>			<b>Caesars Entertainment, Inc.</b> 8.50%, 11/15/06	10,800	11,304
<b>Basic Industry 0.5%</b>			■ 9.38%, 02/15/07	5,000	5,294
■ <b>Georgia-Pacific Corp.</b> 7.38%, 07/15/08	20,000	21,200	▶ <b>Centex Corp.</b> Series D 5.65%, 10/10/05	15,340	15,625
<b>Nova Chemicals Ltd</b> 7.00%, 09/15/05	2,900	2,900	■ <b>Cummins, Inc.</b> 9.50%, 12/01/10	19,950	22,045
■ <b>Westlake Chemical Corp.</b> 8.75%, 07/15/11	5,900	6,431	<b>D. R. Horton, Inc.</b> ■ 9.38%, 03/15/11	19,725	21,086
		<b>30,531</b>	8.50%, 04/15/12	15,125	16,486
<b>Capital Goods 0.6%</b>			<b>Daimler-Chrysler, N.A. Holdings</b>		
■ <b>Ball Corp.</b> 7.75%, 08/01/06	12,719	13,037	▶ 3.86%, 09/10/07	10,140	10,182
<b>Bombardier Capital, Inc., 144A</b>			▶ 4.43%, 11/25/05	19,850	19,921
■ 7.50%, 10/17/05	9,950	10,012	<b>Ford Motor Credit Co.</b>		
■ 6.13%, 06/29/06	10,180	10,231	4.39%, 09/21/05	9,000	8,883
		<b>33,280</b>	▶ 4.31%, 09/28/05	15,980	15,594
<b>Communications 3.2%</b>			▶ 4.74%, 11/16/05	10,000	10,003
▶ <b>America Movil SA de CV, 144A</b> 4.29%, 10/27/05	31,500	31,610	■ 6.88%, 02/01/06	50,950	51,294
▶ <b>Cox Communications, Inc., 144A</b> 3.95%, 09/14/05	24,900	25,078	<b>General Motors Acceptance Corp.</b>		
■ <b>Directv Holdings/Finance</b> 8.38%, 03/15/13	5,200	5,733	▶ 1.50%, 09/15/05	500	477
▶ <b>Echostar DBS Corp.</b> 6.75%, 10/01/05	13,750	14,111	6.63%, 10/15/05	500	501
■ <b>MCI, Inc.</b> 6.91%, 05/01/07	21,350	21,617	▶ 4.51%, 10/17/05	11,900	11,731
			▶ 4.68%, 11/18/05	44,050	43,953
			▶ 4.67%, 11/21/05	4,000	3,934
			<b>Harrahs Operating Co., Inc.</b> 7.88%, 12/15/05	2,300	2,323
			■ <b>Hyatt Equities, L.L.C., 144A</b> 6.88%, 06/15/07	1,295	1,330

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>■ John Q Hamons Hotels / Finance</b>		
Series B		
8.88%, 05/15/12	15,565	17,199
<b>■ KB Home</b>		
9.50%, 02/15/11	26,441	28,258
<b>■ Lennar Corp.</b>		
Series B		
4.18%, 09/19/05	22,875	22,977
<b>Mandalay Resort Group</b>		
10.25%, 08/01/07	3,950	4,301
<b>MGM Mirage, Inc.</b>		
7.25%, 10/15/06	4,050	4,146
9.75%, 06/01/07	3,250	3,486
■ 6.75%, 08/01/07	6,000	6,150
6.75%, 02/01/08	300	307
<b>■ Royal Caribbean Cruises</b>		
6.75%, 03/15/08	4,255	4,436
<b>Ryland Group, Inc.</b>		
■ 9.75%, 09/01/10	16,060	16,843
■ 9.13%, 06/15/11	21,862	23,808
<b>■ Schuler Homes</b>		
10.50%, 07/15/11	2,295	2,510
<b>■ Standard Pacific Corp.</b>		
9.50%, 09/15/10	18,242	19,131
<b>■ Starwood Hotel Resorts</b>		
7.38%, 05/01/07	6,000	6,248
<b>Toll Corp.</b>		
■ 8.25%, 02/01/11	25,385	26,781
■ 8.25%, 12/01/11	13,050	13,964
		<b>507,241</b>
<b>Consumer Non-Cyclical 1.1%</b>		
<b>Altria Group, Inc.</b>		
3.61%, 09/09/05	25,000	24,999
<b>► Evangelical Lutheran Good Samaritan Society</b>		
4.38%, 11/25/05	19,800	19,807
<b>► Safeway, Inc.</b>		
4.16%, 11/01/05	7,000	7,001
<b>■ Stater Brothers Holdings</b>		
6.91%, 09/15/05	12,950	13,144
		<b>64,951</b>

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Energy 1.6%</b>		
<b>■ Husky Oil Ltd.</b>		
8.90%, 08/15/28	27,122	29,857
<b>Kerr-McGee Corp.</b>		
8.13%, 10/15/05	3,910	3,925
■ 5.88%, 09/15/06	21,200	21,595
<b>■ Pogo Producing Co.</b>		
Series B		
8.25%, 04/15/11	22,156	23,485
<b>■ Tesoro Corp.</b>		
8.00%, 04/15/08	14,635	15,440
		<b>94,302</b>
<b>Technology 0.5%</b>		
<b>► BAE Systems Holdings, Inc.</b>		
4.05%, 11/15/05	15,000	15,004
<b>■ Freescale Semiconductor</b>		
5.89%, 10/17/05	11,900	12,346
		<b>27,350</b>
<b>Transportation 0.6%</b>		
<b>► CSX Corp.</b>		
4.01%, 11/03/05	20,730	20,771
<b>► Yellow Roadway Corp., 144A</b>		
5.17%, 11/15/05	15,000	15,013
		<b>35,784</b>
<b>Utilities 4.0%</b>		
<b>► Atmos Energy Corp.</b>		
3.52%, 10/17/05	19,900	19,946
<b>■ Columbia Energy Group</b>		
Series D		
7.05%, 11/28/07	1,405	1,413
<b>► Delek &amp; Avner-Yam, 144A</b>		
4.79%, 11/01/05	9,661	9,650
<b>■ DTE Energy Co.</b>		
4.28%, 09/01/05	9,400	9,438
<b>■ Duke Energy Corp.</b>		
3.82%, 12/08/05	21,350	21,367
<b>■ Energen Corp.</b>		
4.14%, 11/15/05	9,900	9,914
<b>■ Entergy Gulf States</b>		
3.73%, 09/01/05	34,275	34,404

## Portfolio Holdings continued

Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Rate, Maturity Date			Rate, Maturity Date		
<b>Georgia-Pacific Corp.</b>			<b>Americredit Finance NIM Trust</b>		
7.50%, 09/14/05	4,675	4,774	Series 2004-RN5 Class A		
■ <b>Nisource Finance Corp.</b>			5.19%, 07/25/34	1,324	1,319
4.39%, 11/23/05	32,720	32,891	<b>Ameriquest Finance NIM Trust</b>		
<b>Southern California Edison</b>			■ Series 2001-RN4 Class A		
▶ 3.47%, 09/14/05	50,000	50,019	4.60%, 09/26/05	1,093	1,090
▶ 3.87%, 10/13/05	7,370	7,375	Series 2004-RN9 Series N1		
▶ <b>Teco Energy, Inc., 144A</b>			4.80%, 11/25/34	5,337	5,317
5.69%, 11/01/05	9,950	10,249	<b>Ameriquest Mortgage Securities, Inc.</b>		
▶ <b>TXU Energy Co., L.L.C.</b>			■ Series 2003-6 Class M2		
4.36%, 10/14/05	15,250	15,257	5.49%, 09/26/05	5,000	5,108
■ <b>TXU Energy Co., L.L.C.</b>			▶ Series 2003-AR2 Class M2		
4.36%, 10/14/05	4,950	4,952	5.67%, 09/26/05	5,000	5,071
		<b>231,649</b>	▶ Series 2003-AR3 Class M2		
			5.69%, 09/26/05	5,000	5,105
			▶ Series 2003-IA1 Class M2		
			5.29%, 09/26/05	2,614	2,615
			Series 2004-R10 Class M1		
			4.34%, 11/25/34	10,550	10,619
			Series 2004-R10 Class M6		
			5.01%, 11/25/34	7,050	7,249
			Series 2004-R10 Class M7		
			3.64%, 11/25/34	6,900	7,087
			Series 2004-R10 Class M8		
			3.84%, 11/25/34	1,950	1,992
			<b>Amortizing Residential Collateral Trust</b>		
			■ Series 2002-BC1 Class B		
			5.69%, 09/26/05	704	707
			▶ Series 2002-BC1 Class M2		
			4.74%, 09/26/05	3,060	3,075
			▶ Series 2002-BC9 Class M2		
			5.89%, 09/26/05	18,000	18,452
			<b>AQ Finance NIM Trust</b>		
			Series 2003-N11A		
			7.14%, 08/25/33	39	39
			<b>Argent Securities, Inc.</b>		
			▶ Series 2003-W7 Class M2		
			5.39%, 09/26/05	15,750	15,988
			▶ Series 2003-W9 Class M2		
			5.36%, 09/26/05	19,695	20,067
			▶ <b>Aria CDO I (Jersey) Ltd.</b>		
			Series IA-3 Class B1U5		
			4.48%, 10/07/05	41,250	41,486
			<b>Asset Backed Funding Certificates</b>		
			▶ Series 2003-AHL1 Class M1		
			4.49%, 09/26/05	7,500	7,585

**Asset-Backed Obligations** 29.8% of net assets

**ABSC NIMS Trust**

Series 2004-HE7 Class A1

5.00%, 10/25/34

2,202

2,202

▶ **ABSLB Long Beach Home Equity Loan Trust**

Series 2000-LB-1 Class M2V

4.71%, 09/21/05

10,670

10,190

**ACE Securities Corp.**

## ▶ Series 2002-HE-1 Class M2

4.84%, 09/26/05

5,000

5,040

## ▶ Series 2002-HE3 Class M2

5.84%, 09/26/05

15,000

15,107

## ▶ Series 2003-HS1 Class M3

6.14%, 09/26/05

4,081

4,192

## ▶ Series 2004-FM1 Class M1

4.24%, 09/26/05

10,000

10,028

▶ **Aegis Asset Backed Securities Trust**

Series 2003-2 Class A1

4.04%, 09/26/05

13,032

13,067

**Alter Moneta Receivables, L.L.C.**

Series 2003-1

2.56%, 03/15/11

1,840

1,828

**Americredit Automobile Receivables Trust**

Series 2002-1 Class D

6.53%, 06/06/08

6,450

6,522

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
► Series 2003-OPT1 Class M2 5.19%, 09/26/05	5,000	5,048
► Series 2003-WMC1 Class A3 4.19%, 09/26/05	12,549	12,662
► Series 2004-HE1 Class M2 4.79%, 09/26/05	12,750	12,973
► Series 2004-HE1 Class M8 7.14%, 09/26/05	4,022	3,732
► Series 2004-OPT2 Class M1 4.19%, 09/26/05	16,500	16,569
► Series 2004-OPT2 Class M2 4.64%, 09/14/05	11,576	11,714
<b>Asset Backed Funding Corp. NIM Trust</b> Series 2004-OPT5 Class N1 4.45%, 09/28/34	8,908	8,889
<b>Asset Backed Securities Corp. Home Equity</b> ► Series 2001-HE3 Class M2 4.62%, 09/15/05	1,220	1,220
► Series 2002-HE3 Class M2 5.12%, 09/15/05	6,830	6,861
► Series 2003-HE1 Class M2 5.92%, 09/15/05	14,850	15,431
► Series 2003-HE2 Class M2 5.47%, 09/15/05	4,460	4,509
► Series 2003-HE2 Class M3 5.82%, 09/15/05	8,035	8,132
► Series 2003-HE7 Class M1 4.22%, 09/15/05	7,000	7,037
<b>Asset Backed Securities Corp. NIMS Trust</b> Series 2004-HE3 Class A1 5.00%, 05/25/34	3,446	3,424
<b>Banc of America Funding Corp.</b> Series 2004-A Class 4A1 5.87%, 06/20/32	13,020	13,395
<b>Bear Stearns Asset Backed Securities, Inc.</b> ► Series 1999-1 Class MV1 4.62%, 09/26/05	7,532	7,541
► Series 2004-HEB Class M1 4.21%, 09/26/05	12,100	12,111
► <b>Capital One Master Trust</b> Series 2001-2 Class C 4.67%, 09/15/05	14,920	14,968
<b>Capital One Multi-Asset Execution Trust</b> ► Series 2003-B6 Class B6 4.10%, 09/15/05	20,000	20,203

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
► Series 2003-C1 Class C1 6.12%, 09/15/05	3,500	3,683
<b>Capital One Prime Auto Receivables Trust</b> Series 2004-2 Class B 3.95%, 05/16/11	13,673	13,601
► <b>CARSS Finance Ltd. Partnership</b> Series 2004-A Class B2 4.52%, 09/15/05	3,913	3,919
<b>CDC Mortgage Capital Trust</b> ► Series 2003-HE1 Class M1 4.54%, 09/26/05	18,000	18,077
► Series 2003-HE2 Class M2 5.54%, 09/26/05	5,000	5,087
► Series 2003-HE4 Class M1 4.29%, 09/26/05	5,700	5,722
► Series 2003-HE4 Class M2 5.29%, 09/26/05	4,000	4,092
► <b>Centex Home Equity</b> Series 2003-B Class M2 5.34%, 09/26/05	6,500	6,619
<b>Chase Funding Mortgage Loan Asset-Backed</b> ► Series 2001-3 Class 2M2 4.62%, 09/26/05	670	672
► Series 2003-2 Class 2A2 3.92%, 09/26/05	8,476	8,497
<b>Chase Funding Net Interest Margin, 144A</b> Series 2004-1A 3.75%, 02/27/34	135	135
<b>Chec Loan Trust</b> Series 2004-2 Class M1 4.28%, 10/25/34	8,750	8,794
<b>CIT Marine Trust</b> Series 1999-A Class A4 6.25%, 11/15/19	2,580	2,610
<b>Countrywide Asset Backed Certificates</b> ► Series 2002-6 Class M1 4.74%, 09/26/05	3,000	3,021
► Series 2002-6 Class M2 5.74%, 09/26/05	4,800	4,866
► Series 2003-2 Class M2 5.29%, 09/26/05	225	229
<b>Distribution Financial Services Trust</b> Series 2001-1 Class-D 7.73%, 11/15/22	8,250	8,207

**Portfolio Holdings** continued

<b>Security Series</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)	<b>Security Series</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>► Fieldstone Mortgage Investment Corp.</b>			<b>► Home Equity Asset Trust</b>		
Series 2004-2 Class M3			Series 2004-8 Class M1		
5.04%, 09/26/05	2,000	2,001	4.22%, 09/26/05	22,000	22,208
<b>Finance America Mortgage Loan Trust</b>			<b>Home Equity Mortgage Trust</b>		
► Series 2004-1 Series M4			► Series 2002-5 Class M2		
4.49%, 09/26/05	3,500	3,538	6.09%, 09/26/05	6,274	6,301
► Series 2004-2 Class M6			► Series 2003-5 Class M2		
5.04%, 09/26/05	2,625	2,676	5.44%, 09/26/05	4,000	4,041
► Series 2004-3 Class M1			► Series 2003-7 Class M2		
4.22%, 09/26/05	13,350	13,425	5.34%, 09/26/05	6,000	6,054
<b>First Franklin Mortgage Loan Asset Backed Certificates</b>			<b>► Household Mortgage Loan Trust</b>		
► Series 1997-FF3 Class M1			Series 2003-HC2 Class M		
4.24%, 09/20/05	1,159	1,160	4.21%, 09/20/05	2,886	2,891
► Series 2003-FF3 Class M4			<b>► Impac CMB Trust</b>		
6.89%, 09/25/05	5,208	5,356	Series 2003-10 Class 1A1		
<b>First Franklin NIM Trust</b>			3.99%, 09/26/05	6,109	6,113
Series 2004-FF10 Class N1			<b>IndyMac Home Equity Loan Asset-Backed Trust</b>		
4.45%, 11/26/34	4,316	4,311	Series 2004-B Class M4		
Series 2004-FF4A Class N			4.79%, 11/25/34	14,500	14,780
5.75%, 06/25/34	2,227	2,220	<b>IndyMac NIM Trust SPMD</b>		
Series 2004-FF8A, <b>144A</b>			Series 2004-B		
5.25%, 10/25/34	5,404	5,422	5.68%, 11/25/34	4,006	4,018
<b>Fremont Home Loan Trust</b>			<b>Irwin Home Equity</b>		
► Series 2003-A Class M2			Series 2003-1 Class M2		
5.37%, 09/26/05	7,000	7,061	5.64%, 02/25/08	5,000	5,137
► Series 2003-B Class M1			<b>Long Beach Asset Holdings, Corp.</b>		
4.34%, 09/26/05	19,500	19,675	Series 2004-5		
► Series 2003-B Class M2			5.00%, 09/25/34	639	637
5.26%, 09/26/05	13,000	13,342	Series 2004-6 Class N1		
► Series 2004-A Class M2			4.50%, 11/25/34	2,222	2,223
4.79%, 09/26/05	5,000	5,068	<b>Long Beach Mortgage Loan Trust</b>		
<b>Fremont NIM Trust</b>			► Series 2003-2 Class M1		
Series 2004-D Class N1			4.46%, 09/26/05	8,000	8,055
4.50%, 06/25/06	4,661	4,650	► Series 2003-2 Class M3		
Series 2005-A, <b>144A</b>			5.89%, 09/26/05	2,190	2,223
3.75%, 01/25/35	9,135	9,102	► Series 2004-1 Class M6		
► <b>Galena CDO I (Cayman No. 1) Ltd., 144A</b>			5.04%, 09/26/05	8,000	8,133
Series I-A Class B1U7			<b>Main Street Warehouse Funding Trust</b>		
4.50%, 01/11/06	5,000	5,000	► Series 2004-MSD		
<b>Global Signal Trust</b>			6.39%, 09/26/05	9,000	9,091
Series 2004-2A Class C			► Series 2004-MSD		
4.70%, 12/15/14	7,000	6,952	5.94%, 09/26/05	18,500	18,523
► <b>GSamp Trust</b>			<b>Master Asset Backed Securities Trust</b>		
Series 2002-WMC1 Class B1			► Series 2002-OPT1 Class M2		
5.71%, 09/20/05	1,657	1,672	5.59%, 09/26/05	10,000	10,125



Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
► Series 2003-OPT1 Class A2 4.06%, 09/25/05	3,967	3,978
► Series 2003-OPT1 Class M2 5.49%, 09/26/05	12,500	12,701
► Series 2003-WMC2 Class M1 4.34%, 09/26/05	600	604
<b>MBNA Credit Card Master Note Trust</b>		
► Series 2003-B3 Class B3 3.95%, 09/30/05	14,329	14,405
► Series 2003-C3 Class C3 4.92%, 09/30/05	10,920	11,236
<b>MBNA Master Credit Card Trust</b>		
► Series 1999-L Class C 4.65%, 09/15/05	8,000	8,081
► Series 2000-H Class B 4.17%, 09/15/05	14,500	14,695
<b>Merrill Lynch Mortgage Investors, Inc.</b>		
► Series 2003-WMC2 Class M1 4.49%, 09/26/05	5,000	5,011
► Series 2003-WMC3 Class A2 4.00%, 09/26/05	1,143	1,144
► Series 2003-WMC3 Class M3 5.29%, 09/26/05	2,000	2,019
► Series 2003-WMC3 Class M4 5.46%, 09/26/05	2,913	2,955
► Series 2004-WMC1 Class A2 3.94%, 09/26/05	8,832	8,867
Series 2005-WM1N Class N1 5.00%, 10/01/05	8,859	8,781
<b>MMCA Automobile Trust</b>		
Series 2002-5 Class C 5.72%, 09/15/05	1,408	1,415
<b>Morgan Stanley ABS Capital I</b>		
► Series 2003-HE3 Class M1 4.32%, 09/26/05	9,403	9,471
► Series 2003-NC6 Class M1 4.44%, 09/26/05	17,500	17,704
► Series 2004-HE1 Class B2 5.54%, 09/26/05	6,000	6,004
► Series 2004-HE8 Class M1 4.28%, 09/26/05	19,810	19,936
► Series 2004-HE9 Class M4 4.64%, 09/26/05	15,000	15,098
Series 2004-NC1N 7.00%, 12/25/33	380	379

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Morgan Stanley Auto Loan Trust</b>		
Series 2003-HB1 Class B 2.22%, 04/15/11	3,842	3,776
Series 2004-HB1 Class C 2.88%, 10/15/11	7,636	7,545
Series 2004-HB2 Class C 3.24%, 03/15/12	3,956	3,921
Series 2004-HB2 Class D 3.59%, 03/15/12	537	535
<b>New Century Home Equity Loan Trust</b>		
► Series 2003-3 Class M3 6.02%, 09/26/05	7,686	7,923
► Series 2004-2 Class A3 3.89%, 09/26/05	9,485	9,492
► Series 2004-3 Class M1 4.26%, 09/26/05	14,000	14,080
<b>Novastar Home Equity Loan</b>		
► Series 2003-1 Class M2 5.64%, 09/26/05	13,000	13,170
► Series 2003-2 Class M1 4.39%, 09/26/05	15,720	15,814
► Series 2003-3 Class M1 4.39%, 09/26/05	22,700	22,916
► Series 2003-3 Class M2 5.29%, 09/26/05	10,000	10,248
► Series 2003-4 Class M1 4.35%, 09/26/05	20,000	20,142
► Series 2004-1 Class B1 5.34%, 09/26/05	5,950	5,963
► Series 2004-2 Class B1 5.59%, 09/26/05	7,900	8,063
► Series 2004-2 Class M4 4.84%, 09/26/05	13,000	13,135
► Series 2004-4 Class B1 5.34%, 09/26/05	10,000	10,130
► Series 2005-1 Class B4 7.14%, 09/26/05	4,000	3,791
► Series 2005-1 Class M4 4.32%, 09/26/05	8,000	8,030
<b>Novastar NIM Trust</b>		
Series 2004-N2 4.46%, 07/25/34	2,490	2,480
Series 2005-N1 Class NOTE, <b>144A</b> 4.78%, 10/26/35	12,241	12,253

## Portfolio Holdings continued

Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Rate, Maturity Date			Rate, Maturity Date		
<b>Novastar NIM Trust, 144A</b>			<b>Ryder Vehicle Lease Trust</b>		
Series 2004-N3			Series 2001-A Class CTF5		
3.97%, 03/25/35	6,305	6,288	6.75%, 03/15/12	10,000	10,181
► <b>ODIN CDO I (Cayman Islands) Ltd., 144A</b>			<b>Sail Net Interest Margin Notes</b>		
Series 1A Class B1U5			Series 2003-12A Class A		
4.16%, 10/11/05	19,900	19,970	7.35%, 11/27/33	295	294
<b>OPTEUM NIM Trust</b>			Series 2004-AA Class A		
Series 2005-1, <b>144A</b>			4.50%, 10/27/34	7,186	7,165
6.00%, 02/25/35	2,160	2,156	Series 2005-1A Class A, <b>144A</b>		
<b>Option One Mortgage Loan Trust</b>			4.25%, 02/27/35	6,027	6,006
► Series 2002-2 Class M3			Series 2005-3 Class A		
5.49%, 09/26/05	235	236	4.75%, 04/27/35	4,813	4,807
► Series 2002-4 Class M1			► <b>SAKS Credit Card Master Trust</b>		
4.24%, 09/26/05	12,498	12,535	Series 2001-2 Class B		
► Series 2003-1 Class M1			4.22%, 09/15/05	2,800	2,813
4.54%, 09/26/05	17,700	17,895	► <b>Saxon Asset Securities Trust</b>		
► Series 2003-1 Class M2			Series 2004-1 Class M2		
5.59%, 09/26/05	250	254	4.77%, 09/26/05	12,650	12,777
► Series 2003-2 Class M1			<b>Securitized Asset Backed NIM Trust</b>		
4.29%, 09/26/05	15,000	15,126	Series 2004-DO2		
► Series 2004-1 Class M2			5.50%, 09/25/34	4,146	4,100
4.74%, 09/26/05	3,800	3,848	Series 2004-NC2 Class N		
► Series 2004-1 Class M3			5.75%, 07/25/34	3,120	3,117
4.99%, 09/26/05	5,000	5,070	Series 2004-OP2 Class N		
► Series 2004-2 Class M1			5.50%, 08/25/34	3,944	3,922
4.17%, 09/26/05	7,000	7,026	<b>Sharps SP I L.L.C. Net Interest Margin Trust</b>		
► <b>Overture CDO (Jersey) Ltd.</b>			Series 2004-FM1N Class N		
Series 1A Class B1			6.16%, 09/25/34	420	420
3.94%, 01/09/06	1,650	1,645	Series 2004-HE2N Class NA		
► <b>Park Place Securities NIM Trust</b>			5.43%, 10/25/34	3,050	3,029
Series 2004-WHQ2 Class A			Series 2004-HE3N Class NA, <b>144A</b>		
4.00%, 09/26/05	3,170	3,164	5.19%, 11/25/34	5,932	5,912
► <b>Park Place Securities, Inc.</b>			Series 2004-OP1N Class NA		
Series 2004-MHQ1C Class M1			5.19%, 04/25/34	1,389	1,388
4.34%, 09/26/05	15,000	15,078	► <b>Specialty Underwriting &amp; Residential Finance</b>		
<b>Residential Asset Securities Corp.</b>			Series 2004-BC1 Class M1		
► Series 2003-KS6 Class M2			4.15%, 09/26/05	15,000	15,047
5.14%, 09/26/05	15,300	15,523	<b>Structured Asset Investment Loan Trust</b>		
► Series 2004-KS2 Class M22			► Series 2003-BC1 Class A2		
4.64%, 09/26/05	9,000	9,099	3.98%, 09/26/05	17,073	17,118
<b>Residential Asset Securities NIM Corp.</b>			► Series 2003-BC7 Class M2		
Series 2005-NT1, <b>144A</b>			5.39%, 09/26/05	10,333	10,402
4.00%, 02/25/35	13,179	13,207	<b>Structured Asset Securities Corp.</b>		
			► Series 1998-8 Class B		
			4.94%, 09/26/05	26	26

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
▶ Series 2004-S2 Class M2 4.24%, 09/26/05	14,600	14,658
<b>Student Loan Trust</b>		
▶ Series 2000-2 Class A2L 3.85%, 10/25/05	6,864	6,890
▶ Series 2000-3 Class A2L 3.84%, 10/25/05	7,215	7,245
▶ Series 2000-A Class A2 3.86%, 10/28/05	14,177	14,229
▶ Series 2001-1 Class A2L 3.80%, 10/25/05	3,322	3,330
▶ Series 2002-1 Class A2 3.76%, 10/25/05	5,256	5,270
▶ Series 2003-9 Class A4 3.61%, 09/15/05	75,000	75,555
▶ Series 2004-3 Class A4 3.78%, 10/25/05	47,500	47,678
▶ Series 2004-9 Class A3 3.74%, 10/25/05	15,000	15,030
▶ Series 2004-9 Class A4 3.78%, 10/25/05	62,000	62,281
▶ Series 2005-3 Class A2 3.65%, 10/25/05	10,000	9,990
▶ Series 2005-7 Class A1 3.72%, 10/25/05	30,000	30,018
<b>▶ Terrapin Funding, L.L.C.</b>		
Series 2003-1A Class B1 4.64%, 09/08/05	20,000	20,051
<b>UCFC Home Equity Loan</b>		
Series 1998-B Class A7 6.53%, 10/15/29	9,800	9,848
<b>WFS Financial Owner Trust</b>		
Series 2002-2 Class A4 4.50%, 02/20/10	864	866
Series 2004-1 Class A4 2.81%, 08/22/11	1,000	983
Series 2004-1 Class C 2.49%, 08/22/11	3,825	3,769
Series 2004-2 Class C 3.20%, 11/21/11	7,659	7,588
Series 2004-3 Class 3D 4.07%, 02/17/12	1,474	1,467
Series 2004-3 Class C 3.60%, 02/17/12	9,541	9,417
Series 2004-4 Class C 3.21%, 05/17/12	10,466	10,333

Security Series Rate, Maturity Date	Face Value (\$ x 1,000)	Value (\$ x 1,000)
<b>Whole Auto Loan Trust</b>		
Series 2003-1 Class B 2.24%, 03/15/10	8,570	8,457
		<b>1,735,069</b>

**Mortgage-Backed Securities** 19.0% of net assets

**Collateralized Mortgage Obligations 14.4%**
**Bank of America Mortgage Securities**

Series 2002-J Class A2 4.88%, 09/25/32	1,951	1,945
Series 2003-8 Class 2A5 5.00%, 11/25/18	12,161	12,252
Series 2003-C Class 2A1 3.93%, 04/25/33	4,283	4,227
Series 2003-D Class 2A2 3.60%, 03/25/08	4,018	3,940
Series 2004-3 Class 4A 4.92%, 07/25/34	88,657	87,826
Series 2004-7 Class 7A1 5.00%, 08/25/19	67,160	66,767
Series 2004-A Class 2A2 4.18%, 02/25/34	21,055	20,868
Series 2004-I Class 1A2 4.19%, 09/25/34	14,084	14,073
Series 2004-J Class 2A1 4.82%, 11/25/34	30,469	30,535

**▶ Countrywide Asset-Backed Certificates**

Series 2004-11 Class A2 4.02%, 09/26/05	34,426	34,563
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**Countrywide Home Loans**

Series 2003-HYB1 Class 1A1 3.85%, 05/19/33	4,786	4,717
Series 2004-HYB5 Class 3A1 4.78%, 04/20/35	52,027	52,152

**Crown Castle Towers, L.L.C.**

Series 2005-1 Class AB 4.88%, 06/15/35	11,000	10,961
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**CS First Boston Mortgage Securities Corp.**

▶ Series 2001-HE17 Class M1 4.36%, 09/26/05	7,400	7,483
Series 2002-AR27 Class 1A1 5.42%, 10/25/32	1,228	1,253

**Portfolio Holdings** continued

<b>Security Series</b> <b>Rate, Maturity Date</b>	<b>Face Value</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)	<b>Security Series</b> <b>Rate, Maturity Date</b>	<b>Face Value</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
Series 2002-AR28 Class 1A2 4.98%, 11/25/32	1,344	1,363	► Series 2005-2AR Class B1 4.14%, 09/26/05	28,365	28,338
Series 2004-AR7 Class 2A1 4.86%, 11/25/34	23,986	24,036	<b>Residential Accredit Loans, Inc.</b> Series 2004-QA3 Class NB21 4.55%, 08/25/34	7,781	7,665
<b>Fannie Mae</b> Series 2003-22 Class UK 4.00%, 09/25/31	6,142	6,026	Series 2004-QS16 Class 2A1 5.00%, 12/25/19	39,388	39,438
► Series 2003-37 Class FK 4.44%, 09/26/05	2,623	2,627	<b>Residential Asset Securitization Trust</b> Series 2004-A6 Class A1 5.00%, 08/25/19	27,758	27,635
<b>Fannie Mae (Interest Only)</b> Series 2003-57 Class IB 5.00%, 06/25/18	25,432	3,354	<b>Residential Funding Mortgage Securitization I</b> Series 2003-S20 Class 2A1 4.75%, 12/25/18	5,388	5,341
<b>Fifth Third Mortgage Loan Trust</b> ► Series 2002-FTB1 Class 3A1 3.91%, 09/01/05	1,578	1,600	<b>Sequoia Mortgage Trust (Interest Only)</b> Series 2003-8 Class X1 0.80%, 01/20/34	180,041	1,641
► Series 2002-FTB1 Series 2A1 6.27%, 09/01/05	2,469	2,465	<b>Thornburg Mortgage Securities Trust</b> Series 2004-1 Class II2A 3.37%, 04/25/34	20,513	20,048
<b>Freddie Mac</b> Series 61 Class D 9.30%, 11/15/20	511	511	<b>Washington Mutual</b> Series 2002-AR19 Class A7 4.68%, 01/01/33	4,013	4,015
<b>GSR Mortgage Loan Trust</b> Series 2004-7 Class 1A2 3.49%, 06/25/34	8,536	8,384	Series 2003-AR1 Class A6 4.56%, 01/25/33	2,089	2,082
Series 2004-9 Class 5A1 3.93%, 08/25/34	18,298	18,237	Series 2003-AR8 Class A 4.03%, 08/25/33	7,828	7,789
<b>IndyMac Index Mortgage Loan Trust (Interest Only)</b> Series 2004-AR1 Class AX1 0.80%, 04/25/34	256,316	2,315	Series 2003-S10 Class A2 5.00%, 10/25/18	54,934	55,153
<b>Master Adjustable Rate Mortgages Trust</b> Series 2002-4 Class 1A1 5.27%, 11/25/32	1,364	1,377	Series 2003-S12 Class 3A 5.00%, 11/25/18	57,977	58,454
Series 2002-4 Class 2A1 5.48%, 11/25/32	1,253	1,273	<b>Wells Fargo Mortgage Backed Securities Trust</b> Series 2003-N Class 2A2 4.76%, 12/25/33	13,188	12,803
Series 2002-4 Class 3A1 5.27%, 11/25/32	1,378	1,382	Series 2003-O Class 2A1 4.64%, 01/25/34	24,657	23,860
Series 2003-1 Class 1A1 4.15%, 12/25/32	185	184	Series 2004-EE Class 2A1 3.99%, 01/25/35	17,601	17,421
<b>Morgan Stanley Mortgage Loan Trust</b> ► Series 2004-5AR Class 3A4 4.66%, 08/18/06	9,179	9,156	Series 2004-K Class 2A5 4.75%, 07/25/34	17,169	17,047
Series 2004-8AR Class 3A 5.08%, 10/25/34	15,537	15,646	Series 2004-S Class A5 3.54%, 09/25/34	19,500	19,009
Series 2004-8AR Class 4A1 5.47%, 10/25/34	7,414	7,524	Series 2004-T Class A1 3.46%, 09/25/34	18,769	18,792
Series 2004-9 Class 2A 6.42%, 11/25/34	14,605	15,154			

**842,707**

Security Series	Face Value	Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)

**U.S. Government Agency Mortgages 4.6%****Fannie Mae**

3.86%, 05/01/19	5,520	5,553
4.02%, 08/01/34	20,418	20,083
4.04%, 05/01/34	17,688	17,950
4.08%, 08/01/35	8,620	8,740
5.15%, 01/31/31	1,477	1,525
5.53%, 10/01/31	2,414	2,434
5.56%, 11/01/31	718	734
5.80%, 06/01/31 to 11/01/31	1,065	1,095
6.00%, 04/01/17	7,083	7,318
6.05%, 07/01/31 to 08/01/31	1,204	1,238
6.10%, 07/01/31	569	587
6.24%, 08/01/39	1,086	1,124
6.50%, 04/01/08 to 11/01/19	42,831	44,361
7.00%, 01/01/06 to 09/01/34	143,151	149,369

**Freddie Mac**

5.45%, 10/01/31	971	1,005
5.50%, 08/01/11	856	875
5.70%, 04/01/31	960	983
6.00%, 05/01/08	173	176
6.10%, 07/01/29	1,600	1,680
		<b>266,830</b>

**U.S. Government Securities 0.0% of net assets****Treasury Bills 0.0%****U.S. Treasury Bills**

3.06%, 09/29/05	110	110
3.28%, 10/06/05	1,000	997
■ 3.35%, 10/27/05	1,165	1,159
3.49%, 11/25/05	100	99
		<b>2,365</b>

Security Series	Face Value	Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)

**Commercial Paper & Other Corporate Obligations**  
2.2% of net assets**Atlantis Two Funding Corp.**

3.66%, 09/14/05	19,917	19,891
3.61%, 09/15/05	10,023	10,009

**Cox Communications, Inc., 144A**

3.60%, 09/01/05	24,700	24,700
3.60%, 09/02/05	19,500	19,498

**Daimler-Chrysler, N.A. Holdings**

3.65%, 09/08/05	25,000	24,982
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**Diageo Capital PLC**

3.54%, 09/23/05	27,000	26,942
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**126,022**

Security and Number of Shares	Value
	(\$ x 1,000)

**Preferred Stock 5.4% of net assets****■ ABN AMRO North America Capital Funding, 144A**

285,000	27,943
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**■ ABN AMRO North America Capital Funding, 144A**

303,700	7,613
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**Bank One Capital V**

150,000	3,798
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**BSCH Finance Ltd., Series Q**

1,100,000	27,569
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**■ Fannie Mae, Series J**

1,448,000	71,143
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**■ Fannie Mae, Series K**

541,300	27,060
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**■ Fannie Mae, Series O**

120,000	6,604
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**Fleet Capital Trust VI**

320,000	7,932
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**International Lease Finance, Series B**

380,000	38,000
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**SG Preferred Capital II**

100,000	10,906
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**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
<b>SLM Corp.</b>	
168,000	16,750
▶ <b>Woodbourne Passthru Trust, 144A</b>	
390,000	38,952
■ <b>Zurich Regcaps Funding Trust III, 144A</b>	
235,000	23,315
■ <b>Zurich Regcaps Funding Trust IV, 144A</b>	
40,000	3,915
■ <b>Zurich Regcaps Funding Trust V</b>	
50,000	4,872
	<b>316,372</b>

**Other Investment Companies** 0.0% of net assets

<b>Provident Institutional Funds—</b>	
<b>Fed Funds Portfolio</b> 1,090,869	<b>1,091</b>

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End of investments.

*In addition to the above, the fund held the following at 8/31/05. All numbers are x 1,000 except number of futures contracts.*

**Futures Contracts**

	Number of Contracts	Contract Value	Unrealized Losses
5 Year, Short U.S. Treasury Note, expires 12/20/05	(3,835)	415,618	(4,145)
2 Year, Short U.S. Treasury Note, expires 12/30/05	(625)	129,434	(553)
			<b>(4,698)</b>

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$5,801,579
Receivables:	
Fund shares sold	22,794
Interest	31,575
Dividends	2,771
Investments matured	249
Prepaid expenses	+ 477
<b>Total assets</b>	<b>5,859,445</b>

**Liabilities**

Payables:	
Fund shares redeemed	9,582
Dividends to shareholders	4,085
Investments bought	11,117
Investment adviser and administrator fees	148
Transfer agent and shareholder service fees	58
Due to broker for futures	2,071
Accrued expenses	+ 373
<b>Total liabilities</b>	<b>27,434</b>

**Net Assets**

<b>Total assets</b>	5,859,445
<b>Total liabilities</b>	- 27,434
<b>Net assets</b>	<b>\$5,832,011</b>

**Net Assets by Source**

Capital received from investors	5,897,180
Net investment income not yet distributed	741
Net realized capital losses	(71,603)
Net unrealized capital gains	5,693

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$740,644		76,540		\$9.68
Select Shares	\$5,091,367		526,220		\$9.68

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$5,791,188.

Includes restricted but deemed liquid 144A securities worth \$694,515, or 11.9% of the fund's total net assets.

Not counting short-term obligations and government securities, the fund's security transactions during the period were:

Purchases	\$1,902,578
Sales/maturities	\$1,306,394

The fund's long-term government security transactions were:

Purchases	\$311,244
Sales/maturities	\$122,317

The fund's total security transactions with other Schwab Funds during the period were \$27,849.

These derive from investments, futures and short sales.

**Federal Tax Data**

<b>Portfolio cost</b>	\$5,791,285
<b>Net unrealized gains and losses:</b>	
Gains	\$25,170
Losses	+ (14,876)
	<b>\$10,294</b>

**As of August 31, 2005:****Undistributed earnings:**

Ordinary income	\$4,827
Long-term capital gains	\$—

**Unused capital losses:**

Expires 08/31 of:	
2009	\$1,318
2010	2,061
2011	47,204
2012	7,223
2013	+ 7,728
	<b>\$65,534</b>

**Deferred capital losses** \$10,669

**Reclassifications:**

Net realized capital gains (\$5,891)

**Reclassified as:**

Net investment income not yet distributed	\$5,891
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## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Investment Income**

Interest	\$160,612
Dividends	13,144
<b>Total investment income</b>	<b>173,756</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(5,180)
Net realized gains on futures contracts	+ 1,963
<b>Net realized losses</b>	<b>(3,217)</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(1,924)
Net unrealized losses on futures contracts	+ (4,136)
<b>Net unrealized losses</b>	<b>(6,060)</b>

**Expenses**

Investment adviser and administrator fees	14,676
Transfer agent and shareholder service fees:	
Investor Shares	1,862
Select Shares	4,064
Trustees' fees	38
Custodian and portfolio accounting fees	469
Professional fees	59
Registration fees	681
Shareholder reports	167
Other expenses	+ 99
<b>Total expenses</b>	<b>22,115</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	173,756
<b>Total expenses</b>	- 22,115
<b>Net investment income</b>	<b>151,641</b>
<b>Net realized losses</b>	(3,217)
<b>Net unrealized losses</b>	+ (6,060)
<b>Increase in net assets from operations</b>	<b>\$142,364</b>

Calculated as a percentage of average daily net assets: 0.35% of the first \$500 million and 0.30% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.05% of the assets of each respective share class. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

These add up to a net loss on investments of \$9,277.



Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

**Operations**

	9/1/04–8/31/05	9/1/03–8/31/04
Net investment income	\$151,641	\$62,203
Net realized losses	(3,217)	(6,688)
Net unrealized gains or losses	+ (6,060)	6,618
<b>Increase in net assets from operations</b>	<b>142,364</b>	<b>62,133</b>

**Distributions Paid****Dividends from Net Investment Income**

Investor Shares	23,140	11,983
Select Shares	+ 133,811	52,025
<b>Total dividends from net investment income</b>	<b>\$156,951</b>	<b>\$64,008</b>

**Transactions in Fund Shares**

	9/1/04–8/31/05		9/1/03–8/31/04	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	75,770	\$734,370	55,532	\$539,356
Select Shares	+ 558,919	5,414,965	301,776	2,930,949
<b>Total shares sold</b>	<b>634,689</b>	<b>\$6,149,335</b>	<b>357,308</b>	<b>\$3,470,305</b>
<b>Shares Reinvested</b>				
Investor Shares	1,945	\$18,842	1,086	\$10,543
Select Shares	+ 10,654	103,193	4,472	43,409
<b>Total shares reinvested</b>	<b>12,599</b>	<b>\$122,035</b>	<b>5,558</b>	<b>\$53,952</b>
<b>Shares Redeemed</b>				
Investor Shares	(66,972)	(\$648,876)	(33,055)	(\$321,044)
Select Shares	+ (355,553)	(3,444,153)	(146,165)	(1,419,256)
<b>Total shares redeemed</b>	<b>(422,525)</b>	<b>(\$4,093,029)</b>	<b>(179,220)</b>	<b>(\$1,740,300)</b>
<b>Net transactions in fund shares</b>	<b>224,763</b>	<b>\$2,178,341</b>	<b>183,646</b>	<b>\$1,783,957</b>

**Shares Outstanding and Net Assets**

	9/1/04–8/31/05		9/1/03–8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	377,997	\$3,668,257	194,351	\$1,886,175
Total increase	+ 224,763	2,163,754	183,646	1,782,082
<b>End of period</b>	<b>602,760</b>	<b>\$5,832,011</b>	<b>377,997</b>	<b>\$3,668,257</b>

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions are:

**Current year:**

Ordinary income	\$156,951
Long-term capital gains	\$—

**Prior year:**

Ordinary income	\$63,925
Long-term capital gains	\$—

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$741 and \$160 for the current and prior period, respectively.

# Schwab Short-Term Bond Market Fund™

## Financial Statements

### Financial Highlights

	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.21	10.14	10.07	10.08	9.65
Income from investment operations:					
Net investment income	0.30	0.28	0.34	0.50	0.59
Net realized and unrealized gains or losses	(0.13)	0.07	0.07	(0.02)	0.43
Total income from investment operations	0.17	0.35	0.41	0.48	1.02
Less distributions:					
Dividends from net investment income	(0.31)	(0.28)	(0.34)	(0.49)	(0.59)
Distributions from net realized gains	(0.02)	–	–	–	–
Total distributions	(0.33)	(0.28)	(0.34)	(0.49)	(0.59)
Net asset value at end of period	10.05	10.21	10.14	10.07	10.08
Total return (%)	1.68	3.46	4.16	4.88	10.84
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.55	0.53	0.43	0.35	0.35
Gross operating expenses	0.57	0.57	0.58	0.63	0.66
Net investment income	3.00	2.69	3.34	4.95	5.90
Portfolio turnover rate	109	114	124	150	248
Net assets, end of period (\$ x 1,000,000)	660	728	648	493	369

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbol below to designate certain characteristics of the securities.

- ▶ Variable-rate security
- Callable security
- All or a portion of this security is held as collateral for futures contracts and delayed-delivery security
- ◆ All or a portion of the security is on loan

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity

shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>46.1% U.S. Government Securities</b>	306,010	303,960
<b>23.7% Corporate Bonds</b>	156,386	156,438
<b>15.8% Mortgage-Backed Securities</b>	104,811	104,040
<b>9.7% Asset-Backed Obligations</b>	64,263	64,349
<b>1.0% Commercial Paper &amp; Other Corporate Obligations</b>	6,400	6,400
<b>3.8% Preferred Stock</b>	25,352	25,356
<b>0.1% Other Investment Companies</b>	527	527
<b>100.2% Total Investments</b>	<b>663,749</b>	<b>661,070</b>
<b>20.2% Collateral Invested for Securities on Loan</b>		133,147
<b>(20.4%) Other Assets and Liabilities</b>		(134,339)
<b>100.0% Net Assets</b>		<b>659,878</b>

<b>Security Series</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**U.S. Government Securities 46.1% of net assets****U.S. Government Agency Securities 22.5%****Fannie Mae**

2.63%, 11/15/06	7,000	6,890
5.00%, 01/15/07	5,000	5,068
3.13%, 12/15/07	20,000	19,604

**Federal Home Loan Bank**

4.13%, 11/15/06	25,000	25,046
3.75%, 11/30/06	16,000	15,929
■ 3.38%, 09/14/07	20,000	19,751
4.38%, 09/17/10	15,000	15,154

<b>Security Series</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
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**Freddie Mac**

3.50%, 09/15/07	10,000	9,909
5.13%, 10/15/09	30,000	30,933
		<b>148,284</b>

**U.S. Treasury Obligations 23.6%****U.S. Treasury Bills**

■ 3.06%, 10/06/05	110	110
■ 3.47%, 11/25/05	100	99
■ 3.30%, 01/05/06	100	99

**U.S. Treasury Notes**

6.25%, 02/15/07	5,000	5,175
3.38%, 02/28/07	4,000	3,975
◆ 3.13%, 05/15/07	10,000	9,888
◆ 3.50%, 05/31/07	800	796

## Portfolio Holdings continued

Security Series	Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆	3.63%, 06/30/07	2,100	2,093
◆	3.88%, 07/31/07	10,000	10,009
◆	3.25%, 08/15/07	6,000	5,936
◆	3.38%, 02/15/08	7,700	7,618
◆	2.63%, 05/15/08	21,000	20,363
	5.63%, 05/15/08	1,000	1,046
◆	3.25%, 08/15/08	11,000	10,826
◆	4.13%, 08/15/08	8,000	8,067
◆	3.13%, 09/15/08	35,000	34,303
◆	3.38%, 11/15/08	3,000	2,959
◆	3.38%, 12/15/08	5,000	4,929
	3.88%, 05/15/09	2,000	2,002
◆	3.50%, 12/15/09	6,600	6,509
	4.00%, 04/15/10	3,000	3,017
◆	3.63%, 06/15/10	3,250	3,216
◆	3.88%, 07/15/10	8,560	8,563
◆	4.13%, 08/15/10	4,030	4,078
			<b>155,676</b>

**Corporate Bonds** 23.7% of net assets**Finance 7.5%****Banking 4.8%**

<b>■ BBVA Bancomer Capital Trust 1, 144A</b>			
	5.38%, 07/22/15	2,000	2,049
<b>■ Bumiputra-Commerce Bank</b>			
	5.13%, 10/16/13	2,000	2,002
<b>■ Citigroup</b>			
	3.51%, 09/09/05	4,000	4,012
<b>■ Deutsche Bank Capital Trust, 144A</b>			
	Class B		
	4.89%, 09/30/05	8,000	8,271
<b>■ Doral Financial Corp.</b>			
	3.99%, 09/07/05	2,000	1,992
<b>■ HSBC Finance Corp.</b>			
	4.07%, 11/16/05	3,000	3,013
<b>■ JP Morgan Chase &amp; Co.</b>			
	3.72%, 10/03/05	5,000	5,021
<b>Korea Exchange Bank, 144A</b>			
	5.00%, 06/10/15	1,500	1,491
<b>■ Sovereign Bank</b>			
	4.38%, 11/03/08	3,800	3,778
			<b>31,629</b>

Security Series	Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Brokerage 1.1%</b>			
<b>■ Credit Suisse Financial Products</b>			
	4.10%, 09/06/05	3,000	3,012
<b>■ Goldman Sachs Group, Inc.</b>			
	3.78%, 09/28/05	4,000	4,014
			<b>7,026</b>
<b>Finance Companies 1.4%</b>			
<b>■ General Electric Capital Corp.</b>			
	3.45%, 09/15/05	4,000	4,009
<b>■ International Lease Finance Corp.</b>			
	4.00%, 10/17/05	3,000	3,009
<b>■ Residential Capital Corp., 144A</b>			
	4.84%, 09/29/05	2,500	2,515
			<b>9,533</b>
<b>Insurance 0.2%</b>			
<b>■ Twin Reefs Pass-Through, Section 3c7, 144A</b>			
	4.57%, 09/12/05	1,500	1,497

**Industrial 13.7%****Basic Industry 0.3%**

<b>■ Georgia-Pacific Corp.</b>			
	7.38%, 07/15/08	2,000	2,120

**Capital Goods 1.1%**

<b>BAE Asset Systems 2001 Asset Trust, 144A</b>			
	Series 2001 Class G		
	6.66%, 09/15/13	6,556	7,137

**Communications 2.7%**

<b>■ America Movil SA de CV, 144A</b>			
	4.29%, 10/27/05	3,000	3,010
<b>■ Directv Holdings/Finance</b>			
	8.38%, 03/15/13	1,950	2,150
<b>■ MCI, Inc.</b>			
	6.91%, 05/01/07	2,250	2,278
<b>Sprint Capital Corp.</b>			
	7.63%, 01/30/11	3,000	3,433
<b>■ TCI Communications Financing III</b>			
	9.65%, 03/31/27	2,500	2,828
<b>■ Telefonos de Mexico SA</b>			
	4.50%, 11/19/08	2,000	1,993
<b>Time Warner Entertainment Co.</b>			
	7.25%, 09/01/08	2,000	2,151
			<b>17,843</b>

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Consumer Cyclical 7.7%</b>		
<b>CVS Corp., 144A</b>		
6.12%, 01/10/13	5,837	6,208
<b>D.R. Horton, Inc.</b>		
8.00%, 02/01/09	2,000	2,179
<b>Ford Motor Credit Co.</b>		
▮ 4.31%, 09/28/05	2,000	1,952
■ 6.88%, 02/01/06	14,000	14,095
4.95%, 01/15/08	2,000	1,925
<b>General Motors Acceptance Corp.</b>		
▮ 4.51%, 10/17/05	3,000	2,957
▮ 4.68%, 11/18/05	2,200	2,195
▮ 4.67%, 11/21/05	2,000	1,967
<b>KB Home</b>		
9.50%, 02/15/11	2,342	2,503
<b>■ Mandalay Resort Group, 144A</b>		
6.50%, 07/31/09	3,000	3,060
<b>Royal Caribbean Cruises</b>		
8.00%, 05/15/10	2,000	2,200
<b>Ryland Group, Inc.</b>		
9.75%, 09/01/10	2,000	2,098
■◆ 9.13%, 06/15/11	3,080	3,354
<b>■ Standard Pacific Corp.</b>		
9.50%, 09/15/10	1,000	1,049
<b>■ Station Casinos, Inc.</b>		
6.00%, 04/01/12	1,000	1,012
<b>■ Toll Corp.</b>		
8.25%, 02/01/11	1,750	1,846
		<b>50,600</b>
<b>Consumer Non-Cyclical 0.4%</b>		
<b>Enterprise Products Operations</b>		
4.95%, 06/01/10	3,000	<b>3,002</b>
<b>Energy 1.1%</b>		
<b>■ Husky Oil Ltd.</b>		
8.90%, 08/15/28	4,009	4,413
<b>Kerr-McGee Corp.</b>		
8.13%, 10/15/05	2,000	2,008
6.88%, 09/15/11	1,000	1,090
		<b>7,511</b>
<b>Transportation 0.4%</b>		
<b>Union Pacific Corp.</b>		
7.25%, 11/01/08	2,240	<b>2,415</b>

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Utilities 2.5%</b>		
<b>■ Appalachian Power Co.</b>		
3.60%, 05/15/08	4,000	3,928
<b>■ Atmos Energy Corp.</b>		
4.00%, 10/15/09	2,000	1,953
<b>Centerpoint Energy Resources, Inc.</b>		
6.50%, 02/01/08	2,955	3,089
<b>Entergy Gulf States</b>		
■ 3.73%, 12/01/06	1,200	1,205
■ 4.88%, 11/01/11	2,000	1,991
<b>Ohio Edison Co.</b>		
4.00%, 05/01/08	2,000	1,977
<b>■ Public Services Electric &amp; Gas</b>		
Series C		
4.00%, 11/01/08	2,000	1,982
		<b>16,125</b>

**Mortgage-Backed Securities 15.8% of net assets**
**Collateralized Mortgage Obligations 7.6%**
**Countrywide Home Loans**

Series 2004-HYB5 Class 3A1		
4.71%, 04/20/35	7,615	7,634

**Freddie Mac**

Series 2574 Class JM		
5.00%, 03/31/33	5,101	5,163

**Freddie Mac Structured Pass Through Securities**

Series H006 Class A2		
2.84%, 02/15/10	5,632	5,564
Series H010 Class A3		
2.72%, 04/15/10	15,000	14,618

**Morgan Stanley Mortgage Loan Trust**

Series 2004-8AR Class 4A1		
5.47%, 10/25/34	7,414	7,524
Series 2004-9 Class 2A		
6.42%, 11/25/34	4,101	4,256
Series 2004-9 Class 4A		
5.65%, 11/25/19	5,130	5,252
		<b>50,011</b>

**U.S. Government Agency Mortgages 8.2%**
**Fannie Mae**

4.50%, 11/01/19	11,072	10,991
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**Portfolio Holdings** continued

<b>Security Series</b>	<b>Face Amount</b>	<b>Value</b>
<b>Rate, Maturity Date</b>	<b>(\$ x 1,000)</b>	<b>(\$ x 1,000)</b>
5.00%, 10/01/19	10,951	11,038
5.50%, 07/01/19 to 09/01/19	25,207	25,773
7.00%, 10/01/08 to 07/01/19	5,993	6,227
		<b>54,029</b>

**Asset-Backed Obligations** 9.7% of net assets**Alter Moneta Receivables, L.L.C.**

Series 2003-1		
2.56%, 03/15/11	613	609

**Ameriquest Finance NIM Trust**

Series 2001-RN4 Class A		
4.60%, 07/25/34	234	234

▶ **Aria CDO I (Jersey) Ltd.**

Series IA-3 Class B1U5		
3.13%, 10/07/05	4,000	4,023

▶ **Fremont Home Loan Trust**

Series 2003-B Class M2		
5.26%, 09/26/05	5,000	5,132

**Fremont NIM Trust**

Series 2004-D Class N1		
4.50%, 06/25/06	1,678	1,674

▶ **Household Mortgage Loan Trust**

Series 2003-HC2 Class M		
4.21%, 09/20/05	854	855

▶ **Long Beach Mortgage Loan Trust**

Series 2003-4 Class M3		
5.79%, 09/30/05	4,200	4,275

▶ **Main Street Warehouse Funding Trust**

Series 2004-MSD		
5.94%, 09/26/05	4,000	4,005

**Novastar Home Equity Loan**

▶ Series 2004-2 Class B1		
5.59%, 09/26/05	2,000	2,041

▶ Series 2004-2 Class M4		
4.84%, 09/26/05	3,000	3,031

**Novastar NIM Trust**

Series 2004-N2		
4.46%, 07/25/34	318	317

<b>Security Series</b>	<b>Face Amount</b>	<b>Value</b>
<b>Rate, Maturity Date</b>	<b>(\$ x 1,000)</b>	<b>(\$ x 1,000)</b>
<b>Residential Asset Mortgage Products, Inc.</b>		
Series 2003-RZ3 Class A3		
2.14%, 02/25/30	3,425	3,410
<b>Residential Asset Securitization Trust</b>		
Series 2004-A6 Class A1		
5.00%, 08/25/19	8,213	8,176

**Securitized Asset Backed NIM Trust**

Series 2004-DO2		
5.50%, 09/25/34	1,327	1,312
Series 2004-OP2 Class N		
5.50%, 08/25/34	789	784

**Student Loan Trust**

▶ Series 2003-2 Class A4		
3.60%, 09/15/05	14,361	14,455
▶ Series 2005-7 Class A1		
3.72%, 09/26/05	5,000	5,003

▶ **Terrapin Funding, L.L.C.**

Series 2003-1A Class B1		
4.86%, 09/08/05	5,000	5,013
		<b>64,349</b>

**Commercial Paper & Other Corporate Obligations**

1.0% of net assets

**Countrywide Home Loan**

3.58%, 09/01/05	6,400	<b>6,400</b>
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<b>Security and Number of Shares</b>	<b>Value</b>
	<b>(\$ x 1,000)</b>

**Preferred Stock** 3.8% of net assets

<b>■ Fannie Mae, Series J</b>	
290,000	14,248

<b>■ Fannie Mae, Series O</b>	
95,000	5,229

<b>SLM Corp.</b>	
10,000	997

<b>■ Zurich Regcaps Funding Trust IV, 144A</b>	
30,000	2,937

<b>■ Zurich Regcaps Funding Trust VI, 144A</b>	
20,000	1,945

**25,356**

Security and Number of Shares	Value (\$ x 1,000)
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<b>Other Investment Companies</b>	0.1% of net assets
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<b>Provident Institutional Funds— Fed Funds Portfolio</b>	526,799	<b>527</b>
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End of investments.

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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<b>Collateral Invested for Securities on Loan</b>
20.2% of net assets

**Short-Term Investments 3.7%**

<b>Chase Manhattan Bank Time Deposit</b>		
3.58%, 09/01/05	1,393	1,393
3.56%, 09/01/05	22,663	22,663
		<b>24,056</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Other Investment Companies 16.5%**

<b>Institutional Money Market Trust</b>	109,091,497	<b>109,091</b>
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End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 8/31/05. All numbers are x 1,000 except number of futures contracts.

**Futures Contracts**

	Number of Contracts	Contract Value	Unrealized Gains
5 Year, Long U.S. Treasury Note, expires 12/20/05	100	10,838	84
2 Year, Long U.S. Treasury Note, expires 12/30/05	200	41,418	134
			<b>218</b>

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value (including \$130,340 of securities on loan)	\$661,070
Collateral invested for securities on loan	133,147
Receivables:	
Due from broker for futures	134
Fund shares sold	1,051
Interest	5,357
Dividends	203
Prepaid expenses	+ 24
<b>Total assets</b>	<b>800,986</b>

**Liabilities**

Collateral held for securities on loan	133,147
Payables:	
Fund shares redeemed	1,307
Dividends to shareholders	498
Investments bought	6,057
Investment adviser and administrator fees	14
Transfer agent and shareholder service fees	13
Accrued expenses	+ 72
<b>Total liabilities</b>	<b>141,108</b>

**Net Assets**

<b>Total assets</b>	800,986
<b>Total liabilities</b>	- 141,108
<b>Net assets</b>	<b>\$659,878</b>

**Net Assets by Source**

Capital received from investors	667,049
Net investment income not yet distributed	17
Net realized capital losses	(4,727)
Net unrealized capital losses	(2,461)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$659,878		65,665		\$10.05

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$663,749.

Includes restricted but deemed liquid 144A securities worth \$40,120, or 6.1% of the fund's total net assets.

Not counting short-term obligations and government securities, the fund's security transactions during the period were:

Purchases	\$147,365
Sales/maturities	\$201,652

The fund's long-term government security transactions were:

Purchases	\$500,562
Sales/maturities	\$494,958

The fund's total security transactions with other Schwab Funds during the period were \$16,274.

These derive from investments, futures and short sales.

**Federal Tax Data**

<b>Portfolio cost</b>	\$663,867
<b>Net unrealized gains and losses:</b>	
Gains	\$1,836
Losses	+ (4,633)
	<b>\$(2,797)</b>

**As of August 31, 2005:****Undistributed earnings:**

Ordinary income	\$515
Long-term capital gains	\$—

**Deferred capital losses** \$4,391

**Reclassifications:**

Net realized capital gains (\$568)

**Reclassified as:**

Net investment income not yet distributed	\$568
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## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Investment Income**

Interest	\$23,904
Securities on loan	228
Dividends	+ 740
<b>Total investment income</b>	<b>24,872</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	(2,338)
Net realized losses on futures contracts	+ (438)
<b>Net realized losses</b>	<b>(2,776)</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(7,035)
Net unrealized losses on futures contracts	+ (47)
<b>Net unrealized losses</b>	<b>(7,082)</b>

**Expenses**

Investment adviser and administrator fees	1,942
Transfer agent and shareholder service fees	1,752
Trustees' fees	13
Custodian and portfolio accounting fees	67
Professional fees	33
Registration fees	40
Shareholder reports	76
Other expenses	+ 29
Total expenses	3,952
Expense reduction	- 98
<b>Net expenses</b>	<b>3,854</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>24,872</b>
<b>Net expenses</b>	<b>- 3,854</b>
<b>Net investment income</b>	<b>21,018</b>
<b>Net realized losses</b>	<b>(2,776)</b>
<b>Net unrealized losses</b>	<b>+ (7,082)</b>
<b>Increase in net assets from operations</b>	<b>\$11,160</b>

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through at least November 15, 2005, to 0.55% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$9,858.

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

**Operations**

	9/1/04-8/31/05	9/1/03-8/31/04
Net investment income	\$21,018	\$19,075
Net realized gains or losses	(2,776)	3,508
Net unrealized gains or losses	+ (7,082)	246
<b>Increase in net assets from operations</b>	<b>11,160</b>	<b>22,829</b>

**Distributions Paid**

Dividends from net investment income	\$21,575	\$19,204
Distributions from net realized gains	+ 1,173	—
<b>Total distributions</b>	<b>\$22,748</b>	<b>\$19,204</b>

**Transactions in Fund Shares**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	21,732	\$219,771	39,870	\$406,912
Shares reinvested	1,713	17,284	1,507	15,354
Shares redeemed	+ (29,129)	(293,944)	(33,889)	(345,056)
<b>Net transactions in fund shares</b>	<b>(5,684)</b>	<b>(\$56,889)</b>	<b>7,488</b>	<b>\$77,210</b>

**Shares Outstanding and Net Assets**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	71,349	\$728,355	63,861	\$647,520
Total increase or decrease	+ (5,684)	(68,477)	7,488	80,835
<b>End of period</b>	<b>65,665</b>	<b>\$659,878</b>	<b>71,349</b>	<b>\$728,355</b>

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions are:

**Current year:**

Ordinary income	\$22,063
Long-term capital gains	\$685

**Prior year:**

Ordinary income	\$19,204
Long-term capital gains	\$—

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$17 and \$6 at the end of the current and prior period, respectively.

# Schwab Total Bond Market Fund™

## Financial Statements

### Financial Highlights

	9/1/04– 8/31/05	9/1/03– 8/31/04	9/1/02– 8/31/03	9/1/01– 8/31/02	9/1/00– 8/31/01
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.15	10.20	10.22	10.24	9.65
Income from investment operations:					
Net investment income	0.35	0.31	0.34	0.47	0.60
Net realized and unrealized gains	0.08	0.32	0.10	0.13	0.59
Total income from investment operations	0.43	0.63	0.44	0.60	1.19
Less distributions:					
Dividends from net investment income	(0.36)	(0.33)	(0.37)	(0.46)	(0.60)
Distributions from net realized gains	(0.12)	(0.35)	(0.09)	(0.16)	—
Total distributions	(0.48)	(0.68)	(0.46)	(0.62)	(0.60)
Net asset value at end of period	10.10	10.15	10.20	10.22	10.24
Total return (%)	4.31	6.37	4.37	6.18	12.68
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.54	0.52	0.43	0.35	0.35
Gross operating expenses	0.54	0.54	0.54	0.57	0.58
Net investment income	3.49	3.08	3.36	4.66	6.00
Portfolio turnover rate	221	223	121	74	153
Net assets, end of period (\$ x 1,000,000)	1,195	1,042	1,025	1,053	926

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbol below to designate certain characteristics of the securities.

- ▶ Variable-rate security
- Callable security
- All or a portion of this security is held as collateral for futures contracts and delayed-delivery security
- ◆ All or a portion of the security is on loan
- ▲ Delayed-delivery security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate

shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>33.4% Mortgage-Backed Securities</b>	396,166	398,836
<b>29.4% U.S. Government Securities</b>	340,182	351,020
<b>22.3% Corporate Bonds</b>	263,791	266,422
<b>24.9% Asset-Backed Obligations</b>	297,038	297,276
<b>2.9% Commercial Paper &amp; Other Corporate Obligations</b>	35,179	35,179
<b>3.0% Preferred Stock</b>	35,328	35,751
<b>0.1% Other Investment Companies</b>	863	863
<b>116.0% Total Investments</b>	<b>1,368,547</b>	<b>1,385,347</b>
<b>11.6% Collateral Invested for Securities on Loan</b>		139,042
<b>(27.6)% Other Assets and Liabilities</b>		(329,350)
<b>100.0% Net Assets</b>		<b>1,195,039</b>

<b>Security Series</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>Rate, Maturity Date</b>		

**Mortgage-Backed Securities 33.4% of net assets****Collateralized Mortgage Obligations 3.6%**

<b>■ Freddie Mac</b>		
Series 2574 Class JM		
5.00%, 03/31/33	5,101	5,164
<b>■ Freddie Mac Structured Pass Through Securities</b>		
Series H010 Class A3		
2.72%, 04/15/10	25,000	24,364
<b>■ Morgan Stanley Mortgage Loan Trust</b>		
Series 2004-9 Class 4A		
5.65%, 11/25/19	12,554	12,852
		<b>42,380</b>

<b>Security Series</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>Rate, Maturity Date</b>		

**U.S. Government Agency Mortgages 29.8%**

<b>Fannie Mae</b>		
<b>5.00%, 07/01/19</b>	<b>1,632</b>	<b>1,645</b>
5.50%, 05/08/12 to 12/31/34	59,356	60,114
6.00%, 09/02/25 to 11/01/34	21,955	22,495
6.50%, 09/01/22 to 05/31/35	28,530	29,540
7.00%, 04/16/06 to 04/09/16	4,729	4,945
7.50%, 12/28/24	2,996	3,177
<b>Fannie Mae TBA</b>		
▲ <b>4.50%, 09/01/20</b>	<b>20,000</b>	<b>19,837</b>
▲ 5.00%, 09/01/19	30,000	30,216

Security Series	Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
▲	5.00%, 09/01/34	60,000	59,606
▲	5.50%, 09/01/20	13,000	13,280
▲	5.50%, 09/01/35	30,000	30,309
<b>Freddie Mac</b>			
■	6.50%, 08/25/24	5,214	5,400
■	6.00%, 10/23/24	4,822	4,944
<b>Ginnie Mae</b>			
	5.50%, 05/20/35	4,185	4,262
	6.00%, 06/15/33 to 12/15/33	6,621	6,835
	7.00%, 06/15/28 to 08/01/35	19,000	19,987
▲	7.50%, 03/15/32	1,500	1,597
<b>Ginnie Mae TBA</b>			
▲	6.00%, 09/01/34	27,000	27,835
▲	6.50%, 09/01/34	10,000	10,432
			<b>356,456</b>

**U.S. Government Securities 29.4% of net assets**
**U.S. Government Agency Securities 9.3%**

<b>Fannie Mae</b>			
■	2.50%, 06/15/08	3,000	2,878
◆	5.00%, 04/15/15	15,000	15,793
■	6.63%, 11/15/30	4,000	5,185
	5.00%, 02/01/35	8,809	8,756
■	5.00%, 03/01/35	6,961	6,919
■	5.50%, 03/01/35	14,482	14,636
<b>Federal Home Loan Bank</b>			
	4.38%, 09/17/10	35,000	35,359
<b>Federal Home Loan Mortgage Corp.</b>			
	6.00%, 01/01/14	1,000	1,032
	6.00%, 04/01/14	1,000	1,032
	6.00%, 04/01/15	382	395
	6.00%, 07/01/16	2,000	2,064
	6.00%, 12/01/16	1,000	1,032
	6.00%, 01/01/17	1,000	1,032
	6.00%, 11/01/18	300	310
	6.00%, 05/01/19	167	172
	6.00%, 07/01/19	261	269
	6.00%, 09/01/19	889	917
	6.00%, 10/01/19	4,000	4,128
	6.00%, 06/01/20	3,000	3,096
<b>Freddie Mac</b>			
■	2.75%, 10/15/06	6,000	5,922

**110,927**

Security Series	Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>U.S. Treasury Obligations 20.1%</b>			
<b>Treasury Inflation Protection Security</b>			
	1.88%, 07/15/13	18,500	20,027
◆	2.00%, 07/15/14	10,000	10,652
<b>U.S. Treasury Bills</b>			
	3.06%, 10/06/05	140	140
	3.25%, 10/06/05	135	135
	3.27%, 10/06/05	210	209
	3.47%, 11/25/05	500	496
■	3.30%, 01/05/06	300	296
■	3.35%, 01/05/06	100	99
<b>U.S. Treasury Bonds</b>			
■	9.88%, 11/15/15	3,000	4,438
■	7.25%, 05/15/16	2,500	3,174
■	9.00%, 11/15/18	7,000	10,380
■◆	8.00%, 11/15/21	7,000	10,018
■	7.25%, 08/15/22	6,500	8,793
■◆	6.25%, 08/15/23	12,700	15,741
■	6.88%, 08/15/25	8,000	10,714
■	6.13%, 11/15/27	7,500	9,425
■◆	5.25%, 02/15/29	5,000	5,691
	6.13%, 08/15/29	1,000	1,270
■◆	6.25%, 05/15/30	7,000	9,072
■◆	5.38%, 02/15/31	12,360	14,495
<b>U.S. Treasury Note Strip</b>			
	0.00%, 08/15/25	4,000	1,675
<b>U.S. Treasury Notes</b>			
■◆	6.50%, 10/15/06	10,000	10,296
■	2.63%, 11/15/06	6,000	5,919
	3.38%, 02/28/07	3,000	2,981
◆	6.63%, 05/15/07	2,000	2,093
◆	3.50%, 05/31/07	1,700	1,691
◆	3.63%, 06/30/07	3,100	3,089
◆	3.25%, 08/15/07	1,500	1,484
◆	6.13%, 08/15/07	2,000	2,087
◆	3.00%, 11/15/07	1,100	1,081
◆	4.13%, 08/15/08	1,000	1,008
◆	3.13%, 09/15/08	2,000	1,960
◆	3.13%, 10/15/08	2,000	1,959
	3.38%, 12/15/08	1,000	986
◆	3.50%, 12/15/09	5,000	4,931
◆	4.00%, 04/15/10	7,000	7,041
◆	3.63%, 06/15/10	1,000	989
◆	3.88%, 07/15/10	5,340	5,342
◆	4.13%, 08/15/10	3,045	3,081
	5.75%, 08/15/10	2,100	2,278

## Portfolio Holdings continued

Security Series	Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security Series	Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
◆	5.00%, 02/15/11	9,620	10,153	◆	HSBC Finance Corp.		
◆	4.38%, 08/15/12	5,150	5,303		4.07%, 11/16/05	7,000	7,029
◆	4.00%, 02/15/15	14,250	14,213	◆	International Lease Finance Corp.		
◆	4.13%, 05/15/15	13,100	13,188		4.00%, 10/17/05	2,000	2,006
			<b>240,093</b>	◆	Residential Capital Corp., 144A		
					4.84%, 09/29/05	6,500	6,540
							<b>20,622</b>
<b>Corporate Bonds 22.3% of net assets</b>				<b>Insurance 0.5%</b>			
<b>Finance 6.0%</b>					Liberty Mutual Insurance, 144A		
<b>Banking 2.8%</b>					8.50%, 05/15/25	3,000	3,756
◆	BBVA Bancomer Capital Trust 1, 144A			◆	Twin Reefs Pass-Through, Section 3c7, 144A		
	5.38%, 07/22/15	3,001	3,074		4.57%, 09/12/05	2,200	2,195
	Bumiputra-Commerce Bank						<b>5,951</b>
	5.13%, 10/16/13	3,000	3,003	<b>Industrial 13.6%</b>			
◆	Citigroup, Inc.			<b>Capital Goods 1.3%</b>			
	4.01%, 11/07/05	5,000	5,036	◆	BAE Asset Systems 2001 Asset Trust, 144A		
◆	Deutsche Bank Capital Trust, 144A				Series 2001 Class G		
	Class B				6.66%, 09/15/13	11,954	13,014
	5.29%, 09/30/05	10,000	10,339	◆	Georgia Pacific		
◆	Doral Financial Corp.				8.88%, 02/01/10	2,000	2,250
	3.99%, 09/07/05	3,560	3,547				<b>15,264</b>
◆	JP Morgan Chase Capital XIII			<b>Communications 2.7%</b>			
	Series M			◆	America Movil SA de CV, 144A		
	4.44%, 09/30/05	2,000	1,993		4.29%, 10/27/05	4,000	4,014
◆	RBS Capital Trust IV				BellSouth Corp.		
	4.29%, 09/30/05	3,000	3,050		6.55%, 06/15/34	2,500	2,836
◆	Sumitomo Mitsui Banking Corp., 144A			◆	Directv Holdings/Finance		
	5.63%, 10/17/05	3,000	3,063		8.38%, 03/15/13	3,250	3,583
			<b>33,105</b>	◆	MCI, Inc.		
<b>Brokerage 1.0%</b>					6.91%, 05/01/07	4,250	4,303
◆	Credit Suisse Financial Products			◆	News America, Inc.		
	4.10%, 09/06/05	4,000	4,017		8.00%, 10/17/16	3,000	3,682
◆	Goldman Sachs Capital I				Panamsat Corp.		
	6.35%, 02/15/34	2,000	2,151		9.00%, 08/15/14	50	53
◆	Merrill Lynch & Co.				Sprint Capital Corp.		
	4.06%, 10/17/05	3,000	3,032		8.75%, 03/15/32	1,500	2,100
◆	Morgan Stanley			◆	TCI Communications Financing III		
	4.75%, 04/01/14	2,500	2,470		9.65%, 03/31/27	3,000	3,393
			<b>11,670</b>		TCI Communications, Inc.		
<b>Finance Companies 1.7%</b>					9.80%, 02/01/12	4,000	5,033
◆	General Electric Capital Corp.			◆	Telefonos de Mexico SA		
	3.67%, 09/15/05	5,000	5,047		4.50%, 11/19/08	3,000	2,990
							<b>31,987</b>

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Consumer Cyclical 7.1%</b>		
■ <b>CVS Corp., 144A</b> 5.30%, 01/11/27	9,750	10,086
■ <b>D.R. Horton, Inc.</b> 5.63%, 09/15/14	3,000	2,983
<b>Ford Motor Credit Co.</b>		
■ 4.30%, 09/28/05	3,000	2,928
■ 6.88%, 02/01/06	20,000	20,135
■ 4.95%, 01/15/08	8,000	7,700
<b>General Motors Acceptance Corp.</b>		
■ 6.63%, 10/15/05	500	501
■ 4.68%, 11/18/05	6,425	6,411
■ 4.67%, 11/21/05	4,000	3,934
■ <b>KB Home</b> 7.75%, 02/01/10	3,000	3,178
■ <b>Mandalay Resort Group, 144A</b> 6.50%, 07/31/09	4,500	4,590
■ <b>Royal Caribbean Cruises</b> 6.88%, 12/01/13	2,000	2,140
<b>Ryland Group, Inc.</b>		
■ 9.75%, 09/01/10	3,000	3,146
■ 9.13%, 06/15/11	4,500	4,901
■ <b>Standard Pacific Corp.</b> 9.50%, 09/15/10	2,000	2,098
■ <b>Station Casinos, Inc.</b> 6.00%, 04/01/12	2,000	2,025
<b>Time Warner Entertainment Co.</b>		
10.15%, 05/01/12	2,230	2,848
<b>Toll Corp.</b>		
■ 8.25%, 02/01/11	3,000	3,165
■ 8.25%, 12/01/11	1,855	1,985
		<b>84,754</b>
<b>Consumer Non-Cyclical 0.3%</b>		
■ <b>Highmark, Inc., 144A</b> 6.80%, 08/15/13	4,000	4,448
<b>Energy 1.7%</b>		
■ <b>Husky Oil Ltd.</b> 8.90%, 08/15/28	6,000	6,605
<b>Kerr-McGee Corp.</b>		
■ 8.13%, 10/15/05	2,000	2,008
7.88%, 09/15/31	2,000	2,425
■ <b>Phillips Petroleum Co.</b> 9.38%, 02/15/11	5,000	6,149

Security Series Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
■ <b>XTO Energy, Inc., 144A</b> 5.00%, 01/31/15	3,000	3,012
		<b>20,199</b>
<b>Transportation 0.5%</b>		
■ <b>Burlington North Santa Fe</b> 4.88%, 01/15/15	3,000	3,036
■ <b>Union Pacific Corp.</b> 6.25%, 05/01/34	3,000	3,410
		<b>6,446</b>
<b>Utilities 2.7%</b>		
■ <b>Appalachian Power Co.</b> Series H 5.95%, 05/15/33	3,000	3,224
■ <b>Atmos Energy Corp.</b> 4.00%, 10/15/05	3,000	2,930
■ <b>Centerpoint Energy Resources</b> Series B 7.88%, 04/01/13	3,000	3,564
■ <b>Columbia Energy Group</b> Series F 7.42%, 11/28/15	5,000	5,130
<b>Entergy Gulf States</b>		
■ 3.73%, 09/01/05	2,400	2,409
■ 4.88%, 11/01/11	3,000	2,986
■ <b>Magellan Midstream Partners</b> 5.65%, 10/15/16	3,000	3,135
■ <b>Ohio Edison Co.</b> 5.45%, 05/01/15	2,000	2,072
■ <b>Public Services Electric &amp; Gas</b> Series C 4.00%, 11/01/08	3,000	2,973
■ <b>Westar Energy, Inc.</b> 6.00%, 07/01/14	3,258	3,553
		<b>31,976</b>

**Asset-Backed Obligations 24.9% of net assets**

■ <b>Aegis Asset Backed Securities Trust</b>		
Series 2003-1 Class A1 4.04%, 09/26/05	3,051	3,066
<b>Ameritrust Finance NIM Trust</b>		
Series 2001-RN4 Class A 4.60%, 07/25/34	344	343

## Portfolio Holdings continued

Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)	Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Rate, Maturity Date			Rate, Maturity Date		
■ <b>Amortizing Residential Collateral Trust</b>			■ <b>Long Beach Mortgage Loan Trust</b>		
Series 2002-BC6 Class A2			Series 2003-4 Class M3		
3.99%, 09/30/05	2,540	2,548	5.79%, 09/30/05	5,500	5,598
■ <b>Aria CDO I (Jersey) Ltd.</b>			■ <b>Main Street Warehouse Funding Trust</b>		
Series 1A-3 Class B1U5			Series 2004-MSD		
3.13%, 10/07/05	6,000	6,034	5.94%, 09/26/05	7,000	7,009
■ <b>Asset Backed Securities Corp. Home Equity Loan Trust</b>			■ <b>Master Asset Backed Securities Trust</b>		
Series 2003-HE1 Class A2			Series 2003-OPT1 Class A2		
4.07%, 09/15/05	307	308	4.06%, 12/25/32	3,291	3,301
▶ <b>Capital One Master Trust</b>			■ <b>Merrill Lynch Mortgage Investors, Inc.</b>		
Series 2001-2 Class C			Series 2004-WMC1 Class A2		
4.67%, 09/15/05	6,000	6,019	3.94%, 09/30/05	2,205	2,214
■ <b>CDC Mortgage Capital Trust</b>			■ <b>New Century Home Equity Loan Trust</b>		
Series 2003-HE2 Class M2			Series 2004-2 Class A3		
5.54%, 09/26/05	5,410	5,505	3.89%, 09/26/05	9,485	9,492
■ <b>Centex Home Equity Loan Trust</b>			■ <b>Option One Mortgage Loan Trust</b>		
Series 2003-B Class M1			Series 2003-6 Class A2		
4.34%, 09/26/05	19,000	19,118	3.97%, 09/30/05	7,217	7,242
■ <b>Chase Funding Mortgage Loan Asset-Backed</b>			<b>Residential Asset Mortgage Products, Inc.</b>		
Series 2003-2 Class 2A2			■ <b>Series 2003-RS1 Class All</b>		
3.92%, 09/26/05	5,651	5,665	4.03%, 09/26/05	3,079	3,091
<b>Countrywide Asset-Backed Certificates</b>			■ <b>Series 2003-RZ4 Class A4</b>		
■ <b>Series 2001-BC3 Class M1</b>			4.04%, 12/25/30	11,700	11,614
4.19%, 09/26/05	2,959	2,962	<b>Securitized Asset Backed NIM Trust</b>		
■ <b>Series 2002-3 Class M1</b>			Series 2004-OP2 Class N		
4.39%, 09/26/05	4,000	4,015	5.50%, 08/25/34	1,183	1,177
▶ <b>Series 2004-11 Class A2</b>			<b>Sequoia Mortgage Trust</b>		
4.02%, 09/26/05	35,000	35,140	▶ <b>Series 2004-4 Class B2</b>		
■ <b>Series 2004-6 Class M2</b>			4.51%, 09/20/05	4,000	3,948
4.29%, 09/26/05	15,000	15,114	▶ <b>Series 2004-4 Class-B1</b>		
<b>Crown Castle Towers, L.L.C.</b>			4.11%, 09/20/05	5,000	4,951
Series 2005-1 Class AB			<b>Structured Asset Investment Loan Trust</b>		
4.88%, 06/15/35	4,700	4,683	■ <b>Series 2003-BC1 Class A2</b>		
■ <b>First Franklin Mortgage Loan Asset-Backed Certificates</b>			3.98%, 09/30/05	6,640	6,657
Series 2002-FF3 Class A2			▶ <b>Series 2004-10 Class A6</b>		
4.10%, 09/26/05	1,109	1,111	3.96%, 09/26/05	30,000	30,113
▶ <b>GMAC Mortgage Corp. Loan Trust</b>			<b>Student Loan Trust</b>		
Series 2005-HE1 Class A1			▶ <b>Series 2003-2 Class A4</b>		
3.70%, 09/26/05	10,000	10,008	3.60%, 09/15/05	8,000	8,052
▶ <b>GSamp Trust</b>			▶ <b>Series 2003-9 Class A4</b>		
Series 2004-OPT Class A1			3.61%, 09/15/05	25,000	25,185
3.98%, 09/26/05	14,634	14,681	▶ <b>Series 2005-7 Class A1</b>		
■ <b>Impac CMB Trust</b>			3.72%, 09/26/05	15,000	15,009
Series 2003-10 Class 1A1					
3.99%, 09/26/05	16,292	16,303			
					<b>297,276</b>



Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Rate, Maturity Date		

**Commercial Paper & Other Corporate Obligations**  
2.9% of net assets

<b>Countrywide Home Loan</b>		
3.58%, 09/01/05	15,400	15,400
<b>Cox Communications, Inc.</b>		
3.60%, 09/01/05	10,300	10,300
<b>Diageo Capital PLC</b>		
3.53%, 09/23/05	9,500	9,479
		<b>35,179</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Preferred Stock** 3.0% of net assets

■ <b>Cobank, ACB, 144A</b>	
115,000	6,439
■ <b>Fannie Mae, Series J</b>	
320,000	15,722
■ <b>Fannie Mae, Series O</b>	
140,000	7,705
■ <b>SLM Corp.</b>	
20,000	1,994
■ <b>Zurich Regcaps Funding Trust VI, 144A</b>	
40,000	3,891
	<b>35,751</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Other Investment Companies** 0.1% of net assets

<b>Provident Institutional Funds— Fed Funds Portfolio</b>	862,839	<b>863</b>
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**End of investments.**

Security Series	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Rate, Maturity Date		

**Collateral Invested for Securities on Loan**  
11.6% of net assets

**Short-Term Investments** 1.8%

<b>Chase Manhattan Bank Time Deposit</b>		
3.58%, 09/01/05	3,671	3,671
3.56%, 09/01/05	17,889	17,889
		<b>21,560</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Other Investment Companies** 9.8%

<b>Institutional Money Market Trust</b>	117,481,891	<b>117,482</b>
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**End of collateral invested for securities on loan.**

In addition to the above, the fund held the following at 8/31/05. All numbers are x 1,000 except number of futures contracts.

**Futures Contracts**

	Number of Contracts	Contract Value	Unrealized Gains
5 Year, Long U.S. Treasury Note, expires 12/20/05	500	54,188	431
2 Year, Long U.S. Treasury Note, expires 12/30/05	100	20,709	67
10 Year, Long U.S. Treasury Note, expires 12/20/05	350	39,227	254
			<b>752</b>

## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value (including \$136,492 of securities on loan)	\$1,385,347
Collateral invested for securities on loan	139,042
Receivables:	
Due from brokers for futures	478
Fund shares sold	667
Interest	7,760
Dividends	479
Prepaid expenses	+ 23
<b>Total assets</b>	<b>1,533,796</b>

**Liabilities**

Collateral held for securities on loan	139,042
Payables:	
Fund shares redeemed	1,837
Dividends to shareholders	307
Investments bought	197,429
Investment adviser and administration fees	25
Transfer agent and shareholder service fees	25
Accrued expenses	+ 92
<b>Total liabilities</b>	<b>338,757</b>

**Net Assets**

<b>Total assets</b>	1,533,796
<b>Total liabilities</b>	- 338,757
<b>Net assets</b>	<b>\$1,195,039</b>

**Net Assets by Source**

Capital received from investors	1,176,433
Net investment income not yet distributed	35
Net realized capital gains	1,019
Net unrealized capital gains	17,552

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$1,195,039		118,324		\$10.10

Unless stated, all numbers are x 1,000.

The amortized cost of the fund's securities was \$1,368,547.

Includes restricted but deemed liquid 144A securities worth \$78,461, or 6.6% of the fund's total net assets.

Not counting short-term obligations and government securities, the fund's security transactions during the period were:

Purchases	\$362,244
Sales/maturities	\$415,362

The fund's long-term government security transactions were:

Purchases	\$1,875,048
Sales/maturities	\$1,753,891

The fund's total security transactions with other Schwab Funds during the period were \$21,671.

These derive from investments, futures, and short sales.

**Federal Tax Data**

<b>Portfolio cost</b>	\$1,370,063
<b>Net unrealized gains and losses:</b>	
Gains	\$19,480
Losses	+ (4,196)
	<b>\$15,284</b>

**As of August 31, 2005:****Undistributed earnings:**

Ordinary income	\$3,627
Long-term capital gains	\$—

**Reclassifications:**

Net realized capital gains	(\$870)
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**Reclassified as:**

Net investment income not yet distributed	\$870
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## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Investment Income**

Interest	\$43,085
Securities on loan	271
Dividends	+ 1,501
<b>Total investment income</b>	<b>44,857</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	10,578
Net realized gains on short sales	279
Net realized losses on futures contracts	+ (747)
<b>Net realized gains</b>	<b>10,110</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(1,553)
Net unrealized gains on futures contracts	+ 479
<b>Net unrealized losses</b>	<b>(1,074)</b>

**Expenses**

Investment adviser and administrator fees	2,849
Transfer agent and shareholder service fees	2,783
Trustees' fees	13
Custodian and portfolio accounting fees	135
Professional fees	35
Registration fees	60
Shareholder reports	59
Other expenses	+ 44
<b>Total expenses</b>	<b>5,978</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	44,857
<b>Total expenses</b>	- 5,978
<b>Net investment income</b>	<b>38,879</b>
<b>Net realized gains</b>	10,110
<b>Net unrealized losses</b>	+ (1,074)
<b>Increase in net assets from operations</b>	<b>\$47,915</b>

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% of the fund's assets. These fund's are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

CSIM and Schwab have guaranteed that the annual operating expenses (excluding interest, taxes and certain non-routine expenses) will not exceed 0.55% of the fund's average daily net assets through November 15, 2005.

These add up to a net gain on investments of \$9,036.

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

**Operations**

	9/1/04-8/31/05	9/1/03-8/31/04
Net investment income	\$38,879	\$32,491
Net realized gains	10,110	10,994
Net unrealized gains or losses	+ (1,074)	19,933
<b>Increase in net assets from operations</b>	<b>47,915</b>	<b>63,418</b>

**Distributions Paid**

Dividends from net investment income	39,723	34,327
Distributions from net realized gains	+ 12,616	35,223
<b>Total distributions</b>	<b>\$52,339</b>	<b>\$69,550</b>

**Transactions in Fund Shares**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	28,889	\$290,930	20,689	\$209,609
Shares reinvested	4,886	49,199	6,912	69,703
Shares redeemed	+ (18,125)	(182,458)	(25,382)	(256,531)
<b>Net transactions in fund shares</b>	<b>15,650</b>	<b>\$157,671</b>	<b>2,219</b>	<b>\$22,781</b>

**Shares Outstanding and Net Assets**

	9/1/04-8/31/05		9/1/03-8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	102,674	\$1,041,792	100,455	\$1,025,143
Total increase	+ 15,650	153,247	2,219	16,649
<b>End of period</b>	<b>118,324</b>	<b>\$1,195,039</b>	<b>102,674</b>	<b>\$1,041,792</b>

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions are:

**Current year:**

Ordinary income	\$46,323
Long-term capital gains	\$6,016

**Prior year:**

Ordinary income	\$50,360
Long-term capital gains	\$19,190

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value from transactions in fund shares, minus distributions paid.

Includes net investment income not yet distributed in the amount of \$35 and \$9 for the current and prior period, respectively.

Percent of fund shares owned by other Schwab Funds as of the end of the current period:

**Schwab MarketTrack Portfolios**

Growth Portfolio	8.4%
Balanced Portfolio	15.7%
Conservative Portfolio	14.1%

**Schwab Annuity Portfolios**

Growth Portfolio II	0.4%
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# Schwab GNMA Fund™

## Financial Statements

### Financial Highlights

Investor Shares	9/1/04– 8/31/05	9/1/03– 8/31/04	3/3/03 <sup>1</sup> – 8/31/03
<b>Per-Share Data (\$)</b>			
Net asset value at beginning of period	9.78	9.69	10.00
Income from investment operations:			
Net investment income	0.35	0.16	0.06
Net realized and unrealized gains or losses	(0.02)	0.26	(0.17)
Total income or loss from investment operations	0.33	0.42	(0.11)
Less distributions:			
Dividends from net investment income	(0.39)	(0.33)	(0.20)
Net asset value at end of period	9.72	9.78	9.69
Total return (%)	3.47	4.39	(1.11) <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses	0.74	0.51	—
Gross operating expenses	1.03	1.11	0.99 <sup>3</sup>
Net investment income	3.59	1.89	1.37 <sup>3</sup>
Portfolio turnover rate	131	199	105 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	17	18	21

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares	9/1/04– 8/31/05	9/1/03– 8/31/04	3/3/03 <sup>1</sup> – 8/31/03
<b>Per-Share Data (\$)</b>			
Net asset value at beginning of period	9.78	9.69	10.00
Income from investment operations:			
Net investment income	0.37	0.17	0.06
Net realized and unrealized gains or losses	(0.02)	0.26	(0.17)
Total income or loss from investment operations	0.35	0.43	(0.11)
Less distributions:			
Dividends from net investment income	(0.41)	(0.34)	(0.20)
Net asset value at end of period	9.72	9.78	9.69
Total return (%)	3.67	4.53	(1.11) <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses	0.55	0.37	—
Gross operating expenses	0.88	0.96	0.83 <sup>3</sup>
Net investment income	3.80	2.03	1.37 <sup>3</sup>
Portfolio turnover rate	131	199	105 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	24	19	28

<sup>1</sup> Commencement of operations.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of August 31, 2005

This section shows all the securities in the fund's portfolio and their value, as of the report date.

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Forms N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on a fund's most recent Form N-Q is available by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds).

We use the symbol below to designate certain characteristics of the securities.

- ▶ Variable-rate security
- All or a portion of this security is held as collateral for futures contracts and delayed-delivery security
- ▲ Delayed-delivery security

For fixed-rate obligations, the rate shown is the interest rate (the rate established when the obligation was issued) and the maturity date shown is the stated legal maturity. For variable-rate obligations, the rate shown is the rate as of the report date, and the maturity shown is the later of the next interest rate change date or demand date.

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>107.6%</b>	<b>Mortgage-Backed Securities</b>	43,300	43,777
<b>1.8%</b>	<b>Asset-Backed Obligations</b>	710	710
<b>1.7%</b>	<b>U.S. Government Securities</b>	706	708
<b>0.7%</b>	<b>Other Investment Companies</b>	267	267
<b>111.8%</b>	<b>Total Investments</b>	<b>44,983</b>	<b>45,462</b>
<b>(11.8)%</b>	<b>Other Assets and Liabilities</b>		(4,785)
<b>100.0%</b>	<b>Net Assets</b>		<b>40,677</b>

<b>Security Series</b>	<b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)	<b>Value</b> (\$ x 1,000)
<b>Mortgage-Backed Securities 107.6% of net assets</b>			
<b>U.S. Government Agency Mortgages 107.6%</b>			
<b>Fannie Mae</b>			
	6.50%, 03/01/32	841	871
	6.00%, 11/01/34	427	437
<b>Ginnie Mae</b>			
■	5.00%, 02/01/09 to 06/28/10	3,574	3,606
	5.00%, 02/15/18 to 12/15/34	5,615	5,625
	5.00%, 06/15/35	492	494
■	5.50%, 02/15/33	1,006	1,027
■	5.50%, 12/19/08 to 12/27/09	2,147	2,203
	5.50%, 11/15/18 to 05/20/35	14,273	14,565
■	6.00%, 02/21/09	1,751	1,807
	6.00%, 04/15/28 to 03/15/34	3,110	3,211
■	6.50%, 09/09/08 to 05/14/09	2,256	2,355
	6.50%, 05/15/24 to 10/15/32	222	232
■	7.00%, 07/12/08 to 03/07/09	777	820
	7.00%, 11/15/23 to 01/15/31	140	148
■	7.00%, 08/15/31	304	320
■	7.50%, 09/21/07 to 12/12/08	515	551
	7.50%, 07/15/23 to 03/15/28	7	8
■	8.00%, 10/02/06	61	63
	8.00%, 06/15/06 to 08/15/09	157	162
	8.50%, 08/15/27 to 12/15/29	68	74
	9.00%, 06/15/06 to 08/15/09	44	48
<b>TBA</b>			
	5.00%, 06/15/35	249	251
▲	5.00%, 09/01/35	1,800	1,806
▲	6.00%, 09/01/35	3,000	3,093
			<b>43,777</b>

**Portfolio Holdings** continued

Security Series	Face Amount	Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)

**Asset-Backed Obligations** 1.8% of net assets**Fixed-Rate Obligations** 1.8%**Ameritrust Finance NIM Trust**

Series 2001-RN4 Class A		
4.60%, 07/25/34	31	31

▶ **Countrywide Asset Backed Certificates**

Series 2003-2 Class M2		
5.29%, 09/26/05	125	127

**Fremont NIM Trust**

Series 2004-D Class N1		
4.50%, 06/25/06	205	205

**Morgan Stanley ABS Capital I**

Series 2004-NC1N		
7.00%, 12/25/33	8	8

**Novastar NIM Trust, 144A**

Series 2004-N3		
3.97%, 03/25/35	315	314

**Sharps SP I L.L.C. Net Interest Margin Trust**

Series 2004-HE2N Class NA		
5.43%, 10/25/34	25	25

**710**

Security Series	Face Amount	Value
Rate, Maturity Date	(\$ x 1,000)	(\$ x 1,000)

**U.S. Government Securities** 1.7% of net assets■ **U.S. Treasury Bills**

2.90%, 09/15/05	10	10
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**U.S. Treasury Notes**

3.63%, 04/30/07	700	698
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**708**

Security and Number of Shares	Value
	(\$ x 1,000)

**Other Investment Companies** 0.7% of net assets**Provident Institutional Funds—  
Fed Funds Portfolio**

267,129	<b>267</b>
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**End of investments.**

In addition to the above, the fund held the following at 8/31/05. All numbers are x 1,000 except number of futures contracts.

**Futures Contracts**

	Number of Contracts	Contract Value	Unrealized Losses
10 Year, Short U.S. Treasury Note, expires 12/20/05	(10)	1,121	<b>(15)</b>



## Statement of

**Assets and Liabilities**

As of August 31, 2005. All numbers are x 1,000 except NAV.

**Assets**

Investments, at value	\$45,462
Receivables:	
Fund shares sold	39
Interest	203
Dividends	+
	1
<b>Total assets</b>	<b>45,705</b>

**Liabilities**

Payables:	
Fund shares redeemed	41
Dividends to shareholders	36
Investments bought	4,891
Due to brokers for futures	5
Accrued expenses	+
	55
<b>Total liabilities</b>	<b>5,028</b>

**Net Assets**

<b>Total assets</b>	45,705
<b>Total liabilities</b>	-
	5,028
<b>Net assets</b>	<b>\$40,677</b>

**Net Assets by Source**

Capital received from investors	42,275
Net investment income not yet distributed	19
Net realized capital losses	(2,081)
Net unrealized capital gains	464

**Net Asset Value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$16,689		1,718		\$9.72
Select Shares	\$23,988		2,468		\$9.72

Unless stated, all numbers are x 1,000.

The fund's amortized cost for these securities was \$44,983.

Includes restricted but deemed liquid 144A securities worth \$314, or 0.8% of the fund's total net assets.

Not counting short-term obligations and government securities, the fund's security transactions during the period were:

Purchases	\$1,158
Sales/maturities	\$1,546

The fund's long-term government security transactions were:

Purchases	\$57,737
Sales/maturities	\$49,424

These derive from investments, futures, and short sales.

**Federal Tax Data**

<b>Portfolio cost</b>	\$44,987
<b>Net unrealized gains and losses:</b>	
Gains	\$514
Losses	+
	(39)
	<b>\$475</b>

**As of August 31, 2004:****Undistributed earnings:**

Ordinary income	\$54
Long-term capital gains	\$—

**Unused capital losses:**

Expires 08/31 of:	
2012	\$1,405
2013	+
	537
	<b>\$1,942</b>

<b>Deferred capital losses</b>	\$150
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**Reclassifications:**

Net realized capital gains	(\$177)
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**Reclassified as:**

Net investment income not yet distributed	\$177
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## Statement of

**Operations**

For September 1, 2004 through August 31, 2005. All numbers are x 1,000.

**Investment Income**

Interest	\$1,622
Dividends	+ 10
<b>Total investment income</b>	<b>1,632</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	2
Net realized gains on short sales	31
Net realized gains on futures contracts	+ 7
<b>Net realized gains</b>	<b>40</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(103)
Net unrealized losses on futures contracts	+ (20)
<b>Net unrealized losses</b>	<b>(123)</b>

**Expenses**

Investment adviser and administrator fees	169
Transfer agent and shareholder service fees:	
Investor Shares	44
Select Shares	20
Trustees' fees	8
Custodian and portfolio accounting fees	45
Professional fees	34
Registration fees	25
Shareholder reports	4
Other expenses	+ 7
Total expenses	356
Expense reduction	- 116
<b>Net expenses</b>	<b>240</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>1,632</b>
<b>Net expenses</b>	<b>- 240</b>
<b>Net investment income</b>	<b>1,392</b>
<b>Net realized gains</b>	<b>40</b>
<b>Net unrealized losses</b>	<b>+ (123)</b>
<b>Increase in net assets from operations</b>	<b>\$1,309</b>

Unless stated, all numbers are x 1,000.

Calculated as a percentage of average daily net assets: 0.45% of the first \$500 million, 0.40% of the next \$500 million and 0.375% over \$1 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM). Prior to November 15, 2004, these fees were calculated as 0.45% of average daily net assets.

Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.05% of the assets of each respective share class. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$108 from the investment adviser (CSIM) and \$8 from the transfer agent and shareholder service agent (Schwab). CSIM and Schwab has guaranteed through November 15, 2005 to limit the annual operating expenses.

<b>Share Class</b>	<b>% of Average Daily Net Assets</b>
Investor Shares	0.74%
Select Shares	0.55%

This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$83.

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers are x 1,000.

Unless stated, all numbers are x 1,000.

**Operations**

	9/1/04–8/31/05	9/1/03–8/31/04
Net investment income	\$1,392	\$826
Net realized gains or losses	40	(345)
Net unrealized gains or losses	+ (123)	1,303
<b>Increase in net assets from operations</b>	<b>1,309</b>	<b>1,784</b>

**Distributions Paid****Dividends from Net Investment Income**

Investor Shares	706	653
Select Shares	+ 850	797
<b>Total dividends from net investment income</b>	<b>\$1,556</b>	<b>\$1,450</b>

**Transactions in Fund Shares**

	9/1/04–8/31/05		9/1/03–8/31/04	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	454	\$4,425	619	\$6,060
Select Shares	+ 1,297	12,621	810	7,918
<b>Total shares sold</b>	<b>1,751</b>	<b>\$17,046</b>	<b>1,429</b>	<b>\$13,978</b>

**Shares Reinvested**

Investor Shares	59	\$563	58	\$560
Select Shares	+ 65	629	65	640
<b>Total shares reinvested</b>	<b>124</b>	<b>\$1,192</b>	<b>123</b>	<b>\$1,200</b>

**Shares Redeemed**

Investor Shares	(595)	(\$5,787)	(1,022)	(\$9,955)
Select Shares	+ (825)	(8,034)	(1,872)	(18,228)
<b>Total shares redeemed</b>	<b>(1,420)</b>	<b>(\$13,821)</b>	<b>(2,894)</b>	<b>(\$28,183)</b>

**Net transactions in fund shares**

	<b>455</b>	<b>\$4,417</b>	<b>(1,342)</b>	<b>(\$13,005)</b>
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**Shares Outstanding and Net Assets**

	9/1/04–8/31/05		9/1/03–8/31/04	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,731	\$36,507	5,073	\$49,178
Total increase or decrease	+ 455	4,170	(1,342)	(12,671)
<b>End of period</b>	<b>4,186</b>	<b>\$40,677</b>	<b>3,731</b>	<b>\$36,507</b>

The tax-basis components of distributions are:

**Current year:**

Ordinary income	\$1,556
Long-term capital gains	\$—

**Prior year:**

Ordinary income	\$1,450
Long-term capital gains	\$—

The difference of net investment income between financial statement and tax purposes for the period ended 08/31/05 is:

Paydown losses	\$177
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Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes net investment income in the amount of \$19 and \$6 for the current and prior period, respectively.

# Financial Notes

## Business Structure of the Funds

**Each of the funds discussed in this report is a series of Schwab Investments, a no-load, open-end management investment company.** The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the funds in this report and their trust.

**Both Schwab YieldPlus Fund® and Schwab GNMA Fund™ offer two share classes:** Investor Shares and Select Shares®. Shares of each class represent interest in the same portfolio, but each class has different expenses and investment minimums. Schwab Short-Term Bond Market Fund™ and Schwab Total Bond Market Fund™ each offers one share class.

Shares are bought and sold at net asset value, or NAV, which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trustees may issue as many shares as necessary.

## The Trust and Its Funds

This list shows all of the funds included in Schwab Investments. The funds discussed in this report are highlighted.

**Schwab Investments** organized October 26, 1990

Schwab 1000 Fund

Schwab YieldPlus Fund

Schwab Short-Term Bond Market Fund

Schwab Total Bond Market Fund

Schwab GNMA Fund

Schwab Tax-Free YieldPlus Fund

Schwab Short/Intermediate Tax-Free Bond Fund

Schwab Long-Term Tax-Free Bond Fund

Schwab California Tax-Free YieldPlus Fund

Schwab California Short/Intermediate Tax-Free Bond Fund

Schwab California Long-Term Tax-Free Bond Fund

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

**The funds declare dividends every day they are open for business.** These dividends, which are substantially equal to a fund's net investment income for that day, are paid out to shareholders once a month. The funds may make distributions from any net realized capital gains once a year.

**The funds may loan securities to certain brokers, dealers and other financial institutions who pay the funds negotiated fees.** The funds receive cash, letters of credit or U.S. Government securities as collateral on these loans. All of the cash collateral received is reinvested in high quality, short-term investments. The value of the collateral must be at least 102% of the market value of the loaned securities as of the first day of the loan, and at least 100% each day thereafter.

**The funds may buy securities on a delayed-delivery basis.** In these transactions, a fund agrees to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, a fund could end up paying more for the security than its market value at the time of settlement. The funds have set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

**The funds may also sell securities short (sell securities they do not own).** When they do so, the funds also place assets worth at least 100% of the value of the short securities into segregated accounts, as collateral. If the market value of the short securities subsequently falls, the funds can realize a gain by closing the position. However, if the value rises, the funds typically would have to add to their collateral or

close out their short position at a loss. The potential for losses associated with short positions is much greater than the original value of the securities sold short and may exceed amounts recorded in the Statements of Assets and Liabilities.

**The funds may invest in futures contracts.** Futures contracts involve certain risks because they can be very sensitive to market movements.

One risk is that the price of a futures contract may not move in perfect correlation with the price of the underlying securities. Another risk is that, at certain times, it may be impossible for a fund to close out a position in a futures contract, due to a difference in trading hours or to market conditions that may reduce the liquidity for a futures contract or its underlying securities.

Because futures carry inherent risks, a fund must give the broker a deposit of cash and/or securities (the “initial margin”) whenever it enters into the futures contract. The amount of the deposit may vary from one contract to another, but it is generally a percentage of the contract amount.

Futures are traded publicly on exchanges, and their market value changes daily. A fund records the change in market value of futures, and also the change in the amount of margin deposit required (“variation margin”).

**The funds may enter into “TBA” (to be announced) purchase commitments to purchase securities for a fixed price at a future date, typically not exceeding 45 days.** TBAs may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to settlement date. This risk is in addition to the risk of decline in a fund’s other assets.

**The funds may enter into mortgage dollar roll transactions.** In these transactions, a fund sells mortgage-backed securities for delivery in the current month and simultaneously agrees to buy back, on a given

date in the future, securities of a similar type, coupon rate and maturity. Dollar roll transactions involve the risk that the market value of the security sold short by the fund may decline below the repurchase price of similar securities.

**The funds pay fees to affiliates of the investment adviser for various services.** Through their trust, the funds have agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent and shareholder services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund’s Statement of Operations.

**The funds may engage in certain transactions involving affiliates.** For instance, a fund may let other Schwab Funds® buy and sell fund shares, particularly Schwab MarketTrack Portfolios.

The funds may make direct transactions with certain other Schwab Funds when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the Schwab Funds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the Schwab Funds.

**Trustees may include people who are officers and/or directors of the investment adviser or Schwab.**

Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

**The funds may borrow money from banks and custodians.**

The funds may obtain temporary bank loans through the trusts to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A., and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically. There was no borrowing for any funds during the period.

**The funds intend to meet federal income and excise tax requirements for regulated investment companies.**

Accordingly, the funds distribute substantially all of their net investment income and realized net capital gains (if any) to their respective shareholders each year. The net investment income and realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of paydown gains and losses and amortization of bond discounts and premiums. As long as a fund meets the tax requirements, it is not required to pay federal income tax.

**Under the funds’ organizational documents, the officers and trustees are indemnified against certain liability arising out of the performance of their duties to the funds.**

In addition, in the normal course of business the funds enter into contracts with their vendors and others that provide general indemnifications. The funds’ maximum exposure under these arrangements is

unknown as this would involve future claims that may be made against the funds. However, based on experience, the funds expect the risk of loss to be remote.

**Contingent Liability:** In December 2003, Enron Corp. brought an Adversary Proceeding in its Chapter 11 bankruptcy filing against numerous financial entities, including Schwab YieldPlus Fund. The Adversary Proceeding alleges that the proceeds of certain sales transactions in Enron commercial paper should be treated as early redemptions and returned to the Enron bankruptcy estate. Enron seeks the avoidance of a sale of commercial paper by the Schwab YieldPlus Fund in the amount of \$9,087,260, plus interest in the amount of approximately \$1,260,000.

On June 15, 2005, the bankruptcy court denied the financial entities’ motion to dismiss. Schwab YieldPlus Fund together with other financial institutions are currently seeking to appeal the decision.

It is not possible at this time to predict whether the litigation will have any material adverse effect on the fund.

## Accounting Policies

The following are the main policies the funds use in preparing their financial statements.

**The funds value the securities in their portfolios every business day.** The funds use the following policies to value various types of securities:

**Bonds and notes:** valued at halfway between the most recent bid and asked quotes or, if such quotes are unavailable, at prices for securities of comparable maturity, credit quality and type. Valuations for bonds and notes are provided by an independent bond-pricing service.

**Securities for which no quoted value is available:** valued at fair value, as determined in good faith by the fund’s investment adviser using guidelines adopted by the fund’s Board of Trustees. In the

determination of a fair valuation the guidelines include but are not limited to the use of analytical data, business conditions, recent trades, general and/or specific market trends and any emergency or significant events that would have a material impact on the value of the security.

**Futures:** open contracts are valued at their settlement prices as of the close of their exchanges. When a fund closes out a futures position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.

**Short-term securities (60 days or less to maturity):** valued at amortized cost.

**If a fund sells securities short,** it records the proceeds received as an asset and the obligation to buy back the securities as a liability. At the time a short sale is initiated, the asset and the liability are of equal value and effectively cancel each other out. Subsequently, the fund values the liability side of the transaction according to the market price of the securities sold short, and values the asset side according to the value of the proceeds. When the fund closes out a short position (buys the security), it records the outcome as a realized gain or loss. Interest accrued on securities sold short is recorded as an expense on the fund's records.

**Security transactions** are recorded as of the date the order to buy or sell the security is executed.

**Interest income** is recorded as it accrues. If a fund buys a debt security at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

**Realized gains and losses** from security transactions are based on the identified costs of the securities involved. Gains and losses from paydowns on mortgage and asset backed securities are recorded as adjustments to interest income.

**Expenses** that are specific to a fund or a class are charged directly to that fund or class. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their net assets.

**For funds offering multiple share classes,** all of the realized and unrealized gains or losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its net assets.

**Each fund maintains its own account for purposes of holding assets and accounting,** and is considered a separate entity for tax purposes. Within its account, each fund also may keep certain assets in segregated accounts, required by securities law.

**The accounting policies described above conform with accounting principles generally accepted in the United States of America.** Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

## Report of Independent Registered Public Accounting Firm

### To the Board of Trustees and Shareholders of:

Schwab YieldPlus Fund

Schwab Short-Term Bond Market Fund

Schwab Total Bond Market Fund

Schwab GNMA Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab YieldPlus Fund, Schwab Short-Term Bond Market Fund, Schwab Total Bond Market Fund, and Schwab GNMA Fund (the “Funds”) at August 31, 2005, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, CA

October 18, 2005



# Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Investments (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, including the Schwab YieldPlus Fund, the Schwab Short-Term Bond Market Fund, the Schwab Total Bond Market Fund and the Schwab GNMA Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds

that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from counsel to the Independent Trustees regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from their counsel, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement for an additional one year period. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

**Nature, Extent and Quality of Services.** The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition. Finally, the trustees considered that the vast majority of the funds' investors are also brokerage clients of Schwab, and that CSIM and its affiliates are uniquely positioned to provide services and support to the funds and such shareholders. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported renewal of the Agreement.

**Fund Performance.** The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both market risk and shareholder risk expectations for such fund. Following such evaluation,

the Board concluded, within the context of its full deliberations, that the performance of the funds supported renewal of the Agreement.

**Fund Expenses.** With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts. Following such evaluation, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported renewal of the Agreement.

**Profitability.** With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement

and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreement.

**Economies of Scale.** The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

# Trustees and Officers

A fund’s Board of Trustees is responsible for protecting the interests of that fund’s shareholders. The tables below give information about the people who serve as trustees and officers for the Schwab Funds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the 56 Schwab Funds belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Interested Trustees and Officers		
Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until May 2003</i> , Co-Chief Executive Officer, The Charles Schwab Corporation.  Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.

<sup>1</sup> The Schwab Funds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

<sup>2</sup> In addition to his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

## Interested Trustees but Not Officers

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	2005 (all trusts).	Executive Vice President and President, Asset Management Products Enterprise & Services, Charles Schwab & Co; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From September 2002 to July 2004</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co. <i>Prior to September 2002</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (June 2001 to August 2002); Chief Investment Officer, Fixed, American Century Companies, Inc. (January 1997 to June 2001).

## Officers of the Trust

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Evelyn Dilsaver</b> 5/4/55	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
<b>Stephen B. Ward</b> 4/5/55	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.
<b>Kimon Daifotis</b> 7/10/59	Senior Vice President, Chief Investment Officer (all trusts).	Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : Senior Vice President, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc.
<b>Jeffrey Mortimer</b> 9/29/63	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc.
<b>Randall Fillmore</b> 11/11/60	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/04</i> : Vice President, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers.

## Officers of the Trust continued

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	Senior Vice President, Chief Counsel and Assistant Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to June 1998</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
<b>George Pereira</b> 6/9/64	Treasurer, Principal Financial Officer (all trusts)	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From December 1999 to November 2004</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. <i>From September 1999 to December 1999</i> , Chief Financial Officer, Commerzbank Capital Markets. <i>Prior to September 1999</i> , Managing Director at the New York Stock Exchange.

## Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital; Director, Pacific Mutual Holding Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 2001</i> : Stanford University, Special Assistant to the President. <i>From 1996-2001</i> : Vice President of Business Affairs, CFO.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	<i>Until February 2004</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Solelectron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).

## Independent Trustees continued

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

# Glossary

**Alternative Minimum Tax (AMT)** A federal income tax designed to limit the extent to which high-income taxpayers (including individuals, estates, trusts and corporations) can benefit from certain deductions and exemptions. For example, some types of income that are exempt from regular federal income tax are not exempt from the AMT.

**asset allocation** The practice of dividing a portfolio among different asset classes, with each asset class assigned a particular percentage.

**asset-backed securities** Bond or other debt securities that represent ownership in a pool of assets such as credit card debt.

**asset class** A group of securities with similar structure and basic characteristics. Stocks, bonds and cash are the three main examples of asset classes.

**average rate** The average rate of interest paid annually by the fixed-income securities in a fund or portfolio.

**bond** A security representing a loan from the investor to the issuer. A bond typically pays interest at a fixed rate (the “coupon rate”) until a specified date (the “maturity date”), at which time the issuer returns the money borrowed (“principal” or “face value”) to the bondholder. Because of their structure, bonds are sometimes called “fixed income securities” or “debt securities.”

An individual bond is subject to the credit risk of the issuer. Changes in interest rates can affect a bond's market value prior to call or maturity. There is no guarantee that a bond's yield to call or maturity will provide a positive return over the rate of inflation.

**bond fund** A bond fund is subject to the same credit, interest rate, and inflation risks as bonds. In addition, a bond fund incurs ongoing fees and expenses. A bond fund's net asset value will fluctuate with the price of the underlying bonds and the portfolio turnover activity; return of principal is not guaranteed.

**call** An early repayment of a bond's principal by the issuer, usually done because the issuer is able to refinance its bond debt at a lower rate.

**call protection** A term used in reference to a bond that cannot be called by the issuer before maturity, or at least for many years from the present date. A bond that offers call protection can more reliably be expected to provide a given yield over a given number of years than a bond that could be called (assuming both bonds are of the same credit quality).

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss

is considered a realized gain or loss. If the investment is still held, the gain or loss is still “on paper” and is considered unrealized.

**certificate of participation** A municipal bond that is repaid from an annual budget appropriation rather than being backed by the full faith and credit of the issuer.

**coupon, coupon rate** The annual rate of interest paid until maturity by the issuer of a debt security.

**credit-enhanced securities** Securities that are backed by the credit of an entity other than the issuer (such as a financial institution). Credit enhancements, which can equal up to 100% of the security's value, are designed to help lower the risk of default on a security and may also make the security more liquid.

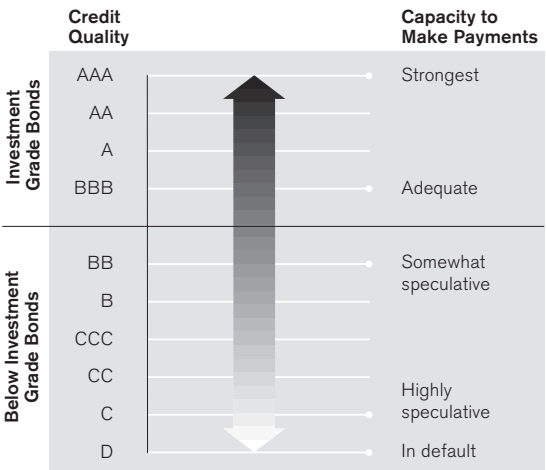
**credit quality** The capacity of an issuer to make its interest and principal payments. See chart below.

**credit risk** The risk that a bond issuer may be unable to pay interest or principal to its bondholders.

**discount rate** The implied rate on a debt security that does not pay interest but is bought at a discount and redeemed at face value when it matures.

## Credit Ratings

Most major bond issuers arrange with a recognized independent rating organization, such as Standard & Poor's (S&P) or Moody's Investors Service, to rate the credit-worthiness of their bonds. The spectrum of these ratings is divided into two major categories: investment grade and below investment grade (sometimes called “junk bonds”). Bonds rated below investment grade range from those that are considered to have some vulnerability to default to those that appear on the brink of default or are in default.





**dividend** Money from earnings that is distributed to shareholders as a given amount per share.

**duration** A measure of a bond's sensitivity to interest rates. Calculations of duration generally take into account the investment's yield, interest payments, maturity date and call features. Like maturity, duration is expressed in years, but is more accurate than maturity in determining the effect of interest rate movements on a bond investment's price. The duration of a portfolio equals the market value weighted average of the duration of the bonds held in the portfolio.

**expense ratio** The amount that is taken from a mutual fund's assets each year to cover the fund's operating expenses. An expense ratio of 0.50% means that a fund's expenses amount to half of one percent of its average net assets a year.

**general obligation bonds** Municipal bonds that are secured by the issuer's full faith and credit, which typically is backed by the power of the issuer to levy taxes.

**interest** Payments to bondholders (usually made twice a year) as compensation for loaning the bond principal to the issuer.

**interest rate risk** The risk that a bond's value will fluctuate if market interest rates change or are expected to change. Bond prices tend to move in the opposite direction of interest rates: when interest rates rise, bond prices tend to fall.

**liquidity-enhanced security** A security that when tendered is paid from funds advanced by an entity other than the issuer (such as a large financial institution). Liquidity enhancements are often used on variable-rate securities where the portfolio manager has an option to tender the securities prior to their final maturity.

**market risk** Those elements of risk that are common to all securities in an asset class, and therefore cannot be significantly reduced by diversification within the asset class. Also known as "systematic risk."

**maturity** The date a bond is scheduled to be "retired" and its principal amount returned to the bondholder.

**mortgage-backed securities** Bond or other debt securities that represent ownership in a pool of mortgage loans.

**muni, municipal bonds, municipal securities** Debt securities issued by a state, its counties, municipalities, authorities and other subdivisions, or the territories and possessions of the United States and the District of Columbia, including their subdivisions, agencies and instrumentalities and corporations. These securities may be issued to obtain money for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works.

**net asset value (NAV)** The value of one share of a mutual fund. NAV is calculated by taking the fund's total assets, subtracting liabilities, and dividing by the number of shares outstanding.

**outstanding shares, shares outstanding** When speaking of a company or mutual fund, indicates all shares currently held by investors.

**prepayment risk** The risk that a mortgage-backed security may be paid off early, typically because interest rates have fallen and the homeowners who hold the underlying mortgages have refinanced those mortgages at lower rates. In this type of situation, the investor who held the mortgage-backed security will usually have to settle for a lower rate when reinvesting the principal.

**restricted securities** Securities that are subject to contractual restrictions on resale. These securities are often purchased in private placement transactions.

**revenue bonds** Municipal bonds that are issued to finance public works projects and are secured by revenue generated by the project (such as water and sewer fees) rather than the full faith and credit of the issuer.

**section 4(2)/144A securities** Securities exempt from registration under Section 4(2) of the Securities Act of 1933. These securities may be sold only to qualified institutional buyers under Securities Act Rule 144A.

**taxable-equivalent yield** The yield an investor would need to get from a taxable investment in order to match the yield paid by a given tax-exempt investment, once the effect of all applicable taxes is taken into account. For example, if your tax rate were 25%, a tax-exempt investment paying 4.5% would have a taxable-equivalent yield for you of  $6.0\% (4.5\% \div [1 - 0.25\%] = 6.0\%)$ .

**total return** The percentage that an investor would have earned or lost on an investment in the fund assuming dividends and distributions were reinvested.

**weighted average** For mutual funds, an average that gives the same weight to each security as the security represents in the fund's portfolio.

**weighted average maturity** For mutual funds, the maturity of all the bonds in its portfolio, calculated as a weighted average. As a rule, the longer a fund's weighted average maturity, the greater its interest rate risk.

**yield** The income paid out by an investment, expressed as a percentage of the investment's market value.

**yield to maturity** The annualized rate of return a bondholder could expect if the bond were held to maturity. In addition to interest payments, yield to maturity also factors in any difference between a bond's current price and its principal amount, or face value.

## Notes

Schwab Funds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies. The list at right shows all currently available Schwab Funds.

Whether you're an experienced investor or just starting out, Schwab Funds can help you achieve your financial goals. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any Schwab Fund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

### Methods for Placing Orders

The following information outlines how Schwab investors can place orders. If you are investing through a third-party investment provider, methods for placing orders may be different.

#### Internet<sup>1</sup>

[www.schwab.com](http://www.schwab.com)

#### Schwab by Phone™<sup>2</sup>

Use our automated voice service or speak to a representative. Call **1-800-435-4000**, day or night (for TDD service, call **1-800-345-2550**).

#### TeleBroker®

Use our automated touch-tone phone service at **1-800-272-4922**.

#### Mail

Write to Schwab Funds at:  
P.O. Box 3812  
Englewood, CO  
80155-3812

When selling or exchanging shares, be sure to include the signatures of at least one of the persons whose name is on the account.

### Proxy Voting Policies, Procedures and Results

A description of the proxy voting policies and procedures used to determine how to vote proxies on behalf of the funds is available without charge, upon request, by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds), the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds) or the SEC's website at <http://www.sec.gov>.

## The Schwab Funds Family®

### Stock Funds

Schwab S&P 500 Index Fund  
Schwab 1000 Index® Fund  
Schwab Small-Cap Index Fund®  
Schwab Total Stock Market Index Fund®  
Schwab International Index Fund®  
Schwab Premier Equity Fund™  
Schwab Core Equity Fund™  
Schwab Dividend Equity Fund™  
Schwab Small-Cap Equity Fund™  
Schwab Hedged Equity Fund™  
Schwab Large-Cap Growth Fund™  
Schwab Financial Services Fund™  
Schwab Health Care Fund™  
Schwab Technology Fund™  
Schwab Institutional Select® S&P 500 Fund

### Asset Allocation Funds

Schwab MarketTrack All Equity Portfolio™  
Schwab MarketTrack Growth Portfolio™  
Schwab MarketTrack Balanced Portfolio™  
Schwab MarketTrack Conservative Portfolio™  
Schwab Target 2010 Fund  
Schwab Target 2020 Fund  
Schwab Target 2030 Fund  
Schwab Target 2040 Fund  
Schwab Retirement Income Fund

### Bond Funds

Schwab YieldPlus Fund®  
Schwab Short-Term Bond Market Fund™  
Schwab Total Bond Market Fund™  
Schwab GNMA Fund™  
Schwab Tax-Free YieldPlus Fund™  
Schwab Short/Intermediate Tax-Free Bond Fund™  
Schwab Long-Term Tax-Free Bond Fund™  
Schwab California Tax-Free YieldPlus Fund™  
Schwab California Short/Intermediate Tax-Free Bond Fund™  
Schwab California Long-Term Tax-Free Bond Fund™

### Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.<sup>3</sup> Choose from taxable or tax-advantaged alternatives. Many can be linked to your eligible Schwab account to "sweep" cash balances automatically, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

<sup>1</sup> Shares of Sweep Investments™ may not be purchased directly over the Internet.

<sup>2</sup> Orders placed in person or through a telephone representative may be subject to a service fee payable to Schwab.

<sup>3</sup> Investments in money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency and, although they seek to preserve the value of your investment at \$1 per share, it is possible to lose money.

**Investment Adviser**

Charles Schwab Investment Management, Inc.  
101 Montgomery Street, San Francisco, CA 94104

**Distributor**

Charles Schwab & Co., Inc. (Schwab)

**Funds**

Schwab Funds®  
P.O. Box 3812, Englewood, CO 80155-3812

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