

# Schwab Equity Index Funds

## Semiannual Report

April 30, 2005

Schwab S&P 500 Index Fund  
*(formerly Schwab S&P 500 Fund)*

Schwab 1000 Index® Fund  
*(formerly Schwab 1000 Fund®)*

Schwab Small-Cap  
Index Fund®

Schwab Total Stock Market  
Index Fund®

Schwab International  
Index Fund®

*charles* SCHWAB

*Five ways to put the power of the stock market in your portfolio—with some of the lowest expenses in the industry.*

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## *Select Shares<sup>®</sup> are available on many Schwab Funds<sup>®</sup>*

Schwab Funds offers Select Shares, a share class that carries lower expenses than Investor Shares<sup>™</sup> in exchange for higher investment minimums on many of its funds. Select Shares are available for initial purchases of \$50,000 or more of a single fund in a single account and for shareholders who add to their existing Investor Share position, bringing the value to or above \$50,000. We encourage shareholders of Investor Shares to review their

portfolio to see if they are eligible to exchange into Select Shares. If you believe you are eligible, you should contact Schwab to perform a tax-free interclass exchange into Select Shares. Instructions for performing a tax-free interclass exchange can also be referenced on the Schwab Funds website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds) under Schwab Funds Investor Information.

Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM)  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I am a big fan of mutual funds and have been throughout my 40-year career. During this time I've watched the mutual fund market grow, with investors today having nearly 17,000 funds from which to choose.

I also have advocated the need to take a long-term view of investing, as well as the importance of developing and maintaining an asset allocation plan. I continue to believe that mutual funds are excellent vehicles to help you build a diversified portfolio in keeping with your goals.

We have designed Schwab equity funds to deliver a combination of strong performance and good value. While I am proud of Schwab Funds® in general, I am especially pleased with the Schwab Dividend Equity Fund, which performed very well over the report period. The Fund is one of eight powered by Schwab Equity Ratings® and uses the same stock-ranking expertise that helped Schwab's model equity portfolio achieve industry recognition in Barron's 2004 annual stock-selection competition.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. We will continue to expand the array of products and services that can help you meet your long- and short-term investment goals.

In closing, I want to remind you that our commitment to our shareholders will not change. Thank you for investing with us.

Sincerely,

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

*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.*

# Management's Discussion

for the six months ended April 30, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. and is president 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,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

I'm also happy to announce that Schwab Funds has launched another fund. The Schwab Premier Equity Fund™, the newest addition to Schwab Funds' Active Equity Fund family, was launched on March 21, 2005. The Schwab Premier Equity Fund portfolio managers use a multi-cap strategy and include a variety of investment styles and asset classes, shifting between growth and value according to market conditions. The Fund also is diversified across all sectors. With this broad coverage, the Schwab Premier Equity Fund can be an integral part of a balanced, diversified portfolio that can help you reach your long-term investment goals.

In terms of value, the Schwab Premier Equity Fund, as well as other Schwab funds, offer Select Shares, a share class that has lower expenses and higher investment minimums than Investor Shares.

I speak for all of Schwab Funds when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can trust to watch out for their best interests.

I continue to look for more ways to offer you relevant choices and value. Your trust is very important to us, and I will do all I can to maintain that trust. Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in dark ink 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.*



**Jeffrey Mortimer, CFA**, senior vice president and chief investment officer, equities, of the investment adviser is responsible for the overall management of the funds. Prior to joining the firm in October 1997, he worked for more than nine years in asset management.



**Larry Mano**, vice president and senior portfolio manager, is responsible for the day-to-day management of the funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.

## The Investment Environment and the Funds

If the 2004 equity market ended with a bang, the 2005 market started with a whimper, with all the major equity indices down from their year-end highs at the end of April. For the six-month report period, however, the S&P 500® Index<sup>1</sup> was still up 3.28%, due to the end-of-year rally. The broader Dow Jones Wilshire 5000 Composite Index<sup>SM2</sup> was up 3.50% for the report period, again predominantly because of strong equity returns in November and December 2004. Small-cap stocks lost their leading position to their larger-cap cohorts, and value continued to be the favored style. Stocks were volatile and sentiment was fickle in the face of high energy prices, indications of budding inflation, and prospects of the Federal Reserve continuing to raise short-term interest rates, which it did four times during the six-month report period.

Early in the period, investors were heartened when oil prices dipped and the U.S. presidential election results were uncontested. Unfortunately, the brief respite in oil prices was short-lived and strengthening global demand for oil, particularly in the Pacific Rim, and refinery constraints at home drove crude prices to record highs, above \$50 per barrel in mid-February.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive. Consumer sentiment, however, hit a soft patch and started to weaken in 2005. First-quarter GDP came in at 3.1%, slightly below expectations and weaker than the fourth quarter, when it was 3.8%. In this environment, retail sales softened.

Despite the slowdown in the GDP, strong labor market conditions remained positive for domestic consumption. On the earnings front, fourth-quarter earnings were generally better than expected due, in part,

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Standard & Poor's®, S&P®, S&P 500®, Standard & Poor's 500® and 500® are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by the fund. The fund is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

<sup>2</sup> Dow Jones®, "Wilshire", "The DJW 5000<sup>SM</sup>", "The Dow Jones Wilshire 5000<sup>SM</sup>" and "The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>" are service marks of Dow Jones & Company, Inc. and Wilshire Associates Incorporated. The Schwab Total Stock Market Index Fund, based on The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>, is not sponsored, endorsed, sold or promoted by Dow Jones or Wilshire; and, neither Dow Jones nor Wilshire makes any representation regarding the advisability of investing in such a product.



**Tom Brown**, an associate portfolio manager of the investment adviser, is a day-to-day co-manager of the funds except for the Schwab Total Stock Market Index Fund. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

to strong reports from companies in the Energy sector. Expectations for first-quarter earnings remained upbeat, although weaker than recent quarters, due to difficult year-over-year comparisons.

Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, productivity growth and slack in the economy have mostly kept a lid on core inflation. This productivity, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control.

While high energy prices remained a significant headwind for economic performance, they certainly helped boost oil companies' bottom lines. In fact, the strongest sector, according to S&P, was Energy, closely followed by Utilities and then Health Care. On the flip side, Information Technology was the worst performing sector over the report period, while the Consumer Discretionary sector also suffered.

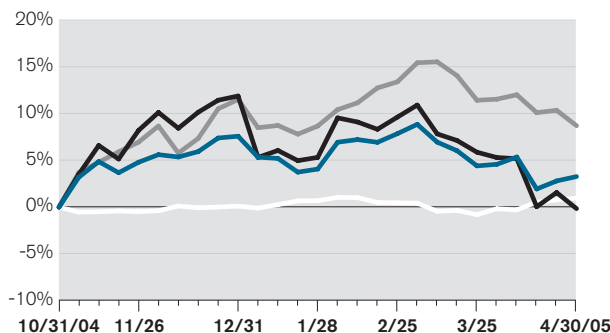
**The Schwab S&P 500 Fund ended the six-month report period up 3.13%, tracking its benchmark, the S&P 500 Index, which was up 3.28%.**

Interestingly, most of this appreciation occurred during the beginning of the report period. Once the calendar turned into 2005, the equity markets became extremely volatile. While the pace of growth decelerated during the report period, the price of crude oil still increased, making

#### Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 3.28% **S&P 500® Index:** measures U.S. large-cap stocks
- -0.15% **Russell 2000® Index:** measures U.S. small-cap stocks
- 8.71% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 0.98% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures 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. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

Source of Sector Classification: S&P and MSCI.

## Performance at a Glance

Total return for the six months ended 4/30/05

**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 S&P 500 Index Fund

|                           |              |
|---------------------------|--------------|
| Investor Shares . . . . . | <b>3.13%</b> |
| Select Shares® . . . . .  | <b>3.25%</b> |
| e.Shares® . . . . .       | <b>3.21%</b> |
| Benchmark . . . . .       | <b>3.28%</b> |

*Performance Details . . . . . pages 6-8*

### Schwab 1000 Index® Fund

|                           |              |
|---------------------------|--------------|
| Investor Shares . . . . . | <b>3.59%</b> |
| Select Shares . . . . .   | <b>3.66%</b> |
| Benchmark . . . . .       | <b>3.63%</b> |

*Performance Details . . . . . pages 10-11*

### Schwab Small-Cap Index Fund®

|                           |              |
|---------------------------|--------------|
| Investor Shares . . . . . | <b>0.59%</b> |
| Select Shares . . . . .   | <b>0.65%</b> |
| Benchmark . . . . .       | <b>0.69%</b> |

*Performance Details . . . . . pages 13-14*

### Schwab Total Stock Market Index Fund®

|                           |              |
|---------------------------|--------------|
| Investor Shares . . . . . | <b>3.49%</b> |
| Select Shares . . . . .   | <b>3.57%</b> |
| Benchmark . . . . .       | <b>3.50%</b> |

*Performance Details . . . . . pages 16-17*

### Schwab International Index Fund®

|                           |              |
|---------------------------|--------------|
| Investor Shares . . . . . | <b>8.09%</b> |
| Select Shares . . . . .   | <b>8.20%</b> |
| Benchmark . . . . .       | <b>7.87%</b> |

*Performance Details . . . . . pages 19-20*

energy-related stocks the top performers. Within this Fund, the best performing sectors were Utilities and Energy. On the downside, Information Technology was the worst performing sector during the report period.

**The Schwab 1000 Index Fund** was up 3.59% for the report period, closely tracking its benchmark, the Schwab 1000 Index®, which was up 3.63%. Once the calendar turned into 2005, the equity markets became extremely volatile. While the price of a barrel of oil continued to rise during the report period, the pace of growth decelerated, making energy-related stocks the top performers in the Fund. In addition to Energy, the Utilities sector also was strong. On the downside, Information Technology continued to struggle.

**The Schwab Small-Cap Index Fund** was up 0.59% for the period, tracking its benchmark, the Schwab Small-Cap Index, which was up 0.69%. While this Fund tended to be more volatile than the large-cap fund, the price of oil impacted performance significantly, and just as its larger-cap cohorts rallied in the Energy sector, so, too, did small cap. Consumer Staples also performed well. On the downside, the Information Technology and Telecommunications Services sectors continued to struggle.

**The Schwab Total Stock Market Index Fund** was up 3.49% for the six-month report period, nearly matching its benchmark, the Dow Jones Wilshire 5000 Composite Index, which was up 3.50%. The best performing sectors in the Fund were Health Care and Energy. Conversely, Information Technology was the worst performing sector.

**The Schwab International Index Fund** was up 8.09%, outperforming its benchmark, the Schwab International Index, which was up 7.87% for the six-month report period. Within the Fund, Australia was the best performing country, while Singapore contributed the least to returns. The top sectors were Consumer Staples and Health Care, while Information Technology performed as poorly overseas as it did in the U.S.

Source of Sector Classification: S&P and MSCI. 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 CSIM and Schwab. Without these reductions, the funds' total returns 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.

Small-company stocks are subject to greater volatility than other asset categories. Foreign securities can involve risks such as political and economic instability and currency risk.

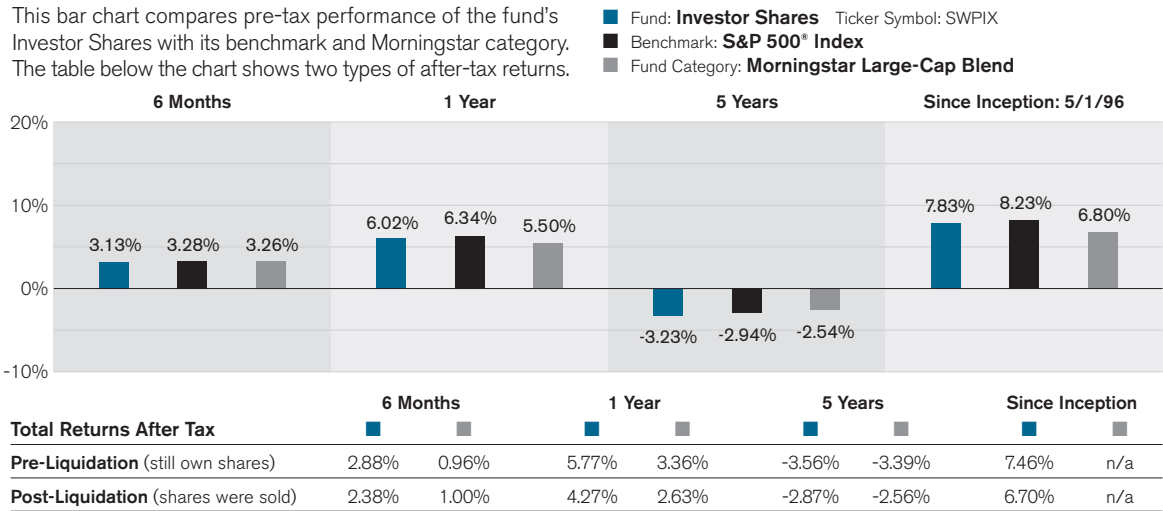
Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

# Schwab S&P 500 Index Fund

## Investor Shares Performance as of 4/30/05

### Pre- and Post-Tax Average Annual Total Returns<sup>1,2</sup>

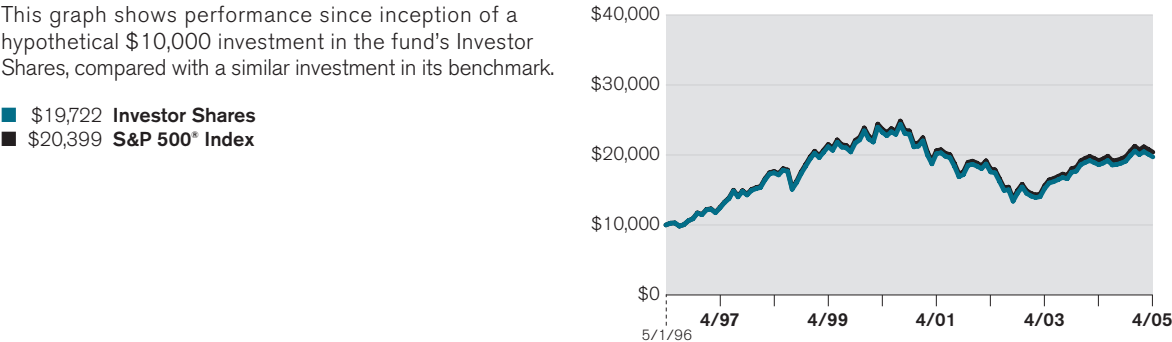
This bar chart compares pre-tax performance of the fund's Investor Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.



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>2</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.



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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

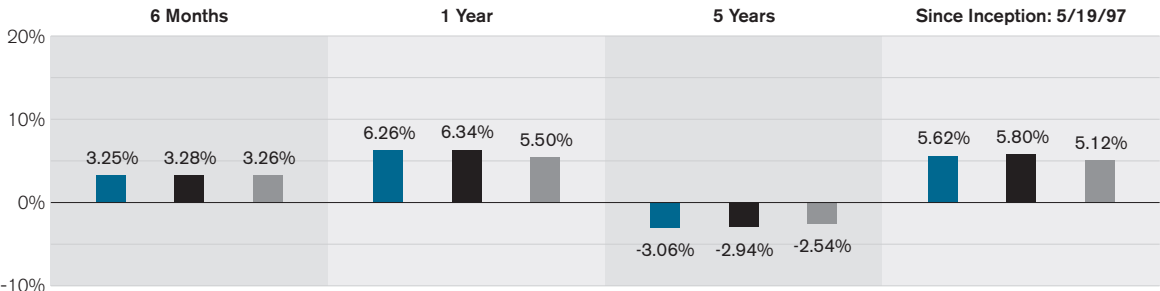
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 4/30/05

Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund's Select Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

Fund: **Select Shares** Ticker Symbol: SWPPX  
Benchmark: **S&P 500® Index**  
Fund Category: **Morningstar Large-Cap Blend**



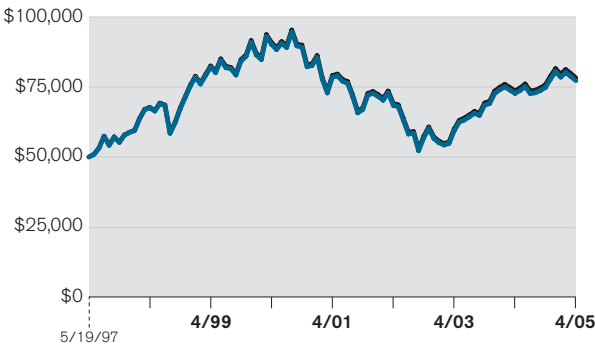
| Total Returns After Tax             | 6 Months | 1 Year | 5 Years | Since Inception |
|-------------------------------------|----------|--------|---------|-----------------|
| Pre-Liquidation (still own shares)  | 2.99%    | 0.96%  | 5.98%   | 5.20%           |
| Post-Liquidation (shares were sold) | 2.48%    | 1.00%  | 4.45%   | 4.67%           |

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>2</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.

\$77,245 **Select Shares**  
\$78,278 **S&P 500® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

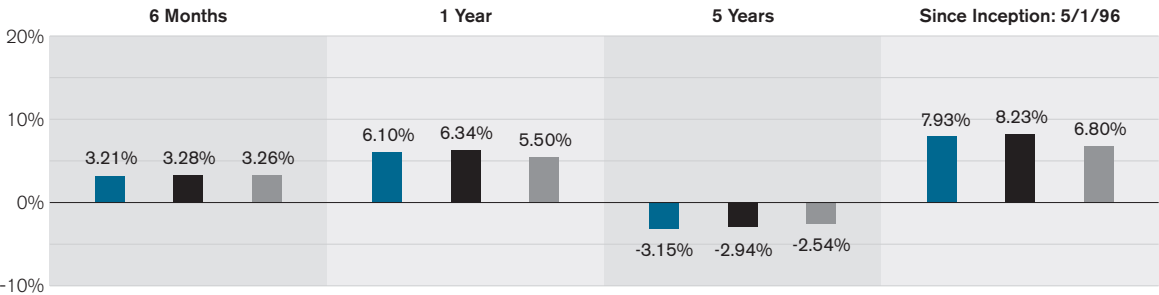
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

e.Shares® Performance as of 4/30/05

Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund's e.Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

Fund: **e.Shares** Ticker Symbol: SWPEX  
Benchmark: **S&P 500® Index**  
Fund Category: **Morningstar Large-Cap Blend**



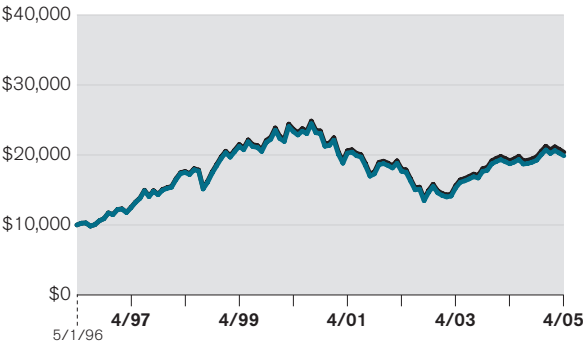
| Total Returns After Tax             | 6 Months | 1 Year | 5 Years | Since Inception |
|-------------------------------------|----------|--------|---------|-----------------|
| Pre-Liquidation (still own shares)  | 2.95%    | 5.84%  | -3.50%  | 7.53%           |
| Post-Liquidation (shares were sold) | 2.45%    | 4.34%  | -2.82%  | 6.77%           |

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>2</sup>

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

\$19,882 e.Shares  
\$20,399 S&P 500® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

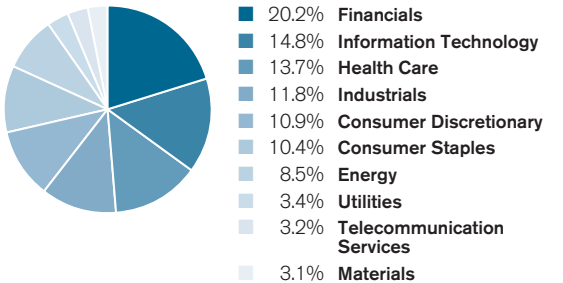
|  |          |
|--|----------|
| Number of Holdings   | 501      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$91,039 |
| Price/Earnings Ratio (P/E)                                 | 19.5     |
| Price/Book Ratio (P/B)                                     | 2.8      |
| Portfolio Turnover Rate <sup>2</sup>                       | 3%       |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |
| e.Shares (\$500 for retirement and custodial accounts)     | \$1,000  |

Top Holdings<sup>4</sup>

|                         | % of Net Assets |
|-------------------------|-----------------|
| 1 General Electric Co.  | 3.6%            |
| 2 Exxon Mobil Corp.     | 3.4%            |
| 3 Microsoft Corp.       | 2.4%            |
| 4 Citigroup, Inc.       | 2.3%            |
| 5 Johnson & Johnson     | 1.9%            |
| 6 Pfizer, Inc.          | 1.9%            |
| 7 Bank of America Corp. | 1.7%            |
| 8 Wal-Mart Stores, Inc. | 1.5%            |
| 9 Intel Corp.           | 1.4%            |
| 10 Procter & Gamble Co. | 1.3%            |
| Total                   | 21.4%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

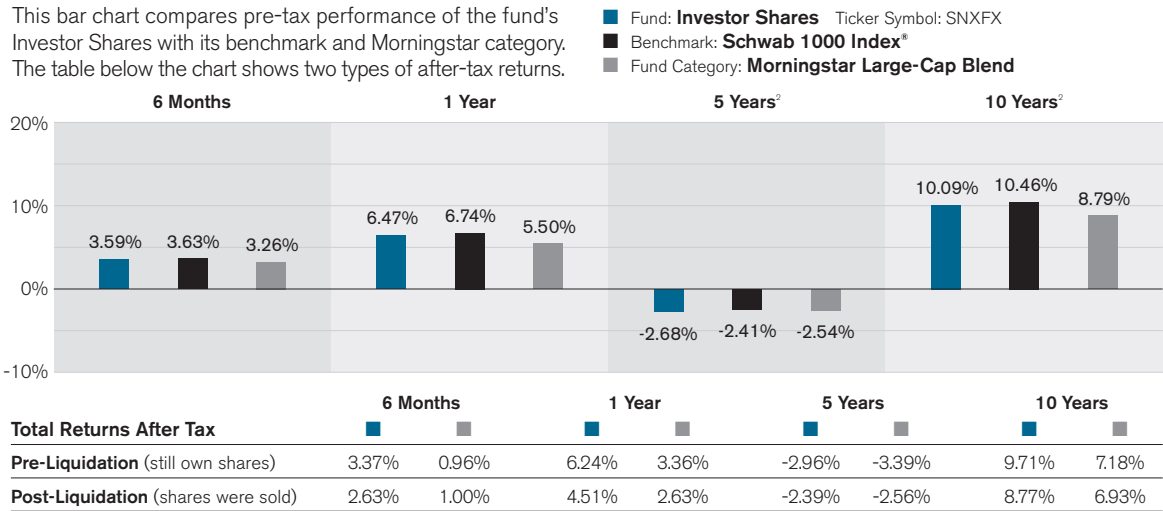
<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

# Schwab 1000 Index® Fund

## Investor Shares Performance as of 4/30/05

### Pre- and Post-Tax Average Annual Total Returns<sup>1</sup>

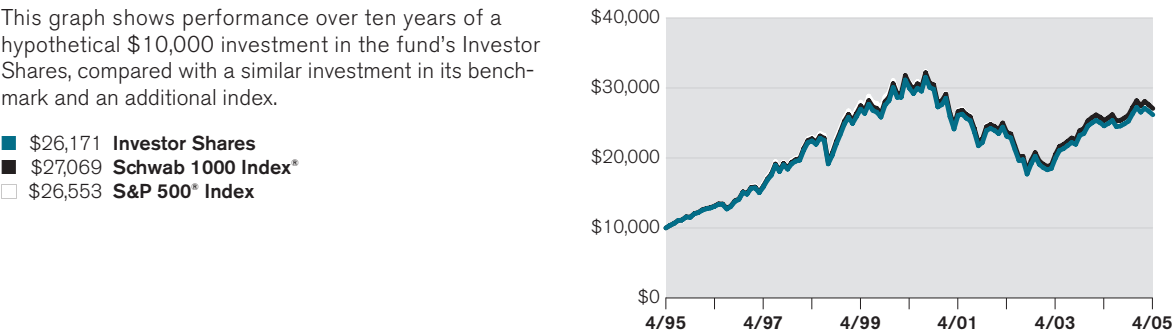
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### Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund's Investor Shares, compared with a similar investment in its benchmark and an additional 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

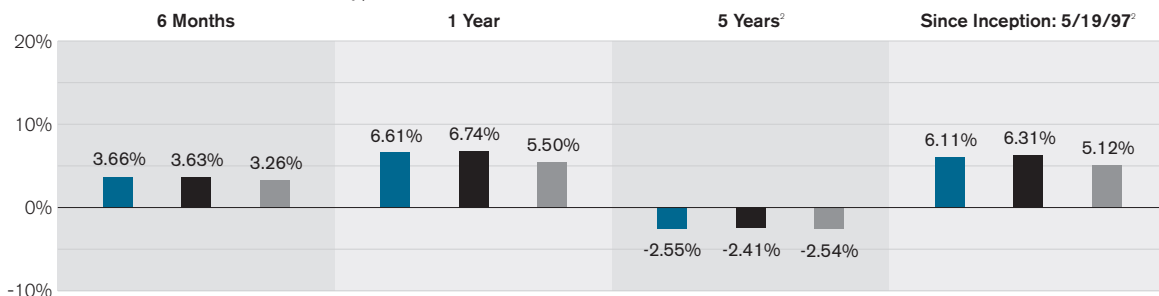
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

## Select Shares® Performance as of 4/30/05

Pre- and Post-Tax Average Annual Total Returns<sup>1</sup>

This bar chart compares pre-tax performance of the fund's Select Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

■ Fund: **Select Shares** Ticker Symbol: SNXSX  
 ■ Benchmark: **Schwab 1000 Index®**  
 ■ Fund Category: **Morningstar Large-Cap Blend**



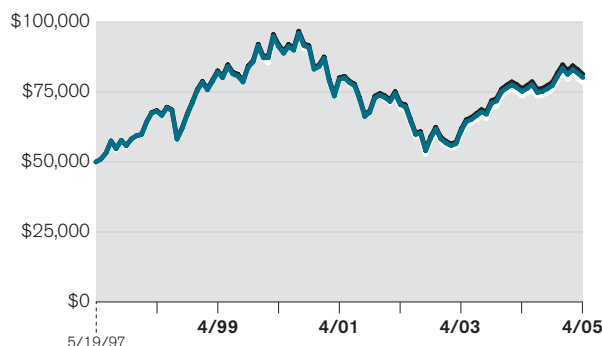
| Total Returns After Tax                    | 6 Months | 1 Year | 5 Years | Since Inception |
|--|----------|--------|---------|-----------------|
| <b>Pre-Liquidation</b> (still own shares)  | 3.43%    | 6.37%  | -2.87%  | 5.74%           |
| <b>Post-Liquidation</b> (shares were sold) | 2.70%    | 4.63%  | -2.31%  | 5.13%           |

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>2</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 and an additional index.

■ \$80,145 **Select Shares**  
 ■ \$81,362 **Schwab 1000 Index®**  
 □ \$78,278 **S&P 500® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

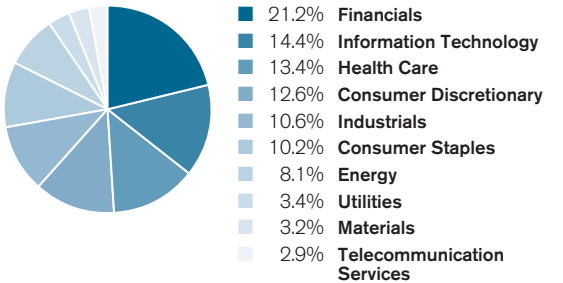
|  |          |
|--|----------|
| Number of Holdings   | 999      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$79,885 |
| Price/Earnings Ratio (P/E)                                 | 20.3     |
| Price/Book Ratio (P/B)                                     | 2.8      |
| Portfolio Turnover Rate <sup>2</sup>                       | 5%       |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Top Holdings<sup>4</sup>

| Security                | % of Net Assets |
|-------------------------|-----------------|
| 1 General Electric Co.  | 3.0%            |
| 2 Exxon Mobil Corp.     | 2.9%            |
| 3 Microsoft Corp.       | 2.1%            |
| 4 Citigroup, Inc.       | 1.9%            |
| 5 Pfizer, Inc.          | 1.6%            |
| 6 Johnson & Johnson     | 1.6%            |
| 7 Wal-Mart Stores, Inc. | 1.6%            |
| 8 Bank of America Corp. | 1.4%            |
| 9 Intel Corp.           | 1.2%            |
| 10 Procter & Gamble Co. | 1.1%            |
| Total                   | 18.4%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

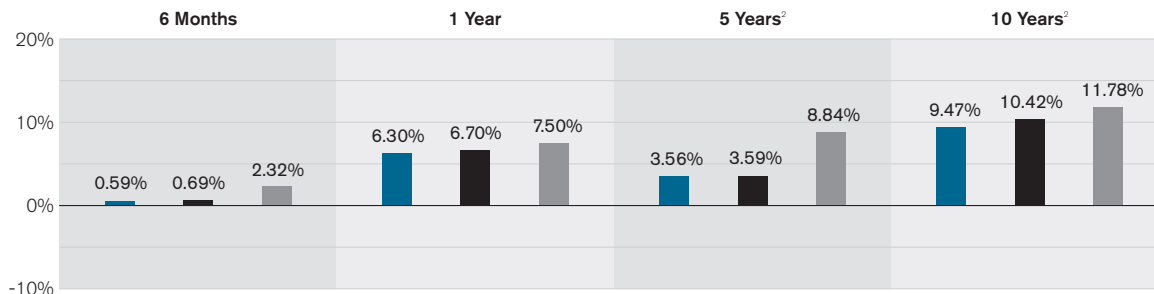
# Schwab Small-Cap Index Fund®









## Investor Shares Performance as of 4/30/05

### Pre- and Post-Tax Average Annual Total Returns<sup>1</sup>

This bar chart compares pre-tax performance of the fund's Investor Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

■ Fund: **Investor Shares** Ticker Symbol: SWSMX  
 ■ Benchmark: **Schwab Small-Cap Index®**  
 ■ Fund Category: **Morningstar Small-Cap Blend**



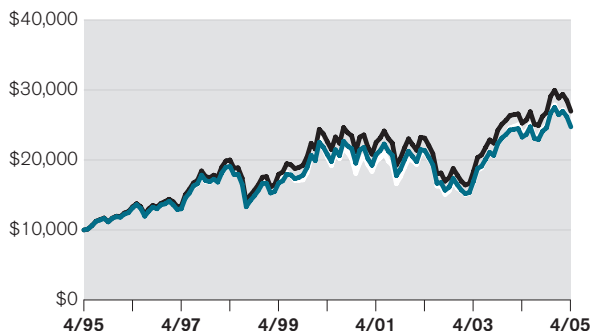
|                                     | 6 Months  |   | 1 Year  |   | 5 Years   |   | 10 Years  |   |
|-------------------------------------|---|---|---|---|---|---|---|---|
| Total Returns After Tax             |  |  |  |  |  |  |  |  |
| Pre-Liquidation (still own shares)  | 0.50%   | -0.36%  | 6.21%   | 4.77%   | 2.51%   | 7.45%   | 8.72%   | 9.73%   |
| Post-Liquidation (shares were sold) | 0.52%   | 1.33%   | 4.24%   | 4.87%   | 2.50%   | 6.99%   | 8.02%   | 9.38%   |

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>2</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund's Investor Shares, compared with a similar investment in its benchmark and an additional index.

■ \$24,728 **Investor Shares**  
 ■ \$26,957 **Schwab Small-Cap Index®**  
 □ \$24,865 **Russell 2000® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

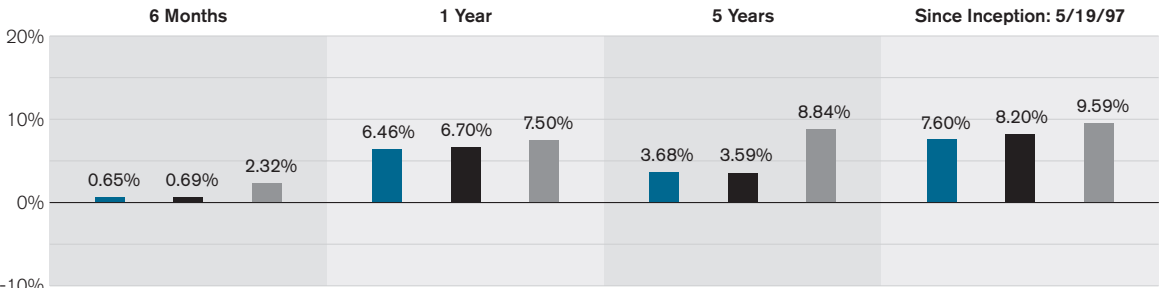
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 4/30/05

Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund's Select Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

Fund: **Select Shares** Ticker Symbol: SWSSX  
Benchmark: **Schwab Small-Cap Index®**  
Fund Category: **Morningstar Small-Cap Blend**



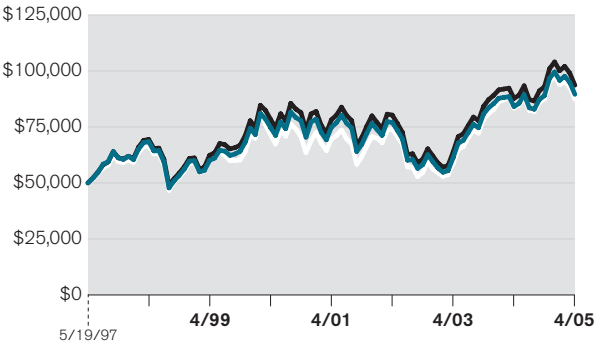
| Total Returns After Tax             | 6 Months |        | 1 Year |       | 5 Years |       | Since Inception |     |
|-------------------------------------|----------|--------|--------|-------|---------|-------|-----------------|-----|
| Pre-Liquidation (still own shares)  | 0.53%    | -0.36% | 6.34%  | 4.77% | 2.59%   | 7.45% | 6.68%           | n/a |
| Post-Liquidation (shares were sold) | 0.58%    | 1.33%  | 4.37%  | 4.87% | 2.58%   | 6.99% | 6.17%           | n/a |

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>2</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 and an additional index.

\$89,555 **Select Shares**  
\$93,628 **Schwab Small-Cap Index®**  
\$87,356 **Russell 2000® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

## Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>

## Statistics

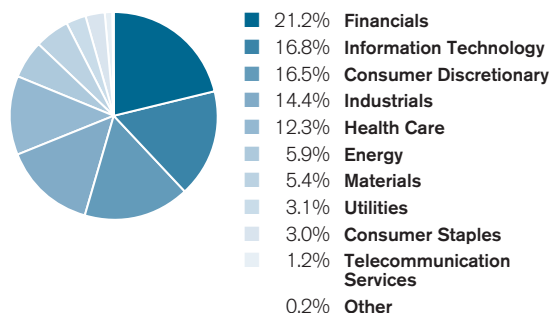
|  |          |
|--|----------|
| Number of Holdings   | 1,153    |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$1,080  |
| Price/Earnings Ratio (P/E)                                 | 27.4     |
| Price/Book Ratio (P/B)                                     | 2.0      |
| Portfolio Turnover Rate <sup>2</sup>                       | 38%      |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Top Holdings<sup>4</sup>

| Security                            | % of Net Assets |
|-------------------------------------|-----------------|
| ① Accredo Health, Inc.              | 0.2%            |
| ② Cerner Corp.                      | 0.2%            |
| ③ VCA Antech, Inc.                  | 0.2%            |
| ④ Vintage Petroleum, Inc.           | 0.2%            |
| ⑤ Bebe Stores                       | 0.2%            |
| ⑥ Valassis Communications, Inc.     | 0.2%            |
| ⑦ Sybase, Inc.                      | 0.2%            |
| ⑧ Downey Financial Corp.            | 0.2%            |
| ⑨ CACI International, Inc., Class A | 0.2%            |
| ⑩ USG Corp.                         | 0.2%            |
| <b>Total</b>                        | <b>2.0%</b>     |

## Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

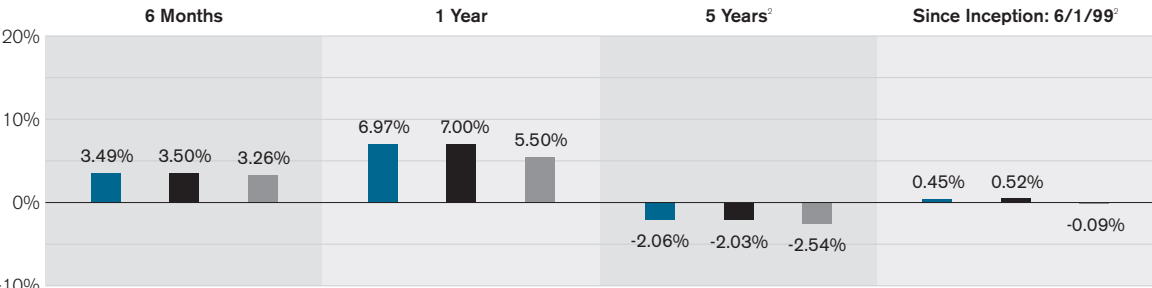
# Schwab Total Stock Market Index Fund®









## Investor Shares Performance as of 4/30/05

### Pre- and Post-Tax Average Annual Total Returns<sup>1</sup>

This bar chart compares pre-tax performance of the fund's Investor Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

- Fund: **Investor Shares** Ticker Symbol: SWTIX
- Benchmark: **Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>**
- Fund Category: **Morningstar Large-Cap Blend**



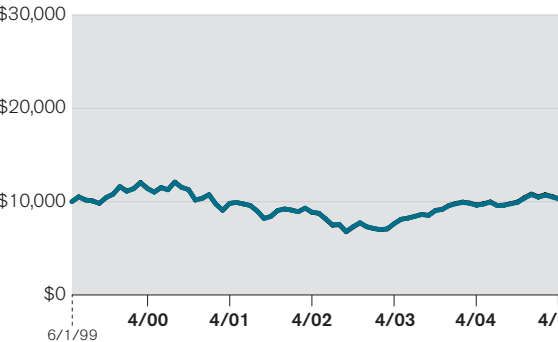
|                                     | 6 Months  |   | 1 Year  |   | 5 Years   |   | Since Inception   |   |
|-------------------------------------|---|---|---|---|---|---|---|---|
| Total Returns After Tax             |  |  |  |  |  |  |  |  |
| Pre-Liquidation (still own shares)  | 3.29%   | 0.96%   | 6.77%   | 3.36%   | -2.34%  | -3.39%  | 0.18%   | n/a   |
| Post-Liquidation (shares were sold) | 2.53%   | 1.00%   | 4.80%   | 2.63%   | -1.88%  | -2.56%  | 0.25%   | n/a   |

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>2</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.

- \$10,272 **Investor Shares**
- \$10,318 **Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>**



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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

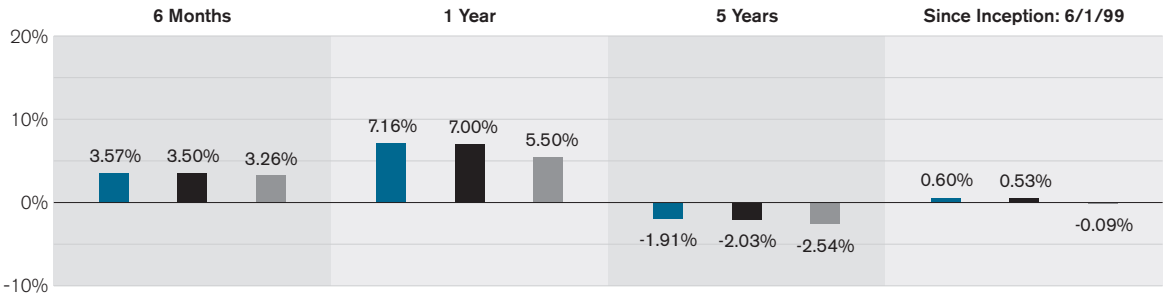
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 4/30/05

Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund's Select Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

Fund: **Select Shares** Ticker Symbol: SWTSX  
Benchmark: **Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>**  
Fund Category: **Morningstar Large-Cap Blend**



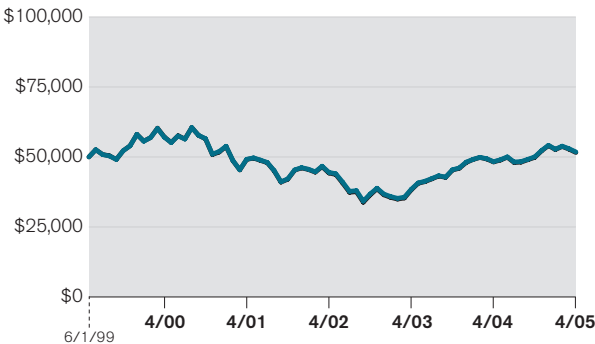
| Total Returns After Tax             | 6 Months | 1 Year | 5 Years | Since Inception |
|-------------------------------------|----------|--------|---------|-----------------|
| Pre-Liquidation (still own shares)  | 3.36%    | 6.94%  | -2.23%  | 0.30%           |
| Post-Liquidation (shares were sold) | 2.61%    | 4.96%  | -1.77%  | 0.35%           |

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>2</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.

\$51,810 **Select Shares**  
\$51,590 **Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>**



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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

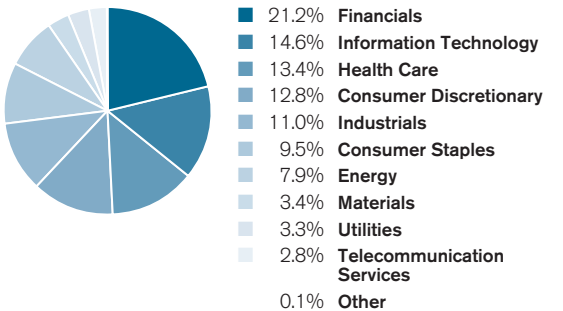
|  |          |
|--|----------|
| Number of Holdings   | 2,905    |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$72,698 |
| Price/Earnings Ratio (P/E)                                 | 20.4     |
| Price/Book Ratio (P/B)                                     | 2.7      |
| Portfolio Turnover Rate <sup>2</sup>                       | 1%       |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Top Holdings<sup>4</sup>

| Security                | % of Net Assets |
|-------------------------|-----------------|
| 1 General Electric Co.  | 2.7%            |
| 2 Exxon Mobil Corp.     | 2.6%            |
| 3 Microsoft Corp.       | 1.9%            |
| 4 Citigroup, Inc.       | 1.7%            |
| 5 Pfizer, Inc.          | 1.5%            |
| 6 Johnson & Johnson     | 1.5%            |
| 7 Wal-Mart Stores, Inc. | 1.4%            |
| 8 Bank of America Corp. | 1.3%            |
| 9 Intel Corp.           | 1.1%            |
| 10 Procter & Gamble Co. | 1.0%            |
| Total                   | 16.7%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

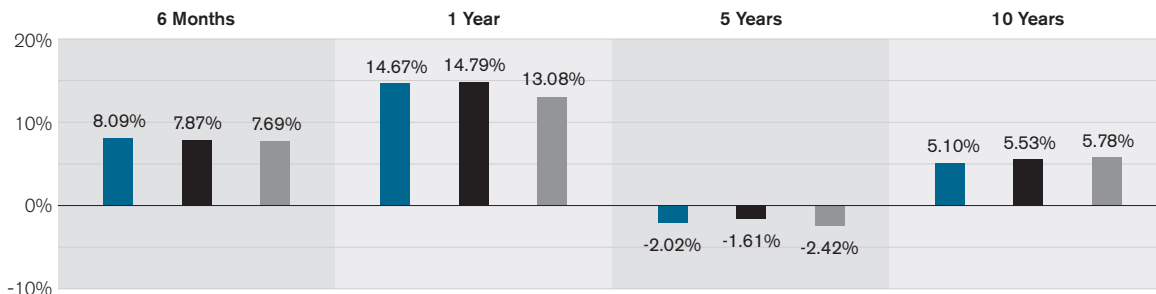
# Schwab International Index Fund®

## Investor Shares Performance as of 4/30/05

### Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund's Investor Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

■ Fund: **Investor Shares** Ticker Symbol: SWINX  
 ■ Benchmark: **Schwab International Index®**  
 ■ Fund Category: **Morningstar Foreign Large-Cap Blend**



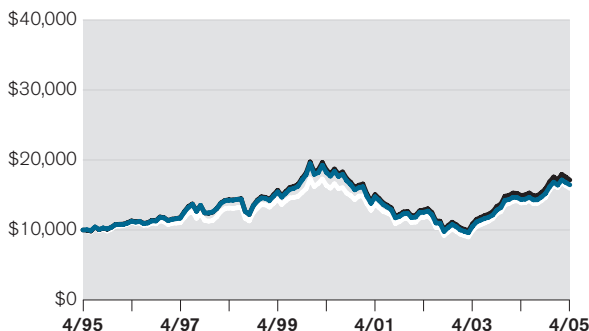
| Total Returns After Tax                    | 6 Months | 1 Year | 5 Years | 10 Years |
|--|----------|--------|---------|----------|
| <b>Pre-Liquidation</b> (still own shares)  | 7.71%    | 14.26% | -2.39%  | 4.75%    |
| <b>Post-Liquidation</b> (shares were sold) | 5.55%    | 9.84%  | -1.86%  | 4.29%    |

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>2</sup>

This graph shows performance over ten years of a hypothetical \$10,000 investment in the fund's Investor Shares, compared with a similar investment in its benchmark and an additional index.

■ \$16,445 **Investor Shares**  
 ■ \$17,137 **Schwab International Index®**  
 □ \$15,933 **MSCI EAFE® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

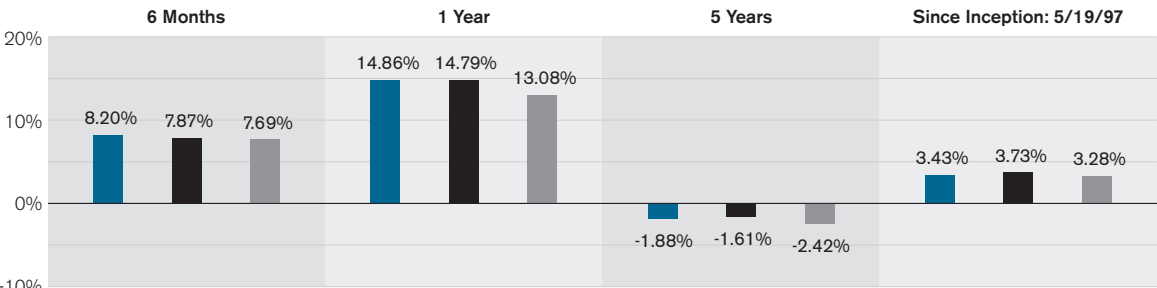
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 4/30/05

Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund's Select Shares with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

Fund: **Select Shares** Ticker Symbol: SWISX  
Benchmark: **Schwab International Index®**  
Fund Category: **Morningstar Foreign Large-Cap Blend**



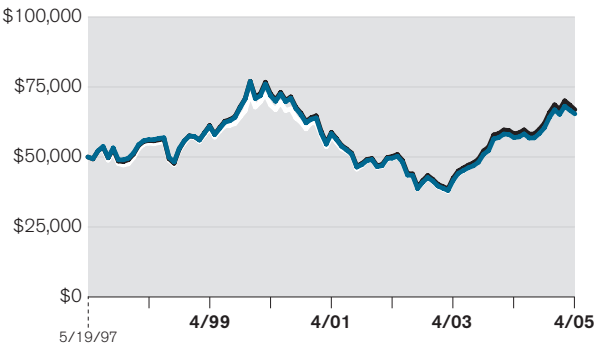
| Total Returns After Tax             | 6 Months |       | 1 Year |        | 5 Years |        | Since Inception |     |
|-------------------------------------|----------|-------|--------|--------|---------|--------|-----------------|-----|
| Pre-Liquidation (still own shares)  | 7.79%    | 5.29% | 14.42% | 10.78% | -2.29%  | -3.39% | 3.04%           | n/a |
| Post-Liquidation (shares were sold) | 5.65%    | 3.76% | 10.00% | 7.39%  | -1.77%  | -2.56% | 2.77%           | n/a |

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>2</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 and an additional index.

■ \$65,395 **Select Shares**  
■ \$66,901 **Schwab International Index®**  
□ \$66,712 **MSCI EAFE® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

## Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>Top Holdings<sup>2</sup>

| Security                           | % of Net Assets |
|------------------------------------|-----------------|
| ① BP PLC                           | 3.0%            |
| ② HSBC Holdings PLC                | 2.4%            |
| ③ Vodafone Group PLC               | 2.3%            |
| ④ GlaxoSmithKline PLC              | 2.0%            |
| ⑤ Total SA                         | 1.9%            |
| ⑥ Royal Dutch Petroleum Co.        | 1.6%            |
| ⑦ Novartis AG, Registered          | 1.6%            |
| ⑧ Nestle SA, Registered            | 1.5%            |
| ⑨ Toyota Motor Corp.               | 1.3%            |
| ⑩ Royal Bank of Scotland Group PLC | 1.3%            |
| <b>Total</b>                       | <b>18.9%</b>    |

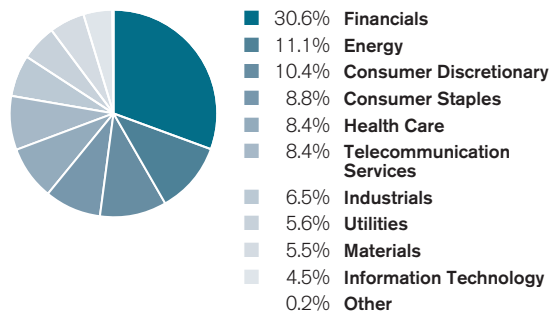
## Statistics

|  |          |
|--|----------|
| <b>Number of Holdings</b>                                  | 355      |
| <b>Weighted Average Market Cap</b> (\$ x 1,000,000)        | \$57,739 |
| <b>Price/Earnings Ratio</b> (P/E)                          | 16.3     |
| <b>Price/Book Ratio</b> (P/B)                              | 2.1      |
| <b>Portfolio Turnover Rate</b> <sup>3</sup>                | 9%       |
| <b>Minimum Initial Investment</b> <sup>4</sup>             |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

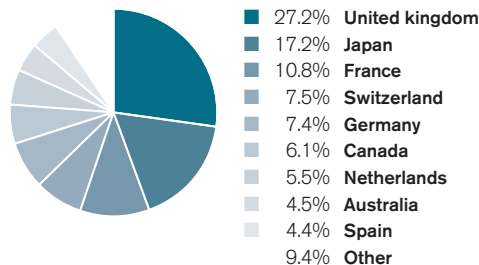
## Sector and Country Weightings % of Investments

These charts show the fund's sector and country composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.

## Sector



## Country



Portfolio holdings may have changed since the report date. Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser.

<sup>3</sup> Not annualized.

<sup>4</sup> Please see prospectus for further detail and eligibility requirements.

# Fund Expenses

## 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 November 1, 2004 and held through April 30, 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><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period <sup>2</sup><br>11/1/04–4/30/05 |
|---|--|--|--|--|
| <b>Schwab S&amp;P 500 Index Fund</b>      |  |  |  |  |
| <i>Investor Shares</i>                    |  |  |  |  |
| Actual Return                             | 0.37%                                      | \$1,000                                  | \$1,031.30   | \$1.86   |
| Hypothetical 5% Return                    | 0.37%                                      | \$1,000                                  | \$1,022.97   | \$1.85   |
| <i>Select Shares<sup>®</sup></i>          |  |  |  |  |
| Actual Return                             | 0.19%                                      | \$1,000                                  | \$1,032.50   | \$0.95   |
| Hypothetical 5% Return                    | 0.19%                                      | \$1,000                                  | \$1,023.86   | \$0.95   |
| <i>e.Shares<sup>®</sup></i>               |  |  |  |  |
| Actual Return                             | 0.26%                                      | \$1,000                                  | \$1,032.10   | \$1.31   |
| Hypothetical 5% Return                    | 0.26%                                      | \$1,000                                  | \$1,023.51   | \$1.30   |
| <b>Schwab 1000 Index<sup>®</sup> Fund</b> |  |  |  |  |
| <i>Investor Shares</i>                    |  |  |  |  |
| Actual Return                             | 0.50%                                      | \$1,000                                  | \$1,035.90   | \$2.54   |
| Hypothetical 5% Return                    | 0.50%                                      | \$1,000                                  | \$1,022.30   | \$2.52   |
| <i>Select Shares</i>                      |  |  |  |  |
| Actual Return                             | 0.35%                                      | \$1,000                                  | \$1,036.60   | \$1.78   |
| Hypothetical 5% Return                    | 0.35%                                      | \$1,000                                  | \$1,023.05   | \$1.77   |

<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 share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

## Fund Expenses continued

|  | Expense Ratio <sup>1</sup><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period <sup>2</sup><br>11/1/04–4/30/05 |
|--|--|--|--|--|
| <b>Schwab Small-Cap Index Fund®</b>          |  |  |  |  |
| <i>Investor Shares</i>                       |  |  |  |  |
| Actual Return                                | 0.58%                                      | \$1,000                                  | \$1,005.90   | \$2.90   |
| Hypothetical 5% Return                       | 0.58%                                      | \$1,000                                  | \$1,021.90   | \$2.93   |
| <i>Select Shares</i>                         |  |  |  |  |
| Actual Return                                | 0.42%                                      | \$1,000                                  | \$1,006.50   | \$2.09   |
| Hypothetical 5% Return                       | 0.42%                                      | \$1,000                                  | \$1,022.71   | \$2.10   |
| <b>Schwab Total Stock Market Index Fund®</b> |  |  |  |  |
| <i>Investor Shares</i>                       |  |  |  |  |
| Actual Return                                | 0.54%                                      | \$1,000                                  | \$1,034.90   | \$2.75   |
| Hypothetical 5% Return                       | 0.54%                                      | \$1,000                                  | \$1,022.10   | \$2.73   |
| <i>Select Shares</i>                         |  |  |  |  |
| Actual Return                                | 0.39%                                      | \$1,000                                  | \$1,035.70   | \$1.97   |
| Hypothetical 5% Return                       | 0.39%                                      | \$1,000                                  | \$1,022.86   | \$1.95   |
| <b>Schwab International Index Fund®</b>      |  |  |  |  |
| <i>Investor Shares</i>                       |  |  |  |  |
| Actual Return                                | 0.69%                                      | \$1,000                                  | \$1,080.90   | \$3.56   |
| Hypothetical 5% Return                       | 0.69%                                      | \$1,000                                  | \$1,021.38   | \$3.46   |
| <i>Select Shares</i>                         |  |  |  |  |
| Actual Return                                | 0.50%                                      | \$1,000                                  | \$1,082.00   | \$2.58   |
| Hypothetical 5% Return                       | 0.50%                                      | \$1,000                                  | \$1,022.32   | \$2.50   |

<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 share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

# Schwab S&P 500 Index Fund

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 17.61                | 16.36                | 13.79                | 16.45                | 22.15                | 21.17                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.19                 | 0.23                 | 0.20                 | 0.20                 | 0.17                 | 0.17                 |
| Net realized and unrealized gains or losses     | 0.37                 | 1.23                 | 2.57                 | (2.68)               | (5.70)               | 1.06                 |
| Total income or loss from investment operations | 0.56                 | 1.46                 | 2.77                 | (2.48)               | (5.53)               | 1.23                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.30)               | (0.21)               | (0.20)               | (0.18)               | (0.17)               | (0.18)               |
| Distributions from net realized gains           | –                    | –                    | –                    | –                    | –                    | (0.07)               |
| Total distributions                             | (0.30)               | (0.21)               | (0.20)               | (0.18)               | (0.17)               | (0.25)               |
| Net asset value at end of period                | 17.87                | 17.61                | 16.36                | 13.79                | 16.45                | 22.15                |
| Total return (%)                                | 3.13 <sup>1</sup>    | 9.03                 | 20.39                | (15.32)              | (25.11)              | 5.81                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.37 <sup>2</sup>    | 0.37                 | 0.36                 | 0.35                 | 0.35                 | 0.36 <sup>3</sup>    |
| Gross operating expenses                        | 0.42 <sup>2</sup>    | 0.45                 | 0.46                 | 0.46                 | 0.46                 | 0.52                 |
| Net investment income                           | 2.06 <sup>2</sup>    | 1.35                 | 1.45                 | 1.21                 | 0.95                 | 0.81                 |
| Portfolio turnover rate                         | 3 <sup>1</sup>       | 3                    | 3                    | 8                    | 4                    | 9                    |
| Net assets, end of period (\$ x 1,000,000)      | 3,813                | 3,849                | 3,510                | 2,760                | 3,070                | 3,617                |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.35% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                                   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 17.68                | 16.41                | 13.83                | 16.50                | 22.21                | 21.23                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.21                 | 0.26                 | 0.24                 | 0.22                 | 0.20                 | 0.20                 |
| Net realized and unrealized gains or losses     | 0.37                 | 1.24                 | 2.57                 | (2.69)               | (5.71)               | 1.06                 |
| Total income or loss from investment operations | 0.58                 | 1.50                 | 2.81                 | (2.47)               | (5.51)               | 1.26                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.32)               | (0.23)               | (0.23)               | (0.20)               | (0.20)               | (0.21)               |
| Distributions from net realized gains           | –                    | –                    | –                    | –                    | –                    | (0.07)               |
| Total distributions                             | (0.32)               | (0.23)               | (0.23)               | (0.20)               | (0.20)               | (0.28)               |
| Net asset value at end of period                | 17.94                | 17.68                | 16.41                | 13.83                | 16.50                | 22.21                |
| Total return (%)                                | 3.25 <sup>1</sup>    | 9.25                 | 20.62                | (15.20)              | (24.97)              | 5.94                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.19 <sup>2</sup>    | 0.19                 | 0.19                 | 0.19                 | 0.19                 | 0.20 <sup>3</sup>    |
| Gross operating expenses                        | 0.27 <sup>2</sup>    | 0.30                 | 0.31                 | 0.31                 | 0.31                 | 0.36                 |
| Net investment income                           | 2.25 <sup>2</sup>    | 1.53                 | 1.63                 | 1.37                 | 1.11                 | 0.98                 |
| Portfolio turnover rate                         | 3 <sup>1</sup>       | 3                    | 3                    | 8                    | 4                    | 9                    |
| Net assets, end of period (\$ x 1,000,000)      | 3,805                | 4,119                | 3,692                | 3,029                | 3,563                | 4,357                |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.19% if certain non-routine expenses (proxy fees) had not been included.

## Financial Highlights

| e.Shares  | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 17.62                | 16.37                | 13.79                | 16.46                | 22.17                | 21.21                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.21                 | 0.26                 | 0.23                 | 0.23                 | 0.20                 | 0.20                 |
| Net realized and unrealized gains or losses     | 0.36                 | 1.21                 | 2.56                 | (2.71)               | (5.71)               | 1.04                 |
| Total income or loss from investment operations | 0.57                 | 1.47                 | 2.79                 | (2.48)               | (5.51)               | 1.24                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.31)               | (0.22)               | (0.21)               | (0.19)               | (0.20)               | (0.21)               |
| Distributions from net realized gains           | —                    | —                    | —                    | —                    | —                    | (0.07)               |
| Total distributions                             | (0.31)               | (0.22)               | (0.21)               | (0.19)               | (0.20)               | (0.28)               |
| Net asset value at end of period                | 17.88                | 17.62                | 16.37                | 13.79                | 16.46                | 22.17                |
| Total return (%)                                | 3.21 <sup>1</sup>    | 9.10                 | 20.55                | (15.32)              | (25.02)              | 5.84                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.26 <sup>2</sup>    | 0.28                 | 0.28                 | 0.28                 | 0.28                 | 0.29 <sup>3</sup>    |
| Gross operating expenses                        | 0.27 <sup>2</sup>    | 0.30                 | 0.31                 | 0.31                 | 0.31                 | 0.36                 |
| Net investment income                           | 2.19 <sup>2</sup>    | 1.44                 | 1.54                 | 1.28                 | 1.02                 | 0.88                 |
| Portfolio turnover rate                         | 3 <sup>1</sup>       | 3                    | 3                    | 8                    | 4                    | 9                    |
| Net assets, end of period (\$ x 1,000,000)      | 237                  | 249                  | 246                  | 220                  | 304                  | 441                  |

\* Unaudited.

<sup>1</sup> Not annualized.<sup>2</sup> Annualized.<sup>3</sup> The ratio of net operating expenses would have been 0.28% if certain non-routine expenses (proxy fees) had not been included.

**Summary of Portfolio Holdings** as of April 30, 2005, unaudited

This section shows the fund's 50 largest portfolio holdings in unaffiliated issuers and any holding exceeding 1% of the fund's net assets. The remaining securities held by the fund are grouped as "Other Securities" in each category. You can request a complete schedule of portfolio holdings as of the end of the report period, free of charge, by calling Schwab Funds® at 1-800-435-4000. This complete schedule, filed on the fund's Form N-CSR, is also available on the SEC's website at <http://www.sec.gov>. In addition, 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 Form N-Q is available on the SEC's website 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. A copy of the fund's most recently filed quarterly schedule of portfolio holdings, included on the fund's Form N-CSR (with respect to the fund's second and fourth fiscal quarters) or Form N-Q (with respect to the fund's first and third fiscal quarters), 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. With the top ten holdings, the number in the circle is the security's rank among the top ten. For the characteristics of the securities included under "Other Securities", please refer to the complete schedule of portfolio holdings.

**①** Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser
- All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>99.8%</b>         | <b>Common Stock</b>                               | 7,050,716          | 7,841,207           |
| <b>0.0%</b>          | <b>U.S. Treasury Obligations</b>                  | 947                | 947                 |
| <b>99.8%</b>         | <b>Total Investments</b>                          | <b>7,051,663</b>   | <b>7,842,154</b>    |
| <b>7.4%</b>          | <b>Collateral Invested for Securities on Loan</b> | 574,423            | 574,423             |
| <b>(7.2)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (561,978)           |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>7,854,599</b>    |

| Security and Number of Shares           | % of Net Assets | Value<br>(\$ x 1,000) |
|---|-----------------|-----------------------|
| <b>Common Stock 99.8% of net assets</b> |                 |                       |

**Automobiles & Components 0.6%**

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>0.6</b> | <b>46,891</b> |
|------------------|------------|---------------|

**Banks 7.7%**

|                                   |            |                |
|-----------------------------------|------------|----------------|
| ⑦ Bank of America Corp. 2,999,740 | 1.7        | 135,108        |
| ■ Fannie Mae 715,743              | 0.5        | 38,614         |
| U.S. Bancorp 1,370,545            | 0.5        | 38,238         |
| Wachovia Corp. 1,173,320          | 0.8        | 60,051         |
| Wells Fargo & Co. 1,254,900       | 1.0        | 75,219         |
| Other Securities                  | 3.2        | 255,348        |
|                                   | <b>7.7</b> | <b>602,578</b> |

**Capital Goods 9.2%**

|                                     |            |                |
|-------------------------------------|------------|----------------|
| 3M Co. 571,569                      | 0.6        | 43,708         |
| ▲① General Electric Co. 7,838,044   | 3.6        | 283,737        |
| ■ Tyco International Ltd. 1,489,742 | 0.6        | 46,644         |
| United Technologies Corp. 378,665   | 0.5        | 38,518         |
| Other Securities                    | 3.9        | 308,638        |
|                                     | <b>9.2</b> | <b>721,245</b> |

**Commercial Services & Supplies 0.9%**

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>0.9</b> | <b>73,513</b> |
|------------------|------------|---------------|

**Summary of Portfolio Holdings** continued

| Security and Number of Shares                    | % of Net Assets | Value (\$ x 1,000) |
|--|-----------------|--------------------|
| <b>Consumer Durables &amp; Apparel 1.2%</b>      |                 |                    |
| Other Securities                                 | 1.2             | 92,724             |
| <b>Diversified Financials 7.8%</b>               |                 |                    |
| American Express Co. 868,087                     | 0.6             | 45,748             |
| ■ The Charles Schwab Corp. 856,651               | 0.1             | 8,866              |
| ④ Citigroup, Inc. 3,864,055                      | 2.3             | 181,456            |
| JPMorgan Chase & Co. 2,629,773                   | 1.2             | 93,331             |
| Merrill Lynch & Co., Inc. 688,294                | 0.5             | 37,120             |
| Morgan Stanley 823,373                           | 0.6             | 43,326             |
| Other Securities                                 | 2.5             | 201,136            |
|  | <b>7.8</b>      | <b>610,983</b>     |
| <b>Energy 8.5%</b>                               |                 |                    |
| ChevronTexaco Corp. 1,557,321                    | 1.0             | 80,981             |
| ConocoPhillips 514,909                           | 0.7             | 53,988             |
| ② Exxon Mobil Corp. 4,721,923                    | 3.4             | 269,291            |
| Other Securities                                 | 3.4             | 261,946            |
|  | <b>8.5</b>      | <b>666,206</b>     |
| <b>Food &amp; Staples Retailing 2.8%</b>         |                 |                    |
| ■▲③ Wal-Mart Stores, Inc. 2,507,092              | 1.5             | 118,184            |
| Other Securities                                 | 1.3             | 102,370            |
|  | <b>2.8</b>      | <b>220,554</b>     |
| <b>Food Beverage &amp; Tobacco 5.0%</b>          |                 |                    |
| ■ Altria Group, Inc. 1,530,793                   | 1.3             | 99,486             |
| The Coca-Cola Co. 1,676,447                      | 0.9             | 72,825             |
| PepsiCo, Inc. 1,240,967                          | 0.9             | 69,047             |
| Other Securities                                 | 1.9             | 153,073            |
|  | <b>5.0</b>      | <b>394,431</b>     |
| <b>Health Care Equipment &amp; Services 5.0%</b> |                 |                    |
| Medtronic, Inc. 895,053                          | 0.6             | 47,169             |
| UnitedHealth Group, Inc. 474,623                 | 0.6             | 44,857             |
| Other Securities                                 | 3.8             | 297,112            |
|  | <b>5.0</b>      | <b>389,138</b>     |

| Security and Number of Shares                   | % of Net Assets | Value (\$ x 1,000) |
|---|-----------------|--------------------|
| <b>Hotels Restaurants &amp; Leisure 1.5%</b>    |                 |                    |
| Other Securities                                | 1.5             | 114,721            |
| <b>Household &amp; Personal Products 2.6%</b>   |                 |                    |
| The Gillette Co. 733,546                        | 0.5             | 37,880             |
| ▲⑩ Procter & Gamble Co. 1,866,731               | 1.3             | 101,083            |
| Other Securities                                | 0.8             | 65,501             |
|   | <b>2.6</b>      | <b>204,464</b>     |
| <b>Insurance 4.1%</b>                           |                 |                    |
| American International Group, Inc. 1,927,413    | 1.2             | 98,009             |
| Other Securities                                | 2.9             | 224,945            |
|   | <b>4.1</b>      | <b>322,954</b>     |
| <b>Materials 3.1%</b>                           |                 |                    |
| Other Securities                                | 3.1             | 242,082            |
| <b>Media 3.9%</b>                               |                 |                    |
| • Comcast Corp., Class A 1,637,001              | 0.7             | 52,564             |
| • Time Warner, Inc. 3,401,045                   | 0.7             | 57,171             |
| Viacom, Inc., Class B 1,261,757                 | 0.6             | 43,682             |
| The Walt Disney Co. 1,515,087                   | 0.5             | 39,998             |
| Other Securities                                | 1.4             | 112,305            |
|   | <b>3.9</b>      | <b>305,720</b>     |
| <b>Pharmaceuticals &amp; Biotechnology 8.7%</b> |                 |                    |
| Abbott Laboratories 1,153,605                   | 0.7             | 56,711             |
| • Amgen, Inc. 926,976                           | 0.7             | 53,959             |
| Bristol-Myers Squibb Co. 1,445,017              | 0.5             | 37,571             |
| Eli Lilly & Co. 838,198                         | 0.6             | 49,009             |
| ⑤ Johnson & Johnson 2,200,563                   | 1.9             | 151,025            |
| Merck & Co., Inc. 1,634,020                     | 0.7             | 55,393             |
| ⑥ Pfizer, Inc. 5,521,031                        | 1.9             | 150,006            |
| Wyeth 988,721                                   | 0.6             | 44,433             |
| Other Securities                                | 1.1             | 88,747             |
|   | <b>8.7</b>      | <b>686,854</b>     |
| <b>Real Estate 0.6%</b>                         |                 |                    |
| Other Securities                                | 0.6             | 44,971             |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Retailing 3.8%**

|                            |            |                |
|----------------------------|------------|----------------|
| Home Depot, Inc. 1,625,066 | 0.7        | 57,479         |
| Other Securities           | 3.1        | 240,537        |
|                            | <b>3.8</b> | <b>298,016</b> |

**Semiconductors & Semiconductor Equipment 3.0%**

|                         |            |                |
|-------------------------|------------|----------------|
| ⑨ Intel Corp. 4,608,177 | 1.4        | 108,384        |
| Other Securities        | 1.6        | 130,216        |
|                         | <b>3.0</b> | <b>238,600</b> |

**Software & Services 5.4%**

|                              |            |                |
|------------------------------|------------|----------------|
| ▲③ Microsoft Corp. 7,482,586 | 2.4        | 189,309        |
| • Oracle Corp. 3,325,153     | 0.5        | 38,439         |
| Other Securities             | 2.5        | 195,413        |
|                              | <b>5.4</b> | <b>423,161</b> |

**Technology Hardware & Equipment 6.3%**

|   |            |                |
|---|------------|----------------|
| • Cisco Systems, Inc. 4,783,466                 | 1.1        | 82,658         |
| • Dell, Inc. 1,818,384                          | 0.8        | 63,334         |
| Hewlett-Packard Co. 2,142,791                   | 0.6        | 43,863         |
| International Business Machines Corp. 1,208,120 | 1.2        | 92,276         |
| Qualcomm, Inc. 1,217,843                        | 0.5        | 42,490         |
| Other Securities                                | 2.1        | 174,455        |
|   | <b>6.3</b> | <b>499,076</b> |

**Telecommunication Services 3.2%**

|  |            |                |
|--|------------|----------------|
| SBC Communications, Inc. 2,442,820     | 0.7        | 58,139         |
| Verizon Communications, Inc. 2,049,861 | 0.9        | 73,385         |
| Other Securities                       | 1.6        | 118,183        |
|  | <b>3.2</b> | <b>249,707</b> |

**Transportation 1.6%**

|  |            |                |
|--|------------|----------------|
| United Parcel Service, Inc., Class B 828,253 | 0.7        | 59,063         |
| Other Securities                             | 0.9        | 70,766         |
|  | <b>1.6</b> | <b>129,829</b> |

**Utilities 3.3%**

|                  |            |                |
|------------------|------------|----------------|
| Other Securities | <b>3.3</b> | <b>262,789</b> |
|------------------|------------|----------------|

| Security Rate, Maturity Date<br>Face Amount (\$ x 1,000) | % of Net Assets | Value (\$ x 1,000) |
|--|-----------------|--------------------|
|--|-----------------|--------------------|

**U.S. Treasury Obligations**

0.0% of net assets

|                       |            |            |
|-----------------------|------------|------------|
| ▲ U.S. Treasury Bills |            |            |
| 2.73%-2.76%, 06/16/05 |            |            |
| 950                   | <b>0.0</b> | <b>947</b> |

**End of investments.**

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) |
|------------------------------|--------------------------|
|------------------------------|--------------------------|

**Collateral Invested for Securities on Loan**

7.4% of net assets

**Commercial Paper & Other Corporate Obligations 1.6%**

|   |        |                |
|---|--------|----------------|
| Bank of America Corp.                       |        |                |
| 2.80%, 05/02/05                             | 16,073 | 16,073         |
| Canadian Imperial Bank of Commerce/New York |        |                |
| 1.72%, 05/25/05                             | 6,743  | 6,742          |
| Fortis Bank NY                              |        |                |
| 2.06%, 06/08/05                             | 8,678  | 8,676          |
| 1.78%, 06/06/05                             | 8,409  | 8,408          |
| Skandinav Enskilda Bank                     |        |                |
| 2.94%, 05/17/05                             | 59,617 | 59,617         |
| Societe Generale                            |        |                |
| 2.91%, 05/16/05                             | 21,791 | 21,783         |
|   |        | <b>121,299</b> |

Summary of Portfolio Holdings continued

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

Short-Term Investments 5.8%

|                                  |             |         |
|----------------------------------|-------------|---------|
| Institutional Money Market Trust | 429,235,810 | 429,236 |
|----------------------------------|-------------|---------|

| Security<br>Rate, Maturity Date           | Face Amount<br>(\$ x 1,000) |                |
|---|-----------------------------|----------------|
| KBC Bank, Tlme Deposit<br>2.95%, 05/02/05 | 23,888                      | 23,888         |
|   |                             | <b>453,124</b> |

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

| Futures Contracts                              |                        |                   |                     |
|--|------------------------|-------------------|---------------------|
|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Gains |
| S&P 500 Index e-mini, Long<br>Expires 06/17/05 | 28                     | 1,622             | 8                   |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                  |
|--|------------------|
| Investments, at value<br>(including \$554,924 of securities on loan) | \$7,842,154      |
| Collateral invested for securities on loan                           | 574,423          |
| Receivables:   |                  |
| Fund shares sold   | 4,083            |
| Interest   | 6                |
| Dividends  | 9,898            |
| Investments sold   | 5,071            |
| Due from brokers for futures   | 22               |
| Income from securities on loan                                       | 73               |
| Prepaid expenses   | + 89             |
| <b>Total assets</b>  | <b>8,435,819</b> |

**Liabilities**

|   |                |
|---|----------------|
| Collateral invested for securities on loan  | 574,423        |
| Bank overdraft                              | 817            |
| Payables:                                   |                |
| Fund shares redeemed                        | 5,492          |
| Interest expense                            | 18             |
| Investment adviser and administrator fees   | 72             |
| Transfer agent and shareholder service fees | 86             |
| Accrued expenses                            | + 312          |
| <b>Total liabilities</b>                    | <b>581,220</b> |

**Net Assets**

|                          |                    |
|--------------------------|--------------------|
| <b>Total assets</b>      | 8,435,819          |
| <b>Total liabilities</b> | - 581,220          |
| <b>Net assets</b>        | <b>\$7,854,599</b> |

**Net Assets by Source**

|   |           |
|---|-----------|
| Capital received from investors           | 7,755,373 |
| Net investment income not yet distributed | 40,330    |
| Net realized capital losses               | (731,603) |
| Net unrealized capital gains              | 790,499   |

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

| Share Class     | Net Assets  | ÷ | Shares Outstanding | = | NAV     |
|-----------------|-------------|---|--------------------|---|---------|
| Investor Shares | \$3,812,537 |   | 213,309            |   | \$17.87 |
| Select Shares   | \$3,805,309 |   | 212,146            |   | \$17.94 |
| e.Shares        | \$236,753   |   | 13,241             |   | \$17.88 |

Unless stated, all numbers x 1,000.

The fund paid \$7,051,663 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$246,683 |
| Sales/maturities | \$803,968 |

The fund's total security transactions (including transactions related to the redemption-in-kind) with other Schwab Funds® during the period were \$473,144.

These derive from investments and futures.

**Federal Tax Data**

|   |                  |
|---|------------------|
| <b>Portfolio Cost</b>                   | \$7,134,258      |
| <b>Net unrealized gains and losses:</b> |                  |
| Gains                                   | \$1,960,557      |
| Losses                                  | + (1,252,661)    |
|   | <b>\$707,896</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$94,491 |
| Long-term capital gains | \$—      |

**Unused capital losses:**

|                   |                  |
|-------------------|------------------|
| Expires 10/31 of: | Loss amount      |
| 2008              | \$26,504         |
| 2009              | 50,224           |
| 2010              | 400,268          |
| 2011              | 72,381           |
| 2012              | + 29,609         |
|                   | <b>\$578,986</b> |

**As of April 30, 2005, the following reclassifications were made as a result of the redemption-in-kind with other Schwab Funds:**

**Reclassifications:**

|                                 |             |
|---------------------------------|-------------|
| Capital received from investors | \$232,619   |
| Reclassified as:                |             |
| Realized capital losses         | (\$232,619) |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |                |
|--------------------------------|----------------|
| Dividends                      | \$101,280      |
| Interest                       | 68             |
| Lending of securities          | + 396          |
| <b>Total investment income</b> | <b>101,744</b> |

**Net Realized Gains and Losses**

|   |                |
|---|----------------|
| Net realized gains on investments       | 165,296        |
| Net realized gains on futures contracts | + 1,216        |
| <b>Net realized gains</b>               | <b>166,512</b> |

**Net Unrealized Gains and Losses**

|  |               |
|--|---------------|
| Net unrealized gains on investments        | 29,040        |
| Net unrealized losses on futures contracts | + (60)        |
| <b>Net unrealized gains</b>                | <b>28,980</b> |

**Expenses**

|  |               |
|--|---------------|
| Investment adviser and administrator fees    | 6,057         |
| Transfer agent and shareholder service fees: |               |
| Investor Shares                              | 4,896         |
| Select Shares                                | 2,099         |
| e.Shares                                     | 124           |
| Trustees' fees                               | 33            |
| Custodian fees                               | 107           |
| Portfolio accounting fees                    | 559           |
| Professional fees                            | 33            |
| Registration fees                            | 52            |
| Shareholder reports                          | 319           |
| Interest expense                             | 31            |
| Other expenses                               | + 65          |
| Total expenses                               | 14,375        |
| Expense reduction                            | - 2,820       |
| <b>Net expenses</b>                          | <b>11,555</b> |

**Increase in Net Assets from Operations**

|   |                  |
|---|------------------|
| <b>Total investment income</b>                | 101,744          |
| <b>Net expenses</b>                           | - 11,555         |
| <b>Net investment income</b>                  | <b>90,189</b>    |
| <b>Net realized gains</b>                     | 166,512          |
| <b>Net unrealized gains</b>                   | + 28,980         |
| <b>Increase in net assets from operations</b> | <b>\$285,681</b> |

Unless stated, all numbers x 1,000.

Includes gains of \$232,619 from redemption-in-kind by other Schwab Funds®.

Calculated as a percentage of average daily net assets: 0.15% of the first \$500 million; 0.09% of the next \$4.5 billion; 0.08% of the next \$5 billion; and 0.07% of the assets beyond that. These fees are paid to Charles Schwab Investments Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as a percentage of average daily net assets: 0.20% of the first \$500 million and 0.17% of the assets beyond that.

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%, 0.05%, 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 \$521 from the investment adviser (CSIM) and \$2,299 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 27, 2006, as follows:

| Share Class     | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 0.37                          |
| Select Shares   | 0.19                          |
| e.Shares        | 0.28                          |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$195,492.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$90,189        | \$115,762        |
| Net realized gains or losses                  | 166,512         | (33,884)         |
| Net unrealized gains                          | + 28,980        | 600,470          |
| <b>Increase in net assets from operations</b> | <b>285,681</b>  | <b>682,348</b>   |

**Distributions Paid****Dividends from net investment income**

|   |                  |                  |
|---|------------------|------------------|
| Investor Shares                                   | 64,372           | 46,375           |
| Select Shares                                     | 75,732           | 52,459           |
| e.Shares  | + 4,246          | 3,356            |
| <b>Total dividends from net investment income</b> | <b>\$144,350</b> | <b>\$102,190</b> |

**Transactions in Fund Shares**

|                          | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                    |
|--------------------------|-----------------|------------------|------------------|--------------------|
|                          | SHARES          | VALUE            | SHARES           | VALUE              |
| <b>Shares Sold</b>       |                 |                  |                  |                    |
| Investor Shares          | 16,399          | \$299,959        | 43,461           | \$748,116          |
| Select Shares            | 25,742          | 472,947          | 48,984           | 845,969            |
| e.Shares                 | + 1,489         | 27,248           | 3,507            | 60,506             |
| <b>Total shares sold</b> | <b>43,630</b>   | <b>\$800,154</b> | <b>95,952</b>    | <b>\$1,654,591</b> |

**Shares Reinvested**

|                                |              |                  |              |                 |
|--------------------------------|--------------|------------------|--------------|-----------------|
| Investor Shares                | 3,214        | \$58,650         | 2,680        | \$44,333        |
| Select Shares                  | 3,694        | 67,604           | 2,844        | 47,146          |
| e.Shares                       | + 188        | 3,430            | 182          | 3,018           |
| <b>Total shares reinvested</b> | <b>7,096</b> | <b>\$129,684</b> | <b>5,706</b> | <b>\$94,497</b> |

**Shares Redeemed**

|                              |                 |                      |                 |                      |
|------------------------------|-----------------|----------------------|-----------------|----------------------|
| Investor Shares              | (24,880)        | (\$455,722)          | (42,120)        | (\$725,021)          |
| Select Shares                | (50,273)        | (931,039)            | (43,789)        | (755,806)            |
| e.Shares                     | + (2,578)       | (47,184)             | (4,554)         | (78,428)             |
| <b>Total shares redeemed</b> | <b>(77,731)</b> | <b>(\$1,433,945)</b> | <b>(90,463)</b> | <b>(\$1,559,255)</b> |

**Net transactions in fund shares**

(27,005) (\$504,107) 11,195 \$189,833

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|----------------------------|-----------------|--------------------|------------------|--------------------|
|                            | SHARES          | NET ASSETS         | SHARES           | NET ASSETS         |
| Beginning of period        | 465,701         | \$8,217,375        | 454,506          | \$7,447,384        |
| Total increase or decrease | + (27,005)      | (362,776)          | 11,195           | 769,991            |
| <b>End of period</b>       | <b>438,696</b>  | <b>\$7,854,599</b> | <b>465,701</b>   | <b>\$8,217,375</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |           |
|-------------------------|-----------|
| Ordinary income         | \$102,190 |
| Long-term capital gains | \$—       |

For the current period, includes redemption-in-kind by other Schwab Funds® as follows:

**Schwab MarketTrack Portfolios:**

|                      | Shares | Value     |
|----------------------|--------|-----------|
| All Equity Portfolio | 11,054 | \$206,923 |
| Growth Portfolio     | 7,857  | \$147,092 |
| Balanced Portfolio   | 4,089  | \$76,546  |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

|                 | Current period | Prior period |
|-----------------|----------------|--------------|
| Investor Shares | \$111          | \$238        |
| Select Shares   | 144            | 238          |
| e.Shares        | + 6            | + 10         |
| <b>Total</b>    | <b>\$261</b>   | <b>\$486</b> |

Dollar amounts are net of the redemption proceeds.

Includes distributable net investment income in the amount of \$40,330 and \$94,491 at the end of the current period and prior period, respectively.

Percent of fund shares owned by other Schwab Funds® as of the end of the current period:

**Schwab MarketTrack Portfolios**

|                        |      |
|------------------------|------|
| Conservative Portfolio | 0.6% |
|------------------------|------|

# Schwab 1000 Index<sup>®</sup> Fund

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 32.54                | 30.25                | 25.25                | 29.57                | 39.95                | 37.12                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.31                 | 0.37                 | 0.33                 | 0.31                 | 0.26                 | 0.26                 |
| Net realized and unrealized gains or losses     | 0.87                 | 2.26                 | 4.99                 | (4.36)               | (10.40)              | 2.83                 |
| Total income or loss from investment operations | 1.18                 | 2.63                 | 5.32                 | (4.05)               | (10.14)              | 3.09                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.48)               | (0.34)               | (0.32)               | (0.27)               | (0.24)               | (0.26)               |
| Net asset value at end of period                | 33.24                | 32.54                | 30.25                | 25.25                | 29.57                | 39.95                |
| Total return (%)                                | 3.59 <sup>1</sup>    | 8.78                 | 21.34                | (13.87)              | (25.50)              | 8.34                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.50 <sup>2</sup>    | 0.50                 | 0.49                 | 0.46                 | 0.46                 | 0.47 <sup>3</sup>    |
| Gross operating expenses                        | 0.50 <sup>2</sup>    | 0.50                 | 0.51                 | 0.52                 | 0.51                 | 0.51                 |
| Net investment income                           | 1.77 <sup>2</sup>    | 1.15                 | 1.27                 | 1.04                 | 0.78                 | 0.63                 |
| Portfolio turnover rate                         | 5 <sup>1</sup>       | 5                    | 5                    | 9                    | 8                    | 9                    |
| Net assets, end of period (\$ x 1,000,000)      | 4,220                | 4,258                | 3,974                | 3,223                | 3,852                | 5,083                |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.46% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                                   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 32.56                | 30.27                | 25.26                | 29.58                | 39.98                | 37.16                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.32                 | 0.42                 | 0.37                 | 0.35                 | 0.31                 | 0.29                 |
| Net realized and unrealized gains or losses     | 0.88                 | 2.25                 | 4.99                 | (4.36)               | (10.41)              | 2.84                 |
| Total income or loss from investment operations | 1.20                 | 2.67                 | 5.36                 | (4.01)               | (10.10)              | 3.13                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.52)               | (0.38)               | (0.35)               | (0.31)               | (0.30)               | (0.31)               |
| Net asset value at end of period                | 33.24                | 32.56                | 30.27                | 25.26                | 29.58                | 39.98                |
| Total return (%)                                | 3.66 <sup>1</sup>    | 8.90                 | 21.52                | (13.77)              | (25.40)              | 8.46                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.35 <sup>2</sup>    | 0.35                 | 0.35                 | 0.35                 | 0.35                 | 0.36 <sup>3</sup>    |
| Gross operating expenses                        | 0.35 <sup>2</sup>    | 0.35                 | 0.36                 | 0.37                 | 0.36                 | 0.36                 |
| Net investment income                           | 1.92 <sup>2</sup>    | 1.30                 | 1.41                 | 1.15                 | 0.89                 | 0.74                 |
| Portfolio turnover rate                         | 5 <sup>1</sup>       | 5                    | 5                    | 9                    | 8                    | 9                    |
| Net assets, end of period (\$ x 1,000,000)      | 2,134                | 2,138                | 1,996                | 1,588                | 1,911                | 2,159                |

\* Unaudited.

<sup>1</sup> Not annualized.<sup>2</sup> Annualized.<sup>3</sup> The ratio of net operating expenses would have been 0.35% if certain non-routine expenses (proxy fees) had not been included.

## Summary of Portfolio Holdings as of April 30, 2005, unaudited

This section shows the fund's 50 largest portfolio holdings in unaffiliated issuers and any holding exceeding 1% of the fund's net assets. The remaining securities held by the fund are grouped as "Other Securities" in each category. You can request a complete schedule of portfolio holdings as of the end of the report period, free of charge, by calling Schwab Funds® at 1-800-435-4000. This complete schedule, filed on the fund's Form N-CSR, is also available on the SEC's website at <http://www.sec.gov>. In addition, 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 Form N-Q is available on the SEC's website 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. A copy of the fund's most recently filed quarterly schedule of portfolio holdings, included on the fund's Form N-CSR (with respect to the fund's second and fourth fiscal quarters) or Form N-Q (with respect to the fund's first and third fiscal quarters), 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. With the top ten holdings, the number in the circle is the security's rank among the top ten. For the characteristics of the securities included under "Other Securities" and for securities valued at fair value, please refer to the complete schedule of portfolio holdings.

**①** Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser
- All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>99.8%</b>         | <b>Common Stock</b>                               | 3,715,874          | 6,343,631           |
| <b>0.0%</b>          | <b>U.S. Treasury Obligation</b>                   | 199                | 199                 |
| <b>99.8%</b>         | <b>Total Investments</b>                          | <b>3,716,073</b>   | <b>6,343,830</b>    |
| <b>13.8%</b>         | <b>Collateral Invested for Securities on Loan</b> | 879,442            | 879,442             |
| <b>(13.6)%</b>       | <b>Other Assets and Liabilities, Net</b>          |                    | (868,736)           |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>6,354,536</b>    |

| Security and Number of Shares | % of Net Assets | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------|-----------------------|
|-------------------------------|-----------------|-----------------------|

### Common Stock 99.8% of net assets

#### Automobiles & Components 0.6%

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>0.6</b> | <b>35,398</b> |
|------------------|------------|---------------|

#### Banks 7.4%

|                         |           |            |                |
|-------------------------|-----------|------------|----------------|
| ⑧ Bank of America Corp. | 2,018,767 | 1.4        | 90,925         |
| Fannie Mae              | 480,010   | 0.4        | 25,897         |
| U.S. Bancorp            | 932,065   | 0.4        | 26,005         |
| Wachovia Corp.          | 796,843   | 0.7        | 40,782         |
| Wells Fargo & Co.       | 837,567   | 0.8        | 50,204         |
| Other Securities        |           | 3.7        | 237,811        |
|                         |           | <b>7.4</b> | <b>471,624</b> |

#### Capital Goods 7.7%

|                           |           |            |                |
|---------------------------|-----------|------------|----------------|
| 3M Co.                    | 388,920   | 0.5        | 29,741         |
| ▲① General Electric Co.   | 5,236,534 | 3.0        | 189,563        |
| United Technologies Corp. | 253,741   | 0.4        | 25,811         |
| Other Securities          |           | 3.8        | 245,405        |
|                           |           | <b>7.7</b> | <b>490,520</b> |

#### Commercial Services & Supplies 1.2%

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>1.2</b> | <b>79,333</b> |
|------------------|------------|---------------|

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Consumer Durables & Apparel 1.6%**

|                  |     |        |
|------------------|-----|--------|
| Other Securities | 1.6 | 99,996 |
|------------------|-----|--------|

**Diversified Financials 7.1%**

|                              |     |        |
|------------------------------|-----|--------|
| American Express Co. 629,888 | 0.5 | 33,195 |
|------------------------------|-----|--------|

|                                    |     |       |
|------------------------------------|-----|-------|
| ■ The Charles Schwab Corp. 684,290 | 0.1 | 7,082 |
|------------------------------------|-----|-------|

|                             |     |         |
|-----------------------------|-----|---------|
| ④ Citigroup, Inc. 2,566,700 | 1.9 | 120,532 |
|-----------------------------|-----|---------|

|                                |     |        |
|--------------------------------|-----|--------|
| JPMorgan Chase & Co. 1,767,831 | 1.0 | 62,740 |
|--------------------------------|-----|--------|

|                        |     |        |
|------------------------|-----|--------|
| Morgan Stanley 544,723 | 0.5 | 28,663 |
|------------------------|-----|--------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 3.1 | 196,072 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>7.1</b> | <b>448,284</b> |
|------------|----------------|

**Energy 8.1%**

|                               |     |        |
|-------------------------------|-----|--------|
| ChevronTexaco Corp. 1,056,404 | 0.9 | 54,933 |
|-------------------------------|-----|--------|

|                        |     |        |
|------------------------|-----|--------|
| ConocoPhillips 340,941 | 0.6 | 35,748 |
|------------------------|-----|--------|

|                               |     |         |
|-------------------------------|-----|---------|
| ② Exxon Mobil Corp. 3,243,577 | 2.9 | 184,981 |
|-------------------------------|-----|---------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 3.7 | 239,313 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>8.1</b> | <b>514,975</b> |
|------------|----------------|

**Food & Staples Retailing 2.8%**

|                                     |     |        |
|-------------------------------------|-----|--------|
| ■▲⑦ Wal-Mart Stores, Inc. 2,118,992 | 1.6 | 99,889 |
|-------------------------------------|-----|--------|

|                  |     |        |
|------------------|-----|--------|
| Other Securities | 1.2 | 75,203 |
|------------------|-----|--------|

|            |                |
|------------|----------------|
| <b>2.8</b> | <b>175,092</b> |
|------------|----------------|

**Food Beverage & Tobacco 5.1%**

|                              |     |        |
|------------------------------|-----|--------|
| Altria Group, Inc. 1,018,286 | 1.0 | 66,178 |
|------------------------------|-----|--------|

|                             |     |        |
|-----------------------------|-----|--------|
| The Coca-Cola Co. 1,212,703 | 0.8 | 52,680 |
|-----------------------------|-----|--------|

|                         |     |        |
|-------------------------|-----|--------|
| ■ PepsiCo, Inc. 840,708 | 0.7 | 46,777 |
|-------------------------|-----|--------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 2.6 | 161,336 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>5.1</b> | <b>326,971</b> |
|------------|----------------|

**Health Care Equipment & Services 5.0%**

|                           |     |        |
|---------------------------|-----|--------|
| ■ Medtronic, Inc. 600,208 | 0.5 | 31,631 |
|---------------------------|-----|--------|

|                                  |     |        |
|----------------------------------|-----|--------|
| UnitedHealth Group, Inc. 329,884 | 0.5 | 31,177 |
|----------------------------------|-----|--------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 4.0 | 257,036 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>5.0</b> | <b>319,844</b> |
|------------|----------------|

**Hotels Restaurants & Leisure 1.8%**

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 1.8 | 117,826 |
|------------------|-----|---------|

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Household & Personal Products 2.3%**

|                          |     |        |
|--------------------------|-----|--------|
| The Gillette Co. 497,368 | 0.4 | 25,684 |
|--------------------------|-----|--------|

|                                    |     |        |
|------------------------------------|-----|--------|
| ■▲⑩ Procter & Gamble Co. 1,261,677 | 1.1 | 68,320 |
|------------------------------------|-----|--------|

|                  |     |        |
|------------------|-----|--------|
| Other Securities | 0.8 | 53,024 |
|------------------|-----|--------|

|            |                |
|------------|----------------|
| <b>2.3</b> | <b>147,028</b> |
|------------|----------------|

**Insurance 5.0%**

|  |     |        |
|--|-----|--------|
| ■ American International Group, Inc. 1,293,039 | 1.0 | 65,751 |
|--|-----|--------|

|   |     |        |
|---|-----|--------|
| ■ Berkshire Hathaway, Inc., Class A 766 | 1.0 | 64,612 |
|---|-----|--------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 3.0 | 186,886 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>5.0</b> | <b>317,249</b> |
|------------|----------------|

**Materials 3.2%**

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 3.2 | 202,057 |
|------------------|-----|---------|

**Media 4.5%**

|                                    |     |        |
|------------------------------------|-----|--------|
| • Comcast Corp., Class A 1,116,839 | 0.6 | 35,862 |
|------------------------------------|-----|--------|

|                               |     |        |
|-------------------------------|-----|--------|
| • Time Warner, Inc. 2,182,803 | 0.6 | 36,693 |
|-------------------------------|-----|--------|

|                               |     |        |
|-------------------------------|-----|--------|
| Viacom, Inc., Class B 863,011 | 0.5 | 29,877 |
|-------------------------------|-----|--------|

|                                 |     |        |
|---------------------------------|-----|--------|
| ■ The Walt Disney Co. 1,017,789 | 0.4 | 26,870 |
|---------------------------------|-----|--------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 2.4 | 156,316 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>4.5</b> | <b>285,618</b> |
|------------|----------------|

**Pharmaceuticals & Biotechnology 8.3%**

|                             |     |        |
|-----------------------------|-----|--------|
| Abbott Laboratories 775,607 | 0.6 | 38,129 |
|-----------------------------|-----|--------|

|                       |     |        |
|-----------------------|-----|--------|
| • Amgen, Inc. 627,877 | 0.6 | 36,549 |
|-----------------------|-----|--------|

|                         |     |        |
|-------------------------|-----|--------|
| Eli Lilly & Co. 561,093 | 0.5 | 32,807 |
|-------------------------|-----|--------|

|                           |     |        |
|---------------------------|-----|--------|
| • Genentech, Inc. 521,413 | 0.6 | 36,989 |
|---------------------------|-----|--------|

|                               |     |         |
|-------------------------------|-----|---------|
| ⑥ Johnson & Johnson 1,472,005 | 1.6 | 101,024 |
|-------------------------------|-----|---------|

|                             |     |        |
|-----------------------------|-----|--------|
| Merck & Co., Inc. 1,100,350 | 0.6 | 37,302 |
|-----------------------------|-----|--------|

|                          |     |         |
|--------------------------|-----|---------|
| ⑤ Pfizer, Inc. 3,747,619 | 1.6 | 101,823 |
|--------------------------|-----|---------|

|               |     |        |
|---------------|-----|--------|
| Wyeth 661,966 | 0.5 | 29,749 |
|---------------|-----|--------|

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 1.7 | 113,058 |
|------------------|-----|---------|

|            |                |
|------------|----------------|
| <b>8.3</b> | <b>527,430</b> |
|------------|----------------|

**Real Estate 1.7%**

|                  |     |         |
|------------------|-----|---------|
| Other Securities | 1.7 | 107,295 |
|------------------|-----|---------|

**Summary of Portfolio Holdings** continued

| Security and Number of Shares                            | % of Net Assets | Value (\$ x 1,000) |
|--|-----------------|--------------------|
| <b>Retailing 4.1%</b>                                    |                 |                    |
| Home Depot, Inc. 1,103,186                               | 0.6             | 39,020             |
| Other Securities   | 3.5             | 220,455            |
|  | <b>4.1</b>      | <b>259,475</b>     |
| <b>Semiconductors &amp; Semiconductor Equipment 2.7%</b> |                 |                    |
| ■ 9 Intel Corp. 3,183,893                                | 1.2             | 74,885             |
| Other Securities   | 1.5             | 98,544             |
|  | <b>2.7</b>      | <b>173,429</b>     |
| <b>Software &amp; Services 5.8%</b>                      |                 |                    |
| ■ Google, Inc., Class A 135,818                          | 0.5             | 29,880             |
| ▲ 3 Microsoft Corp. 5,391,907                            | 2.2             | 136,415            |
| • Oracle Corp. 2,566,349                                 | 0.5             | 29,667             |
| Other Securities   | 2.6             | 169,937            |
|  | <b>5.8</b>      | <b>365,899</b>     |
| <b>Technology Hardware &amp; Equipment 5.9%</b>          |                 |                    |
| • Cisco Systems, Inc. 3,353,418                          | 0.9             | 57,947             |
| • Dell, Inc. 1,252,123                                   | 0.7             | 43,611             |
| ■ Hewlett-Packard Co. 1,514,972                          | 0.5             | 31,012             |
| International Business Machines Corp. 853,837            | 1.0             | 65,216             |
| Qualcomm, Inc. 807,883                                   | 0.5             | 28,187             |
| Other Securities   | 2.3             | 150,235            |
|  | <b>5.9</b>      | <b>376,208</b>     |
| <b>Telecommunication Services 2.9%</b>                   |                 |                    |
| SBC Communications, Inc. 1,642,577                       | 0.6             | 39,093             |
| Verizon Communications, Inc. 1,374,051                   | 0.8             | 49,191             |
| Other Securities   | 1.5             | 95,712             |
|  | <b>2.9</b>      | <b>183,996</b>     |
| <b>Transportation 1.6%</b>                               |                 |                    |
| United Parcel Service, Inc., Class B 558,944             | 0.6             | 39,858             |
| Other Securities   | 1.0             | 60,765             |
|  | <b>1.6</b>      | <b>100,623</b>     |
| <b>Utilities 3.4%</b>                                    |                 |                    |
| Other Securities   | <b>3.4</b>      | <b>217,461</b>     |

| Security Rate, Maturity Date<br>Face Amount (\$ x 1,000) | % of Net Assets | Value (\$ x 1,000) |
|--|-----------------|--------------------|
|--|-----------------|--------------------|

**U.S. Treasury Obligation**

0.0% of net assets

|                      |            |            |
|----------------------|------------|------------|
| ▲ U.S. Treasury Bill |            |            |
| 2.73%, 06/16/05      |            |            |
| 200                  | <b>0.0</b> | <b>199</b> |

**End of investments.**

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) |
|------------------------------|--------------------------|
|------------------------------|--------------------------|

**Collateral Invested for Securities on Loan**

13.8% of net assets

**Commercial Paper & Other Corporate Obligations 3.8%**

|   |        |                |
|---|--------|----------------|
| Bank of America Corp.                       |        |                |
| 2.80%, 05/02/05                             | 41,040 | 41,040         |
| Canadian Imperial Bank of Commerce/New York |        |                |
| 1.72%, 05/25/05                             | 63,250 | 63,237         |
| Fortis Bank NY                              |        |                |
| 2.06%, 06/08/05                             | 28,737 | 28,732         |
| 1.78%, 06/06/05                             | 28,549 | 28,546         |
| Skandinav Enskilda Bank                     |        |                |
| 2.94%, 05/17/05                             | 69,821 | 69,821         |
| Societe Generale                            |        |                |
| 2.91%, 05/16/05                             | 15,291 | 15,286         |
|   |        | <b>246,662</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

Short-Term Investments 10.0%

|                                  |             |         |
|----------------------------------|-------------|---------|
| Institutional Money Market Trust | 594,753,185 | 594,753 |
|----------------------------------|-------------|---------|

| Security<br>Rate, Maturity Date           | Face Amount<br>(\$ x 1,000) |                |
|---|-----------------------------|----------------|
| KBC Bank, Tlme Deposit<br>2.95%, 05/02/05 | 38,027                      | 38,027         |
|   |                             | <u>632,780</u> |

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

| Futures Contracts                              |                        |                   |                     |
|--|------------------------|-------------------|---------------------|
|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Gains |
| S&P 500 Index e-mini, Long<br>Expires 06/17/05 | 50                     | 2,896             | 8                   |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                  |
|--|------------------|
| Investments, at value<br>(including \$852,993 of securities on loan) | \$6,343,830      |
| Collateral invested for securities on loan                           | 879,442          |
| Receivables:   |                  |
| Fund shares sold   | 3,034            |
| Interest   | 1                |
| Dividends  | 7,116            |
| Investments sold   | 8,364            |
| Due from brokers for futures   | 8                |
| Income from securities on loan                                       | 102              |
| Prepaid expenses   | + 93             |
| <b>Total assets</b>  | <b>7,241,990</b> |

**Liabilities**

|   |                |
|---|----------------|
| Collateral invested for securities on loan  | 879,442        |
| Bank overdraft                              | 3,936          |
| Payables:                                   |                |
| Fund shares redeemed                        | 3,572          |
| Interest expense                            | 21             |
| Investment adviser and administrator fees   | 115            |
| Transfer agent and shareholder service fees | 103            |
| Accrued expenses                            | + 265          |
| <b>Total liabilities</b>                    | <b>887,454</b> |

**Net Assets**

|                          |                    |
|--------------------------|--------------------|
| <b>Total assets</b>      | 7,241,990          |
| <b>Total liabilities</b> | – 887,454          |
| <b>Net assets</b>        | <b>\$6,354,536</b> |

**Net Assets by Source**

|   |           |
|---|-----------|
| Capital received from investors           | 4,251,409 |
| Net investment income not yet distributed | 25,594    |
| Net realized capital losses               | (550,232) |
| Net unrealized capital gains              | 2,627,765 |

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

| Share Class     | Net Assets  | ÷ | Shares Outstanding | = | NAV     |
|-----------------|-------------|---|--------------------|---|---------|
| Investor Shares | \$4,220,082 |   | 126,972            |   | \$33.24 |
| Select Shares   | \$2,134,454 |   | 64,215             |   | \$33.24 |

Unless stated, all numbers x 1,000.

The fund paid \$3,716,073 for these securities.

Includes securities valued at fair value worth \$0 or 0.0% of the funds total net assets.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$344,993 |
| Sales/maturities | \$551,984 |

The fund's total security transactions with other Schwab Funds® during the period were \$132,041.

These derive from investments and futures.

**Federal Tax Data**

|   |                    |
|---|--------------------|
| <b>Portfolio cost</b>                   | \$3,722,039        |
| <b>Net unrealized gains and losses:</b> |                    |
| Gains                                   | \$2,965,325        |
| Losses                                  | + (343,534)        |
|   | <b>\$2,621,791</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$61,505 |
| Long-term capital gains | \$–      |

**Unused capital losses:**

|                   |                  |
|-------------------|------------------|
| Expires 10/31 of: | Loss amount      |
| 2005              | \$2,606          |
| 2006              | 650              |
| 2007              | 11,853           |
| 2009              | 97,811           |
| 2010              | 250,410          |
| 2011              | 164,037          |
| 2012              | + 12,131         |
|                   | <b>\$539,498</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |               |
|--------------------------------|---------------|
| Dividends                      | \$74,024      |
| Interest                       | 17            |
| Lending of securities          | + 527         |
| <b>Total investment income</b> | <b>74,568</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments       | 8,645        |
| Net realized gains on futures contracts | + 330        |
| <b>Net realized gains</b>               | <b>8,975</b> |

**Net Unrealized Gains and Losses**

|  |                |
|--|----------------|
| Net unrealized gains on investments        | 167,325        |
| Net unrealized losses on futures contracts | + (79)         |
| <b>Net unrealized gains</b>                | <b>167,246</b> |

**Expenses**

|  |               |
|--|---------------|
| Investment adviser and administrator fees    | 7,347         |
| Transfer agent and shareholder service fees: |               |
| Investor Shares                              | 5,448         |
| Select Shares                                | 1,094         |
| Trustees' fees                               | 23            |
| Custodian fees                               | 102           |
| Portfolio accounting fees                    | 434           |
| Professional fees                            | 22            |
| Registration fees                            | 31            |
| Shareholder reports                          | 269           |
| Interest expense                             | 30            |
| Other expenses                               | + 47          |
| <b>Total expenses</b>                        | <b>14,847</b> |

**Increase in Net Assets from Operations**

|   |                  |
|---|------------------|
| <b>Total investment income</b>                | 74,568           |
| <b>Net expenses</b>                           | - 14,847         |
| <b>Net investment income</b>                  | <b>59,721</b>    |
| <b>Net realized gains</b>                     | 8,975            |
| <b>Net unrealized gains</b>                   | + 167,246        |
| <b>Increase in net assets from operations</b> | <b>\$235,942</b> |

Net of \$7 foreign withholding tax.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million; 0.22% of the next \$4.5 billion; 0.20% of the next \$5 billion; and 0.18% of the assets beyond that. These fees are paid to Charles Schwab Investments Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of the assets beyond that.

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.

CSIM and Schwab have guaranteed that the annual operating expenses (excluding interest, taxes and certain non-routine expenses) through February 27, 2006, will not exceed the fund's average daily net assets as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 0.51                                 |
| Select Shares      | 0.36                                 |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$176,221.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$59,721        | \$76,032         |
| Net realized gains or losses                  | 8,975           | (10,801)         |
| Net unrealized gains                          | + 167,246       | 458,477          |
| <b>Increase in net assets from operations</b> | <b>235,942</b>  | <b>523,708</b>   |

**Distributions Paid****Dividends from net investment income**

|   |                 |                 |
|---|-----------------|-----------------|
| Investor Shares                                   | 61,678          | 45,314          |
| Select Shares                                     | + 33,954        | 25,058          |
| <b>Total dividends from net investment income</b> | <b>\$95,632</b> | <b>\$70,372</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                      |
|--|-----------------|--------------------|------------------|----------------------|
|  | SHARES          | VALUE              | SHARES           | VALUE                |
| <b>Shares Sold</b>                     |                 |                    |                  |                      |
| Investor Shares                        | 6,788           | \$230,273          | 19,479           | \$619,405            |
| Select Shares                          | + 4,522         | 153,348            | 9,808            | 311,874              |
| <b>Total shares sold</b>               | <b>11,310</b>   | <b>\$383,621</b>   | <b>29,287</b>    | <b>\$931,279</b>     |
| <b>Shares Reinvested</b>               |                 |                    |                  |                      |
| Investor Shares                        | 1,674           | \$56,670           | 1,365            | \$41,809             |
| Select Shares                          | + 840           | 28,418             | 698              | 21,363               |
| <b>Total shares reinvested</b>         | <b>2,514</b>    | <b>\$85,088</b>    | <b>2,063</b>     | <b>\$63,172</b>      |
| <b>Shares Redeemed</b>                 |                 |                    |                  |                      |
| Investor Shares                        | (12,345)        | (\$419,057)        | (21,346)         | (\$679,008)          |
| Select Shares                          | + (6,794)       | (230,677)          | (10,792)         | (343,161)            |
| <b>Total shares redeemed</b>           | <b>(19,139)</b> | <b>(\$649,734)</b> | <b>(32,138)</b>  | <b>(\$1,022,169)</b> |
| <b>Net transactions in fund shares</b> | <b>(5,315)</b>  | <b>(\$181,025)</b> | <b>(788)</b>     | <b>(\$27,718)</b>    |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|----------------------------|-----------------|--------------------|------------------|--------------------|
|                            | SHARES          | NET ASSETS         | SHARES           | NET ASSETS         |
| Beginning of period        | 196,502         | \$6,395,251        | 197,290          | \$5,969,633        |
| Total increase or decrease | + (5,315)       | (40,715)           | (788)            | 425,618            |
| <b>End of period</b>       | <b>191,187</b>  | <b>\$6,354,536</b> | <b>196,502</b>   | <b>\$6,395,251</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$70,372 |
| Long-term capital gains | \$—      |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

**Current period:**

|                 |              |
|-----------------|--------------|
| Investor Shares | \$93         |
| Select Shares   | + 36         |
| <b>Total</b>    | <b>\$129</b> |

**Prior period:**

|                 |              |
|-----------------|--------------|
| Investor Shares | \$218        |
| Select Shares   | + 83         |
| <b>Total</b>    | <b>\$301</b> |

Dollar amounts are net of the redemption proceeds.

Includes distributable net investment income in the amount of \$25,594 and \$61,505 at the end of the current period and prior period, respectively.

# Schwab Small-Cap Index Fund<sup>®</sup>

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 19.92                | 18.22                | 13.27                | 15.98                | 21.06                | 17.41                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.04                 | 0.13                 | 0.11                 | 0.13                 | 0.07                 | 0.07                 |
| Net realized and unrealized gains or losses     | 0.09                 | 1.68                 | 4.98                 | (2.17)               | (2.76)               | 3.62                 |
| Total income or loss from investment operations | 0.13                 | 1.81                 | 5.09                 | (2.04)               | (2.69)               | 3.69                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.13)               | (0.11)               | (0.14)               | (0.09)               | (0.08)               | (0.04)               |
| Distributions from net realized gains           | –                    | –                    | –                    | (0.58)               | (2.31)               | –                    |
| Total distributions                             | (0.13)               | (0.11)               | (0.14)               | (0.67)               | (2.39)               | (0.04)               |
| Net asset value at end of period                | 19.92                | 19.92                | 18.22                | 13.27                | 15.98                | 21.06                |
| Total return (%)                                | 0.59 <sup>1</sup>    | 9.98                 | 38.72                | (13.66)              | (13.66)              | 21.22                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.58 <sup>2</sup>    | 0.59                 | 0.56                 | 0.49                 | 0.49                 | 0.50 <sup>3</sup>    |
| Gross operating expenses                        | 0.58 <sup>2</sup>    | 0.59                 | 0.60                 | 0.60                 | 0.61                 | 0.66                 |
| Net investment income                           | 0.32 <sup>2</sup>    | 0.66                 | 0.74                 | 0.77                 | 0.49                 | 0.44                 |
| Portfolio turnover rate                         | 38 <sup>1</sup>      | 39                   | 34                   | 44                   | 49                   | 54                   |
| Net assets, end of period (\$ x 1,000,000)      | 808                  | 869                  | 886                  | 722                  | 804                  | 803                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.49% if certain non-routine expenses (proxy fees) had not been included.

## Financial Highlights

| Select Shares                                   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 19.96                | 18.25                | 13.28                | 16.00                | 21.09                | 17.44                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.05                 | 0.17                 | 0.14                 | 0.14                 | 0.11                 | 0.11                 |
| Net realized and unrealized gains or losses     | 0.09                 | 1.68                 | 4.99                 | (2.18)               | (2.78)               | 3.61                 |
| Total income or loss from investment operations | 0.14                 | 1.85                 | 5.13                 | (2.04)               | (2.67)               | 3.72                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.16)               | (0.14)               | (0.16)               | (0.10)               | (0.11)               | (0.07)               |
| Distributions from net realized gains           | —                    | —                    | —                    | (0.58)               | (2.31)               | —                    |
| Total distributions                             | (0.16)               | (0.14)               | (0.16)               | (0.68)               | (2.42)               | (0.07)               |
| Net asset value at end of period                | 19.94                | 19.96                | 18.25                | 13.28                | 16.00                | 21.09                |
| Total return (%)                                | 0.65 <sup>1</sup>    | 10.16                | 39.02                | (13.62)              | (13.56)              | 21.37                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.42 <sup>2</sup>    | 0.42                 | 0.41                 | 0.38                 | 0.38                 | 0.39 <sup>3</sup>    |
| Gross operating expenses                        | 0.43 <sup>2</sup>    | 0.44                 | 0.45                 | 0.45                 | 0.46                 | 0.51                 |
| Net investment income                           | 0.48 <sup>2</sup>    | 0.82                 | 0.89                 | 0.88                 | 0.60                 | 0.55                 |
| Portfolio turnover rate                         | 38 <sup>1</sup>      | 39                   | 34                   | 44                   | 49                   | 54                   |
| Net assets, end of period (\$ x 1,000,000)      | 737                  | 761                  | 759                  | 638                  | 727                  | 757                  |

\* Unaudited.

<sup>1</sup> Not annualized.<sup>2</sup> Annualized.<sup>3</sup> The ratio of net operating expenses would have been 0.38% if certain non-routine expenses (proxy fees) had not been included.

## Summary of Portfolio Holdings as of April 30, 2005, unaudited

This section shows the fund's 50 largest portfolio holdings in unaffiliated issuers and any holding exceeding 1% of the fund's net assets. The remaining securities held by the fund are grouped as "Other Securities" in each category. You can request a complete schedule of portfolio holdings as of the end of the report period, free of charge, by calling SchwabFunds® at 1-800-435-4000. This complete schedule, filed on the fund's Form N-CSR, is also available on the SEC's website at <http://www.sec.gov>. In addition, 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 Form N-Q is available on the SEC's website 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. A copy of the fund's most recently filed quarterly schedule of portfolio holdings, included on the fund's Form N-CSR (with respect to the fund's second and fourth fiscal quarters) or Form N-Q (with respect to the fund's first and third fiscal quarters), 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. With the top ten holdings, the number in the circle is the security's rank among the top ten. For the characteristics of the securities included under "Other Securities", please refer to the complete schedule of portfolio holdings.

- ① Top ten holding
  - Non-income producing security
- All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| 99.7%                | <b>Common Stock</b>                               | 1,348,798          | 1,541,440           |
| 0.2%                 | <b>Short-Term Investment</b>                      | 3,343              | 3,343               |
| 99.9%                | <b>Total Investments</b>                          | <b>1,352,141</b>   | <b>1,544,783</b>    |
| 10.2%                | <b>Collateral Invested for Securities on Loan</b> | 156,507            | 156,507             |
| (10.1)%              | <b>Other Assets and Liabilities, Net</b>          |                    | (155,655)           |
| 100.0%               | <b>Total Net Assets</b>                           |                    | <b>1,545,635</b>    |

| Security and Number of Shares | % of Net Assets | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------|-----------------------|
|-------------------------------|-----------------|-----------------------|

### Common Stock 99.7% of net assets

#### Automobiles & Components 0.9%

|                  |     |        |
|------------------|-----|--------|
| Other Securities | 0.9 | 13,937 |
|------------------|-----|--------|

#### Banks 9.0%

|                             |        |            |                |
|-----------------------------|--------|------------|----------------|
| ⑧ Downey Financial Corp.    | 46,321 | 0.2        | 2,998          |
| ■ Silicon Valley Bancshares | 59,036 | 0.2        | 2,798          |
| Westamerica Bancorp.        | 52,530 | 0.2        | 2,623          |
| Other Securities            |        | 8.4        | 130,371        |
|                             |        | <b>9.0</b> | <b>138,790</b> |

#### Capital Goods 8.0%

|                          |        |            |                |
|--------------------------|--------|------------|----------------|
| GATX Corp.               | 81,695 | 0.2        | 2,673          |
| Kenametal, Inc.          | 60,398 | 0.2        | 2,736          |
| ■ ⑩ USG Corp.            | 71,243 | 0.2        | 2,991          |
| York International Corp. | 68,604 | 0.2        | 2,684          |
| Other Securities         |        | 7.2        | 113,198        |
|                          |        | <b>8.0</b> | <b>124,282</b> |

#### Commercial Services & Supplies 4.0%

|                           |        |            |               |
|---------------------------|--------|------------|---------------|
| • Waste Connections, Inc. | 80,889 | 0.2        | 2,849         |
| Other Securities          |        | 3.8        | 58,680        |
|                           |        | <b>4.0</b> | <b>61,529</b> |

#### Consumer Durables & Apparel 3.5%

|                  |  |            |               |
|------------------|--|------------|---------------|
| Other Securities |  | <b>3.5</b> | <b>53,496</b> |
|------------------|--|------------|---------------|

#### Diversified Financials 1.6%

|                  |  |            |               |
|------------------|--|------------|---------------|
| Other Securities |  | <b>1.6</b> | <b>25,117</b> |
|------------------|--|------------|---------------|

#### Energy 5.9%

|                           |         |            |               |
|---------------------------|---------|------------|---------------|
| OMI Corp.                 | 150,999 | 0.2        | 2,747         |
| ④ Vintage Petroleum, Inc. | 108,000 | 0.2        | 3,120         |
| Other Securities          |         | 5.5        | 84,747        |
|                           |         | <b>5.9</b> | <b>90,614</b> |

#### Food & Staples Retailing 0.9%

|                      |        |            |               |
|----------------------|--------|------------|---------------|
| • NeighborCare, Inc. | 96,700 | 0.2        | 2,777         |
| Other Securities     |        | 0.7        | 11,019        |
|                      |        | <b>0.9</b> | <b>13,796</b> |

## Summary of Portfolio Holdings continued

| Security and Number of Shares                    | % of Net Assets | Value (\$ x 1,000) | Security and Number of Shares                            | % of Net Assets | Value (\$ x 1,000) |
|--|-----------------|--------------------|--|-----------------|--------------------|
| <b>Food Beverage &amp; Tobacco 1.3%</b>          |                 |                    |  |                 |                    |
| Other Securities                                 | 1.3             | 19,829             | The Reader's Digest Association, Inc., Class A 164,071   | 0.2             | 2,789              |
| <b>Health Care Equipment &amp; Services 8.1%</b> |                 |                    | • 6 Valassis Communications, Inc. 85,762                 | 0.2             | 3,023              |
| • 1 Accredo Health, Inc. 80,954                  | 0.2             | 3,667              | Other Securities   | 2.4             | 37,653             |
| ■ 2 Cerner Corp. 58,675                          | 0.2             | 3,407              |  | 3.0             | 46,082             |
| • LifePoint Hospitals, Inc. 63,211               | 0.2             | 2,810              | <b>Pharmaceuticals &amp; Biotechnology 4.2%</b>          |                 |                    |
| • Pediatrix Medical Group, Inc. 39,726           | 0.2             | 2,705              | • Kos Pharmaceuticals, Inc. 61,130                       | 0.2             | 2,945              |
| • Sierra Health Services, Inc. 43,728            | 0.2             | 2,829              | • Protein Design Labs, Inc. 155,921                      | 0.2             | 2,788              |
| • Steris Corp. 112,792                           | 0.2             | 2,671              | • Techne Corp. 68,072                                    | 0.2             | 2,844              |
| • 3 VCA Antech, Inc. 135,670                     | 0.2             | 3,158              | Other Securities   | 3.6             | 57,097             |
| Other Securities                                 | 6.7             | 103,549            |  | 4.2             | 65,674             |
|  | 8.1             | 124,796            | <b>Real Estate 7.2%</b>                                  |                 |                    |
| <b>Hotels Restaurants &amp; Leisure 3.3%</b>     |                 |                    | American Financial Realty Trust 182,692                  | 0.2             | 2,801              |
| • Gaylord Entertainment Co. 65,434               | 0.2             | 2,617              | Essex Property Trust, Inc. 37,995                        | 0.2             | 2,886              |
| Other Securities                                 | 3.1             | 48,362             | ■ Health Care Real Estate Investment Trust, Inc. 77,307  | 0.2             | 2,590              |
|  | 3.3             | 50,979             | Healthcare Realty Trust, Inc. 69,452                     | 0.2             | 2,681              |
| <b>Household &amp; Personal Products 0.8%</b>    |                 |                    | Other Securities   | 6.4             | 100,752            |
| Other Securities                                 | 0.8             | 13,063             |  | 7.2             | 111,710            |
| <b>Insurance 3.3%</b>                            |                 |                    | <b>Retailing 5.8%</b>                                    |                 |                    |
| • Philadelphia Consolidated Holding Co. 36,819   | 0.2             | 2,761              | • Aeropostale, Inc. 92,391                               | 0.2             | 2,580              |
| Other Securities                                 | 3.1             | 48,371             | • AnnTaylor Stores Corp. 111,846                         | 0.2             | 2,739              |
|  | 3.3             | 51,132             | ■ 5 Bebe Stores 94,894                                   | 0.2             | 3,067              |
| <b>Materials 5.4%</b>                            |                 |                    | ■ Blockbuster, Inc., Class A 299,923                     | 0.2             | 2,969              |
| Albemarle Corp. 76,019                           | 0.2             | 2,783              | Other Securities   | 5.0             | 78,685             |
| Aptargroup, Inc. 60,297                          | 0.2             | 2,908              |  | 5.8             | 90,040             |
| ■ Crompton Corp. 189,808                         | 0.2             | 2,667              | <b>Semiconductors &amp; Semiconductor Equipment 3.6%</b> |                 |                    |
| • FMC Corp. 58,253                               | 0.2             | 2,854              | ■ Cree, Inc. 121,396                                     | 0.2             | 2,937              |
| Great Lakes Chemical Corp. 84,121                | 0.2             | 2,611              | Other Securities   | 3.4             | 52,203             |
| Other Securities                                 | 4.4             | 69,703             |  | 3.6             | 55,140             |
|  | 5.4             | 83,526             | <b>Software &amp; Services 8.0%</b>                      |                 |                    |
| <b>Media 3.0%</b>                                |                 |                    | • The BISYS Group, Inc. 198,933                          | 0.2             | 2,809              |
| • Entercom Communications Corp. 81,209           | 0.2             | 2,617              |  |                 |                    |

| Security and Number of Shares                 | % of Net Assets | Value (\$ x 1,000) |
|---|-----------------|--------------------|
| • ⑨ CACI International, Inc., Class A 48,231  | 0.2             | 2,996              |
| • SRA International, Inc., Class A 42,730     | 0.2             | 2,792              |
| • ⑦ Sybase, Inc. 158,962                      | 0.2             | 3,009              |
| ■ Take-Two Interactive Software, Inc. 111,542 | 0.2             | 2,625              |
| Other Securities                              | 7.0             | 108,783            |
|   | <b>8.0</b>      | <b>123,014</b>     |

**Technology Hardware & Equipment 5.3%**

|                      |            |               |
|----------------------|------------|---------------|
| Adtran, Inc. 131,924 | 0.2        | 2,735         |
| Other Securities     | 5.1        | 79,578        |
|                      | <b>5.3</b> | <b>82,313</b> |

**Telecommunication Services 1.2%**

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>1.2</b> | <b>18,122</b> |
|------------------|------------|---------------|

**Transportation 2.4%**

|                     |            |               |
|---------------------|------------|---------------|
| ■ AMR Corp. 266,155 | 0.2        | 2,787         |
| Other Securities    | 2.2        | 34,420        |
|                     | <b>2.4</b> | <b>37,207</b> |

**Utilities 3.0%**

|                                    |            |               |
|------------------------------------|------------|---------------|
| Nicor, Inc. 72,983                 | 0.2        | 2,698         |
| ■ Piedmont Natural Gas Co. 125,183 | 0.2        | 2,873         |
| PNM Resources, Inc. 100,043        | 0.2        | 2,766         |
| Other Securities                   | 2.4        | 38,915        |
|                                    | <b>3.0</b> | <b>47,252</b> |

| Security                 | Rate, Maturity Date | % of Net Assets | Value (\$ x 1,000) |
|--------------------------|---------------------|-----------------|--------------------|
| Face Amount (\$ x 1,000) |                     |                 |                    |

**Short-Term Investment**

0.2% of net assets

|  |            |              |
|--|------------|--------------|
| Bank of America, London Time Deposit 2.36%, 05/02/05 3,343 | <b>0.2</b> | <b>3,343</b> |
|--|------------|--------------|

End of investments.

**Security and Number of Shares****Collateral Invested for Securities on Loan**

10.2% of net assets

**Short-Term Investment 10.2%**

|   |                |
|---|----------------|
| Securities Lending Investments Fund 156,507,365 | <b>156,507</b> |
|---|----------------|

End of collateral invested for securities on loan.

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                  |
|--|------------------|
| Investments, at value<br>(including \$144,683 of securities on loan) | \$1,544,783      |
| Collateral invested for securities on loan                           | 156,507          |
| Receivables:   |                  |
| Fund shares sold   | 619              |
| Dividends  | 950              |
| Income from securities on loan                                       | 138              |
| Prepaid expenses   | + 28             |
| <b>Total assets</b>  | <b>1,703,025</b> |

**Liabilities**

|   |                |
|---|----------------|
| Collateral invested for securities on loan  | 156,507        |
| Payables:                                   |                |
| Fund shares redeemed                        | 679            |
| Interest expense                            | 1              |
| Investment adviser and administrator fees   | 37             |
| Transfer agent and shareholder service fees | 21             |
| Accrued expenses                            | + 145          |
| <b>Total liabilities</b>                    | <b>157,390</b> |

**Net Assets**

|                          |                    |
|--------------------------|--------------------|
| <b>Total assets</b>      | 1,703,025          |
| <b>Total liabilities</b> | – 157,390          |
| <b>Net assets</b>        | <b>\$1,545,635</b> |

**Net Assets by Source**

|   |           |
|---|-----------|
| Capital received from investors           | 1,362,796 |
| Net investment income not yet distributed | 949       |
| Net realized capital losses               | (10,752)  |
| Net unrealized capital gains              | 192,642   |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$808,166  |   | 40,580             |   | \$19.92 |
| Select Shares   | \$737,469  |   | 36,979             |   | \$19.94 |

Unless stated, all numbers x 1,000.

The fund paid \$1,352,141 for these securities.

Includes securities valued at fair value worth \$0 or 0.0% 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        | \$642,324 |
| Sales/maturities | \$741,742 |

The fund's total security transactions with other Schwab Funds® during the period were \$127,782.

These derive from investments and futures.

**Federal Tax Data**

|   |                  |
|---|------------------|
| <b>Portfolio cost</b>                   | \$1,353,329      |
| <b>Net unrealized gains and losses:</b> |                  |
| Gains                                   | \$327,436        |
| Losses                                  | + (135,982)      |
|   | <b>\$191,454</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$9,047 |
| Long-term capital gains | \$–     |

**Capital losses utilized** \$214,814

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2011              | <b>\$69,356</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$7,105      |
| Interest                       | 15           |
| Lending of securities          | + 494        |
| <b>Total investment income</b> | <b>7,614</b> |

**Net Realized Gains and Losses**

|  |               |
|--|---------------|
| Net realized gains on investments        | 61,469        |
| Net realized losses on futures contracts | + (170)       |
| <b>Net realized gains</b>                | <b>61,299</b> |

**Net Unrealized Gains and Losses**

|  |                 |
|--|-----------------|
| Net unrealized losses on investments       | (48,150)        |
| Net unrealized losses on futures contracts | + (35)          |
| <b>Net unrealized losses</b>               | <b>(48,185)</b> |

**Expenses**

|  |              |
|--|--------------|
| Investment adviser and administrator fees    | 2,473        |
| Transfer agent and shareholder service fees: |              |
| Investor Shares                              | 1,112        |
| Select Shares                                | 395          |
| Trustees' fees                               | 9            |
| Custodian fees                               | 91           |
| Portfolio accounting fees                    | 117          |
| Professional fees                            | 20           |
| Registration fees                            | 15           |
| Shareholder reports                          | 64           |
| Interest expense                             | 6            |
| Other expenses                               | + 16         |
| Total expenses                               | 4,318        |
| Expense reduction                            | - 57         |
| <b>Net expenses</b>                          | <b>4,261</b> |

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | 7,614           |
| <b>Net expenses</b>                           | - 4,261         |
| <b>Net investment income</b>                  | <b>3,353</b>    |
| <b>Net realized gains</b>                     | 61,299          |
| <b>Net unrealized losses</b>                  | + (48,185)      |
| <b>Increase in net assets from operations</b> | <b>\$16,467</b> |

Net of \$2 foreign withholding tax.

Calculated as a percentage of average daily net assets: 0.33% of the first \$500 million and 0.28% of the 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.

This reduction was made by the transfer agent and shareholder service agent (Schwab). It reflects a guarantee by the investment adviser (CSIM) and Schwab to limit the operating expenses of this fund through February 27, 2006, as follows:

| Share Class     | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 0.60                          |
| Select Shares   | 0.42                          |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$13,114.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$3,353         | \$12,316         |
| Net realized gains                            | 61,299          | 215,610          |
| Net unrealized losses                         | + (48,185)      | (67,250)         |
| <b>Increase in net assets from operations</b> | <b>16,467</b>   | <b>160,676</b>   |

**Distributions Paid****Dividends from net investment income**

|   |                 |                 |
|---|-----------------|-----------------|
| Investor Shares                                   | 5,474           | 5,423           |
| Select Shares                                     | + 5,977         | 5,623           |
| <b>Total dividends from net investment income</b> | <b>\$11,451</b> | <b>\$11,046</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|--|-----------------|--------------------|------------------|--------------------|
|  | SHARES          | VALUE              | SHARES           | VALUE              |
| <b>Shares Sold</b>                     |                 |                    |                  |                    |
| Investor Shares                        | 2,694           | \$57,236           | 5,935            | \$114,857          |
| Select Shares                          | + 2,613         | 55,679             | 6,358            | 121,773            |
| <b>Total shares sold</b>               | <b>5,307</b>    | <b>\$112,915</b>   | <b>12,293</b>    | <b>\$236,630</b>   |
| <b>Shares Reinvested</b>               |                 |                    |                  |                    |
| Investor Shares                        | 237             | \$5,085            | 270              | \$5,073            |
| Select Shares                          | + 256           | 5,502              | 278              | 5,234              |
| <b>Total shares reinvested</b>         | <b>493</b>      | <b>\$10,587</b>    | <b>548</b>       | <b>\$10,307</b>    |
| <b>Shares Redeemed</b>                 |                 |                    |                  |                    |
| Investor Shares                        | (5,980)         | (\$127,096)        | (11,208)         | (\$215,266)        |
| Select Shares                          | + (4,011)       | (85,513)           | (10,118)         | (196,867)          |
| <b>Total shares redeemed</b>           | <b>(9,991)</b>  | <b>(\$212,609)</b> | <b>(21,326)</b>  | <b>(\$412,133)</b> |
| <b>Net transactions in fund shares</b> | <b>(4,191)</b>  | <b>(\$89,107)</b>  | <b>(8,485)</b>   | <b>(\$165,196)</b> |

**Shares Outstanding and Net Assets**

|                      | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|----------------------|-----------------|--------------------|------------------|--------------------|
|                      | SHARES          | NET ASSETS         | SHARES           | NET ASSETS         |
| Beginning of period  | 81,750          | \$1,629,726        | 90,235           | \$1,645,292        |
| Total decrease       | + (4,191)       | (84,091)           | (8,485)          | (15,566)           |
| <b>End of period</b> | <b>77,559</b>   | <b>\$1,545,635</b> | <b>81,750</b>    | <b>\$1,629,726</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$11,046 |
| Long-term capital gains | \$—      |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

|                 | Current period | Prior period |
|-----------------|----------------|--------------|
| Investor Shares | \$28           | \$68         |
| Select Shares   | + 46           | + 33         |
| <b>Total</b>    | <b>\$74</b>    | <b>\$101</b> |

Dollar amounts are net of the redemption proceeds.

Includes distributable net investment income in the amount of \$949 and \$9,047 at the end of the current period and prior period, respectively.

Percent of fund shares owned by other Schwab Funds® as of the end of the current period:

**Schwab MarketTrack Portfolios**

|                        |      |
|------------------------|------|
| All Equity Portfolio   | 7.2% |
| Growth Portfolio       | 8.1% |
| Balanced Portfolio     | 4.9% |
| Conservative Portfolio | 1.8% |

**Schwab Annuity Portfolios**

|                     |      |
|---------------------|------|
| Growth Portfolio II | 0.5% |
|---------------------|------|

# Schwab Total Stock Market Index Fund<sup>®</sup>

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 19.04                | 17.48                | 14.35                | 16.62                | 22.49                | 20.87                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.16                 | 0.19                 | 0.16                 | 0.16                 | 0.15                 | 0.16                 |
| Net realized and unrealized gains or losses     | 0.51                 | 1.53                 | 3.14                 | (2.27)               | (5.87)               | 1.56                 |
| Total income or loss from investment operations | 0.67                 | 1.72                 | 3.30                 | (2.11)               | (5.72)               | 1.72                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.25)               | (0.16)               | (0.17)               | (0.16)               | (0.15)               | (0.10)               |
| Net asset value at end of period                | 19.46                | 19.04                | 17.48                | 14.35                | 16.62                | 22.49                |
| Total return (%)                                | 3.49 <sup>1</sup>    | 9.93                 | 23.24                | (12.86)              | (25.55)              | 8.23                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.54 <sup>2</sup>    | 0.56                 | 0.53                 | 0.40                 | 0.40                 | 0.41 <sup>3</sup>    |
| Gross operating expenses                        | 0.54 <sup>2</sup>    | 0.56                 | 0.59                 | 0.62                 | 0.65                 | 0.67                 |
| Net investment income                           | 1.61 <sup>2</sup>    | 1.07                 | 1.18                 | 1.11                 | 0.94                 | 0.76                 |
| Portfolio turnover rate                         | 1 <sup>1</sup>       | 2                    | 3                    | 2                    | 2                    | 2                    |
| Net assets, end of period (\$ x 1,000,000)      | 603                  | 592                  | 469                  | 263                  | 224                  | 218                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.40% if certain non-routine expenses (proxy fees) had not been included.

## Financial Highlights

| Select Shares                                   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 19.09                | 17.52                | 14.37                | 16.65                | 22.52                | 20.89                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.18                 | 0.22                 | 0.20                 | 0.19                 | 0.18                 | 0.17                 |
| Net realized and unrealized gains or losses     | 0.51                 | 1.54                 | 3.14                 | (2.29)               | (5.87)               | 1.56                 |
| Total income or loss from investment operations | 0.69                 | 1.76                 | 3.34                 | (2.10)               | (5.69)               | 1.73                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.28)               | (0.19)               | (0.19)               | (0.18)               | (0.18)               | (0.10)               |
| Net asset value at end of period                | 19.50                | 19.09                | 17.52                | 14.37                | 16.65                | 22.52                |
| Total return (%)                                | 3.57 <sup>1</sup>    | 10.10                | 23.50                | (12.81)              | (25.40)              | 8.30                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.39 <sup>2</sup>    | 0.39                 | 0.36                 | 0.27                 | 0.27                 | 0.28 <sup>3</sup>    |
| Gross operating expenses                        | 0.39 <sup>2</sup>    | 0.41                 | 0.44                 | 0.47                 | 0.50                 | 0.52                 |
| Net investment income                           | 1.76 <sup>2</sup>    | 1.23                 | 1.35                 | 1.24                 | 1.07                 | 0.89                 |
| Portfolio turnover rate                         | 1 <sup>1</sup>       | 2                    | 3                    | 2                    | 2                    | 2                    |
| Net assets, end of period (\$ x 1,000,000)      | 562                  | 548                  | 429                  | 264                  | 257                  | 262                  |

\* Unaudited.

<sup>1</sup> Not annualized.<sup>2</sup> Annualized.<sup>3</sup> The ratio of net operating expenses would have been 0.27% if certain non-routine expenses (proxy fees) had not been included..

## Summary of Portfolio Holdings as of April 30, 2005, unaudited

This section shows the fund's 50 largest portfolio holdings in unaffiliated issuers and any holding exceeding 1% of the fund's net assets. The remaining securities held by the fund are grouped as "Other Securities" in each category. You can request a complete schedule of portfolio holdings as of the end of the report period, free of charge, by calling Schwab Funds® at 1-800-435-4000. This complete schedule, filed on the fund's Form N-CSR, is also available on the SEC's website at <http://www.sec.gov>. In addition, 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 Form N-Q is available on the SEC's website 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. A copy of the fund's most recently filed quarterly schedule of portfolio holdings, included on the fund's Form N-CSR (with respect to the fund's second and fourth fiscal quarters) or Form N-Q (with respect to the fund's first and third fiscal quarters), 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. With the top ten holdings, the number in the circle is the security's rank among the top ten. For the characteristics of the securities included under "Other Securities" and for securities valued at fair value, please refer to the complete schedule of portfolio holdings.

- ① Top ten holding
  - Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser
- All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>99.8%</b>         | <b>Common Stock</b>                               | 1,077,652          | 1,163,041           |
| <b>0.1%</b>          | <b>Short-Term Investment</b>                      | 690                | 690                 |
| <b>0.0%</b>          | <b>U.S. Treasury Obligation</b>                   | 90                 | 90                  |
| <b>0.0%</b>          | <b>Preferred Stock</b>                            | 68                 | 74                  |
| <b>0.0%</b>          | <b>Warrants</b>                                   | 387                | 6                   |
| <b>0.0%</b>          | <b>Rights</b>                                     | 137                | 4                   |
| <b>99.9%</b>         | <b>Total Investments</b>                          | <b>1,079,024</b>   | <b>1,163,905</b>    |
| <b>7.3%</b>          | <b>Collateral Invested for Securities on Loan</b> | 85,555             | 85,555              |
| <b>(7.2)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (84,258)            |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>1,165,202</b>    |

| Security and Number of Shares | % of Net Assets | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------|-----------------------|
|-------------------------------|-----------------|-----------------------|

### Common Stock 99.8% of net assets

#### Automobiles & Components 0.6%

|                  |            |              |
|------------------|------------|--------------|
| Other Securities | <b>0.6</b> | <b>7,160</b> |
|------------------|------------|--------------|

#### Banks 7.7%

|                                 |            |               |
|---------------------------------|------------|---------------|
| ⑧ Bank of America Corp. 338,518 | 1.3        | 15,247        |
| ■ Fannie Mae 81,400             | 0.4        | 4,392         |
| U.S. Bancorp 158,531            | 0.4        | 4,423         |
| Wachovia Corp. 133,649          | 0.6        | 6,840         |
| Wells Fargo & Co. 140,077       | 0.7        | 8,396         |
| Other Securities                | 4.3        | 50,604        |
|                                 | <b>7.7</b> | <b>89,902</b> |

#### Capital Goods 7.7%

|                                 |            |               |
|---------------------------------|------------|---------------|
| 3M Co. 65,000                   | 0.4        | 4,971         |
| ▲① General Electric Co. 874,566 | 2.7        | 31,659        |
| United Technologies Corp 42,034 | 0.4        | 4,276         |
| Other Securities                | 4.2        | 49,094        |
|                                 | <b>7.7</b> | <b>90,000</b> |

#### Commercial Services & Supplies 1.7%

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>1.7</b> | <b>19,464</b> |
|------------------|------------|---------------|

## Summary of Portfolio Holdings continued

| Security and Number of Shares                    | % of Net Assets | Value (\$ x 1,000) | Security and Number of Shares                   | % of Net Assets | Value (\$ x 1,000) |
|--|-----------------|--------------------|---|-----------------|--------------------|
| <b>Consumer Durables &amp; Apparel 1.9%</b>      |                 |                    | <b>Household &amp; Personal Products 2.2%</b>   |                 |                    |
| Other Securities                                 | 1.9             | 22,162             | ▲10 Procter & Gamble Co. 213,400                | 1.0             | 11,556             |
| <b>Diversified Financials 6.6%</b>               |                 |                    | Other Securities                                | 1.2             | 14,238             |
| American Express Co. 105,150                     | 0.5             | 5,541              |   | 2.2             | 25,794             |
| ■ The Charles Schwab Corp. 111,120               | 0.0             | 1,150              | <b>Insurance 4.7%</b>                           |                 |                    |
| ▲4 Citigroup, Inc. 427,436                       | 1.7             | 20,072             | American International Group, Inc. 216,222      | 1.0             | 10,995             |
| JPMorgan Chase & Co. 295,944                     | 0.9             | 10,503             | • Berkshire Hathaway, Inc., Class A 119         | 0.9             | 10,038             |
| Merrill Lynch & Co., Inc. 79,800                 | 0.4             | 4,304              | Other Securities                                | 2.8             | 34,041             |
| Morgan Stanley 90,300                            | 0.4             | 4,752              |   | 4.7             | 55,074             |
| Other Securities                                 | 2.7             | 30,282             | <b>Materials 3.4%</b>                           |                 |                    |
|  | 6.6             | 76,604             | Other Securities                                | 3.4             | 39,505             |
| <b>Energy 7.9%</b>                               |                 |                    | <b>Media 4.3%</b>                               |                 |                    |
| ChevronTexaco Corp. 179,634                      | 0.8             | 9,341              | • Comcast Corp., Class A 148,336                | 0.4             | 4,763              |
| ConocoPhillips 56,098                            | 0.5             | 5,882              | • Time Warner, Inc. 367,052                     | 0.5             | 6,170              |
| ▲2 Exxon Mobil Corp. 537,816                     | 2.6             | 30,672             | Viacom, Inc., Class B 144,012                   | 0.4             | 4,986              |
| Other Securities                                 | 4.0             | 45,686             | The Walt Disney Co. 169,650                     | 0.4             | 4,479              |
|  | 7.9             | 91,581             | Other Securities                                | 2.6             | 29,139             |
| <b>Food &amp; Staples Retailing 2.6%</b>         |                 |                    |   | 4.3             | 49,537             |
| ■▲7 Wal-Mart Stores, Inc. 350,100                | 1.4             | 16,504             | <b>Pharmaceuticals &amp; Biotechnology 7.6%</b> |                 |                    |
| Other Securities                                 | 1.2             | 13,711             | Abbott Laboratories 128,205                     | 0.6             | 6,303              |
|  | 2.6             | 30,215             | • Amgen, Inc. 107,168                           | 0.5             | 6,238              |
| <b>Food Beverage &amp; Tobacco 4.7%</b>          |                 |                    | Eli Lilly & Co. 92,400                          | 0.5             | 5,403              |
| Altria Group, Inc. 168,800                       | 1.0             | 10,970             | ■ Genentech, Inc. 73,300                        | 0.5             | 5,200              |
| The Coca-Cola Co. 202,200                        | 0.8             | 8,784              | 6 Johnson & Johnson 246,370                     | 1.5             | 16,908             |
| PepsiCo, Inc. 140,800                            | 0.7             | 7,834              | Merck & Co., Inc. 183,552                       | 0.5             | 6,222              |
| Other Securities                                 | 2.2             | 27,481             | 5 Pfizer, Inc. 631,552                          | 1.5             | 17,159             |
|  | 4.7             | 55,069             | Wyeth 109,400                                   | 0.4             | 4,916              |
| <b>Health Care Equipment &amp; Services 5.7%</b> |                 |                    | Other Securities                                | 1.6             | 20,731             |
| Medtronic, Inc. 100,974                          | 0.5             | 5,321              |   | 7.6             | 89,080             |
| UnitedHealth Group, Inc. 66,300                  | 0.6             | 6,266              | <b>Real Estate 2.1%</b>                         |                 |                    |
| Other Securities                                 | 4.6             | 55,208             | Other Securities                                | 2.1             | 24,997             |
|  | 5.7             | 66,795             | <b>Retailing 4.2%</b>                           |                 |                    |
| <b>Hotels Restaurants &amp; Leisure 1.9%</b>     |                 |                    | Home Depot, Inc. 187,000                        | 0.6             | 6,614              |
| Other Securities                                 | 1.9             | 21,680             | Other Securities                                | 3.6             | 41,940             |
|  |                 |                    |   | 4.2             | 48,554             |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Semiconductors & Semiconductor Equipment 2.7%**

|                       |            |               |
|-----------------------|------------|---------------|
| 9 Intel Corp. 533,832 | 1.1        | 12,556        |
| Other Securities      | 1.6        | 18,652        |
|                       | <b>2.7</b> | <b>31,208</b> |

**Software & Services 5.9%**

|                                |            |               |
|--------------------------------|------------|---------------|
| • Google, Inc., Class A 22,500 | 0.4        | 4,950         |
| ▲ 3 Microsoft Corp. 896,760    | 2.0        | 22,688        |
| • Oracle Corp. 429,500         | 0.4        | 4,965         |
| Other Securities               | 3.1        | 36,504        |
|                                | <b>5.9</b> | <b>69,107</b> |

**Technology Hardware & Equipment 5.9%**

|   |            |               |
|---|------------|---------------|
| • Cisco Systems, Inc. 563,969                 | 0.9        | 9,745         |
| • Dell, Inc. 209,300                          | 0.6        | 7,290         |
| Hewlett-Packard Co. 252,916                   | 0.5        | 5,177         |
| International Business Machines Corp. 142,350 | 1.0        | 10,873        |
| Qualcomm, Inc. 135,100                        | 0.4        | 4,714         |
| Other Securities                              | 2.5        | 31,298        |
|   | <b>5.9</b> | <b>69,097</b> |

**Telecommunication Services 2.8%**

|                                      |            |               |
|--------------------------------------|------------|---------------|
| SBC Communications, Inc. 281,016     | 0.6        | 6,688         |
| Verizon Communications, Inc. 232,468 | 0.7        | 8,322         |
| Other Securities                     | 1.5        | 17,592        |
|                                      | <b>2.8</b> | <b>32,602</b> |

**Transportation 1.7%**

|   |            |               |
|---|------------|---------------|
| United Parcel Service, Inc., Class B 91,480 | 0.6        | 6,523         |
| Other Securities                            | 1.1        | 12,651        |
|   | <b>1.7</b> | <b>19,174</b> |

**Utilities 3.3%**

|                  |            |               |
|------------------|------------|---------------|
| Other Securities | <b>3.3</b> | <b>38,680</b> |
|------------------|------------|---------------|

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Preferred Stock 0.0% of net assets****Real Estate 0.0%**

|                  |            |           |
|------------------|------------|-----------|
| Other Securities | <b>0.0</b> | <b>74</b> |
|------------------|------------|-----------|

**Warrants 0.0% of net assets**

|                  |            |          |
|------------------|------------|----------|
| Other Securities | <b>0.0</b> | <b>6</b> |
|------------------|------------|----------|

**Rights 0.0% of net assets**

|                  |            |          |
|------------------|------------|----------|
| Other Securities | <b>0.0</b> | <b>4</b> |
|------------------|------------|----------|

**Short-Term Investment**

0.1% of net assets

|  |            |            |
|--|------------|------------|
| Provident Institutional TempFund 690,290 | <b>0.1</b> | <b>690</b> |
|--|------------|------------|

**Security**

Rate, Maturity Date

Face Amount (\$ x 1,000)

**U.S. Treasury Obligation**

0.0% of net assets

|   |            |           |
|---|------------|-----------|
| ▲ U.S. Treasury Bill 2.73%, 06/16/05 90 | <b>0.0</b> | <b>90</b> |
|---|------------|-----------|

**End of investments.**

**Summary of Portfolio Holdings** continued

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Collateral Invested for Securities on Loan**  
7.3% of net assets

**Commercial Paper & Other Corporate Obligations 2.0%**

|   |        |               |
|---|--------|---------------|
| Bank of America Corp.<br>2.80%, 05/02/05                          | 2,503  | 2,503         |
| Canadian Imperial Bank of<br>Commerce/New York<br>1.72%, 05/25/05 | 425    | 425           |
| Fortis Bank NY<br>1.78%, 06/06/05                                 | 2,173  | 2,172         |
| 2.06%, 06/08/05   | 4,628  | 4,627         |
| Skandinav Enskilda Bank<br>2.94%, 05/17/05                        | 11,656 | 11,656        |
| Societe Generale<br>2.91%, 05/16/05                               | 2,872  | 2,871         |
|   |        | <b>24,254</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Short-Term Investments 5.3%**

|  |        |
|--|--------|
| Institutional Money Market<br>Trust 57,898,142 | 57,898 |
|--|--------|

| Security<br>Rate, Maturity Date           | Face Amount<br>(\$ x 1,000) |               |
|---|-----------------------------|---------------|
| KBC Bank, Time Deposit<br>2.95%, 05/02/05 | 3,403                       | 3,403         |
|   |                             | <b>61,301</b> |

**End of collateral invested for securities on loan.**

*In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.*

**Futures Contracts**

|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|--|------------------------|-------------------|----------------------|
| S&P 500 Index, e-mini Long<br>Expires 06/17/05 | 25                     | 1,448             | <b>(42)</b>          |

## Statement of

**Assets and Liabilities**

As of April 30, 2005, unaudited. All numbers x 1,000 except NAV.

**Assets**

|   |                  |
|---|------------------|
| Investments, at value<br>(including \$82,946 of securities on loan) | \$1,163,905      |
| Collateral invested for securities on loan                          | 85,555           |
| Receivables:  |                  |
| Fund shares sold  | 520              |
| Interest  | 3                |
| Dividends   | 1,263            |
| Investments sold  | 227              |
| Due from brokers for futures  | 19               |
| Income from securities on loan                                      | 22               |
| Prepaid expenses  | + 44             |
| <b>Total assets</b>   | <b>1,251,558</b> |

**Liabilities**

|   |               |
|---|---------------|
| Collateral invested for securities on loan  | 85,555        |
| Payables:                                   |               |
| Fund shares redeemed                        | 663           |
| Investment adviser and administrator fees   | 24            |
| Transfer agent and shareholder service fees | 16            |
| Accrued expenses                            | + 98          |
| <b>Total liabilities</b>                    | <b>86,356</b> |

**Net Assets**

|                          |                    |
|--------------------------|--------------------|
| <b>Total assets</b>      | 1,251,558          |
| <b>Total liabilities</b> | – 86,356           |
| <b>Net assets</b>        | <b>\$1,165,202</b> |

**Net Assets by Source**

|   |           |
|---|-----------|
| Capital received from investors           | 1,096,387 |
| Net investment income not yet distributed | 4,312     |
| Net realized capital losses               | (20,336)  |
| Net unrealized capital gains              | 84,839    |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$602,850  |   | 30,979             |   | \$19.46 |
| Select Shares   | \$562,352  |   | 28,838             |   | \$19.50 |

Unless stated, all numbers x 1,000.

The fund paid \$1,079,024 for these securities.

Includes securities valued at fair value worth \$18 or 0.0% 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        | \$20,080 |
| Sales/maturities | \$14,332 |

The fund's total security transactions with other Schwab Funds® during the period were \$652.

These derive from investments and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio cost</b>                   | \$1,080,658     |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$265,757       |
| Losses                                  | + (182,510)     |
|   | <b>\$83,247</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$10,037 |
| Long-term capital gains | \$–      |

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2007              | \$18            |
| 2008              | 3,413           |
| 2009              | 2,000           |
| 2010              | 11,485          |
| 2011              | 3,975           |
| 2012              | + 874           |
|                   | <b>\$21,765</b> |

## Statement of

**Operations**

For November 1, 2003 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |               |
|--------------------------------|---------------|
| Dividends                      | \$12,644      |
| Interest                       | 42            |
| Lending of securities          | + 112         |
| <b>Total investment income</b> | <b>12,798</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments       | 1,458        |
| Net realized gains on futures contracts | + 499        |
| <b>Net realized gains</b>               | <b>1,957</b> |

**Net Unrealized Gains and Losses**

|  |               |
|--|---------------|
| Net unrealized gains on investments        | 28,514        |
| Net unrealized losses on futures contracts | + (121)       |
| <b>Net unrealized gains</b>                | <b>28,393</b> |

**Expenses**

|  |              |
|--|--------------|
| Investment adviser and administrator fees    | 1,507        |
| Transfer agent and shareholder service fees: |              |
| Investor Shares                              | 772          |
| Select Shares                                | 286          |
| Trustees' fees                               | 7            |
| Custodian fees                               | 48           |
| Portfolio accounting fees                    | 85           |
| Professional fees                            | 19           |
| Registration fees                            | 23           |
| Shareholder reports                          | 45           |
| Other expenses                               | + 19         |
| Total expenses                               | 2,811        |
| Expense reduction                            | - 14         |
| <b>Net expenses</b>                          | <b>2,797</b> |

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | 12,798          |
| <b>Net expenses</b>                           | - 2,797         |
| <b>Net investment income</b>                  | <b>10,001</b>   |
| <b>Net realized gains</b>                     | 1,957           |
| <b>Net unrealized gains</b>                   | + 28,393        |
| <b>Increase in net assets from operations</b> | <b>\$40,351</b> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.30% of the first \$500 million and 0.22% of the 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.

This reduction was made by the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 27, 2006, as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 0.58                                 |
| Select Shares      | 0.39                                 |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$30,350.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$10,001        | \$12,208         |
| Net realized gains                            | 1,957           | 286              |
| Net unrealized gains                          | + 28,393        | 83,701           |
| <b>Increase in net assets from operations</b> | <b>40,351</b>   | <b>96,195</b>    |

**Distributions Paid****Dividends from net investment income**

|   |                 |                |
|---|-----------------|----------------|
| Investor Shares                                   | 7,956           | 4,522          |
| Select Shares                                     | + 7,770         | 4,835          |
| <b>Total dividends from net investment income</b> | <b>\$15,726</b> | <b>\$9,357</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|--|-----------------|--------------------|------------------|--------------------|
|  | SHARES          | VALUE              | SHARES           | VALUE              |
| <b>Shares Sold</b>                     |                 |                    |                  |                    |
| Investor Shares                        | 3,117           | \$62,131           | 9,767            | \$180,735          |
| Select Shares                          | + 3,008         | 60,109             | 8,998            | 165,692            |
| <b>Total shares sold</b>               | <b>6,125</b>    | <b>\$122,240</b>   | <b>18,765</b>    | <b>\$346,427</b>   |
| <b>Shares Reinvested</b>               |                 |                    |                  |                    |
| Investor Shares                        | 362             | \$7,203            | 237              | \$4,213            |
| Select Shares                          | + 328           | 6,531              | 222              | 3,957              |
| <b>Total shares reinvested</b>         | <b>690</b>      | <b>\$13,734</b>    | <b>459</b>       | <b>\$8,170</b>     |
| <b>Shares Redeemed</b>                 |                 |                    |                  |                    |
| Investor Shares                        | (3,608)         | (\$71,932)         | (5,759)          | (\$106,552)        |
| Select Shares                          | + (3,211)       | (64,145)           | (5,002)          | (92,791)           |
| <b>Total shares redeemed</b>           | <b>(6,819)</b>  | <b>(\$136,077)</b> | <b>(10,761)</b>  | <b>(\$199,343)</b> |
| <b>Net transactions in fund shares</b> | <b>(4)</b>      | <b>(\$103)</b>     | <b>8,463</b>     | <b>\$155,254</b>   |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|----------------------------|-----------------|--------------------|------------------|--------------------|
|                            | SHARES          | NET ASSETS         | SHARES           | NET ASSETS         |
| Beginning of period        | 59,821          | \$1,140,680        | 51,358           | \$898,588          |
| Total increase or decrease | + (4)           | 24,522             | 8,463            | 242,092            |
| <b>End of period</b>       | <b>59,817</b>   | <b>\$1,165,202</b> | <b>59,821</b>    | <b>\$1,140,680</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$9,357 |
| Long-term capital gains | \$—     |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

**Current period:**

|                 |             |
|-----------------|-------------|
| Investor Shares | \$25        |
| Select Shares   | + 23        |
| <b>Total</b>    | <b>\$48</b> |

**Prior period:**

|                 |              |
|-----------------|--------------|
| Investor Shares | \$70         |
| Select Shares   | + 59         |
| <b>Total</b>    | <b>\$129</b> |

Dollar amounts are net of the redemption proceeds.

Includes distributable net investment income in the amount of \$4,312 and \$10,037 at the end of the current period and prior period, respectively.

# Schwab International Index Fund<sup>®</sup>

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 14.82                | 12.74                | 10.47                | 12.22                | 17.13                | 17.93                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.17                 | 0.26                 | 0.23                 | 0.21                 | 0.15                 | 0.20                 |
| Net realized and unrealized gains or losses     | 1.02                 | 2.05                 | 2.25                 | (1.82)               | (4.81)               | (0.85)               |
| Total income or loss from investment operations | 1.19                 | 2.31                 | 2.48                 | (1.61)               | (4.66)               | (0.65)               |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.28)               | (0.23)               | (0.21)               | (0.14)               | (0.25)               | (0.15)               |
| Net asset value at end of period                | 15.73                | 14.82                | 12.74                | 10.47                | 12.22                | 17.13                |
| Total return (%)                                | 8.09 <sup>1</sup>    | 18.40                | 24.24                | (13.34)              | (27.58)              | (3.69)               |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.69 <sup>2</sup>    | 0.69                 | 0.65                 | 0.58                 | 0.58                 | 0.59 <sup>3</sup>    |
| Gross operating expenses                        | 0.72 <sup>2</sup>    | 0.73                 | 0.74                 | 0.76                 | 0.75                 | 0.82                 |
| Net investment income                           | 2.17 <sup>2</sup>    | 1.78                 | 2.01                 | 1.70                 | 1.14                 | 1.60                 |
| Portfolio turnover rate                         | 9 <sup>1</sup>       | 1                    | 7                    | 13                   | 18                   | 16                   |
| Net assets, end of period (\$ x 1,000,000)      | 588                  | 550                  | 494                  | 443                  | 519                  | 637                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.58% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                                   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 14.83                | 12.75                | 10.47                | 12.23                | 17.14                | 17.96                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.19                 | 0.28                 | 0.25                 | 0.21                 | 0.16                 | 0.27                 |
| Net realized and unrealized gains or losses     | 1.02                 | 2.05                 | 2.26                 | (1.82)               | (4.80)               | (0.91)               |
| Total income or loss from investment operations | 1.21                 | 2.33                 | 2.51                 | (1.61)               | (4.64)               | (0.64)               |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.31)               | (0.25)               | (0.23)               | (0.15)               | (0.27)               | (0.18)               |
| Net asset value at end of period                | 15.73                | 14.83                | 12.75                | 10.47                | 12.23                | 17.14                |
| Total return (%)                                | 8.20 <sup>1</sup>    | 18.56                | 24.50                | (13.31)              | (27.45)              | (3.65)               |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.50 <sup>2</sup>    | 0.50                 | 0.49                 | 0.47                 | 0.47                 | 0.48 <sup>3</sup>    |
| Gross operating expenses                        | 0.57 <sup>2</sup>    | 0.58                 | 0.59                 | 0.61                 | 0.60                 | 0.67                 |
| Net investment income                           | 2.36 <sup>2</sup>    | 1.97                 | 2.19                 | 1.81                 | 1.25                 | 1.71                 |
| Portfolio turnover rate                         | 9 <sup>1</sup>       | 1                    | 7                    | 13                   | 18                   | 16                   |
| Net assets, end of period (\$ x 1,000,000)      | 742                  | 687                  | 629                  | 536                  | 616                  | 700                  |

\* Unaudited.

<sup>1</sup> Not annualized.<sup>2</sup> Annualized.<sup>3</sup> The ratio of net operating expenses would have been 0.47% if certain non-routine expenses (proxy fees) had not been included.

## Summary of Portfolio Holdings as of April 30, 2005, unaudited

This section shows the fund's 50 largest portfolio holdings in unaffiliated issuers and any holding exceeding 1% of the fund's net assets. The remaining securities held by the fund are grouped as "Other Securities" in each category. You can request a complete schedule of portfolio holdings as of the end of the report period, free of charge, by calling Schwab Funds® at 1-800-435-4000. This complete schedule, filed on the fund's Form N-CSR, is also available on the SEC's website at <http://www.sec.gov>. In addition, 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 Form N-Q is available on the SEC's website 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. A copy of the fund's most recently filed quarterly schedule of portfolio holdings, included on the fund's Form N-CSR (with respect to the fund's second and fourth fiscal quarters) or Form N-Q (with respect to the fund's first and third fiscal quarters), 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. With the top ten holdings, the number in the circle is the security's rank among the top ten. For the characteristics of the securities included under "Other Securities" and for securities valued at fair value, please refer to the complete schedule of portfolio holdings.

- ① Top ten holding
- Non-income producing security
- All or a portion of this security is on loan.

| Holdings by Category                                    | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|---|--------------------|---------------------|
| <b>99.2% Foreign Common Stock</b>                       | 1,010,696          | 1,319,430           |
| <b>0.1% Short-Term Investment</b>                       | 2,054              | 2,054               |
| <b>0.1% Foreign Preferred Stock</b>                     | 766                | 1,043               |
| <b>0.0% Warrants</b>                                    | 200                | —                   |
| <b>99.4% Total Investments</b>                          | <b>1,013,716</b>   | <b>1,322,527</b>    |
| <b>14.4% Collateral Invested for Securities on Loan</b> | 191,005            | 191,005             |
| <b>(13.8)% Other Assets and Liabilities, Net</b>        |                    | (183,158)           |
| <b>100.0% Total Net Assets</b>                          |                    | <b>1,330,374</b>    |

| Security and Number of Shares | % of Net Assets | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------|-----------------------|
|-------------------------------|-----------------|-----------------------|

### Foreign Common Stock 99.2% of net assets

#### Australia 4.5%

|                                |         |            |               |
|--------------------------------|---------|------------|---------------|
| BHP Billiton Ltd.              | 639,314 | 0.6        | 8,087         |
| Commonwealth Bank of Australia | 229,864 | 0.5        | 6,537         |
| National Australia Bank Ltd.   | 277,850 | 0.5        | 6,351         |
| Other Securities               |         | 2.9        | 38,768        |
|                                |         | <b>4.5</b> | <b>59,743</b> |

#### Belgium 0.9%

|                  |  |            |               |
|------------------|--|------------|---------------|
| Other Securities |  | <b>0.9</b> | <b>12,634</b> |
|------------------|--|------------|---------------|

#### Canada 6.1%

|                            |         |            |               |
|----------------------------|---------|------------|---------------|
| ■ Manulife Financial Corp. | 143,695 | 0.5        | 6,603         |
| Royal Bank of Canada       | 116,611 | 0.5        | 6,964         |
| Other Securities           |         | 5.1        | 67,757        |
|                            |         | <b>6.1</b> | <b>81,324</b> |

#### Denmark 0.7%

|                  |  |            |              |
|------------------|--|------------|--------------|
| Other Securities |  | <b>0.7</b> | <b>8,999</b> |
|------------------|--|------------|--------------|

#### France 10.7%

|                           |         |             |                |
|---------------------------|---------|-------------|----------------|
| ■ AXA SA                  | 280,494 | 0.5         | 7,028          |
| BNP Paribas               | 141,162 | 0.7         | 9,345          |
| France Telecom SA         | 253,842 | 0.6         | 7,487          |
| Sanofi-Aventis            | 173,827 | 1.2         | 15,443         |
| Societe Generale, Class A | 72,960  | 0.5         | 7,297          |
| ⑤ Total SA                | 114,369 | 1.9         | 25,514         |
| Other Securities          |         | 5.3         | 70,819         |
|                           |         | <b>10.7</b> | <b>142,933</b> |

#### Germany 7.3%

|                       |         |            |               |
|-----------------------|---------|------------|---------------|
| ■ Allianz AG          | 61,988  | 0.6        | 7,498         |
| BASF AG               | 98,512  | 0.5        | 6,468         |
| Deutsche Bank AG      | 97,835  | 0.6        | 8,000         |
| ■ Deutsche Telekom AG | 428,462 | 0.6        | 8,134         |
| ■ E.ON AG             | 119,317 | 0.8        | 10,153        |
| Siemens AG            | 148,778 | 0.8        | 10,999        |
| Other Securities      |         | 3.4        | 46,518        |
|                       |         | <b>7.3</b> | <b>97,770</b> |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Hong Kong / China 1.2%**

|                  |     |        |
|------------------|-----|--------|
| Other Securities | 1.2 | 15,380 |
|------------------|-----|--------|

**Ireland 0.1%**

|                  |     |     |
|------------------|-----|-----|
| Other Securities | 0.1 | 976 |
|------------------|-----|-----|

**Italy 4.1%**

|  |            |               |
|--|------------|---------------|
| Assicurazioni Generali SPA 200,626         | 0.5        | 6,187         |
| ENI-Ente Nazionale Idrocarburi SPA 473,784 | 0.9        | 11,952        |
| Other Securities                           | 2.7        | 35,925        |
|  | <b>4.1</b> | <b>54,064</b> |

**Japan 17.1%**

|  |             |                |
|--|-------------|----------------|
| Canon, Inc. 139,395                      | 0.5         | 7,246          |
| Honda Motor Co. Ltd. 141,539             | 0.5         | 6,807          |
| Nippon Telegraph & Telephone Corp. 1,667 | 0.5         | 6,979          |
| ■ Sony Corp. 168,500                     | 0.5         | 6,217          |
| Takeda Pharmaceutical Co. Ltd. 141,200   | 0.5         | 6,867          |
| ⑨ Toyota Motor Corp. 476,703             | 1.3         | 17,287         |
| Other Securities                         | 13.3        | 176,584        |
|  | <b>17.1</b> | <b>227,987</b> |

**Netherlands 5.5%**

|                                     |            |               |
|-------------------------------------|------------|---------------|
| ABN Amro Holdings NV 297,220        | 0.5        | 7,230         |
| ING Groep NV 397,081                | 0.8        | 10,976        |
| ⑥ Royal Dutch Petroleum Co. 372,124 | 1.7        | 21,786        |
| Unilever NV 103,665                 | 0.5        | 6,693         |
| Other Securities                    | 2.0        | 26,415        |
|                                     | <b>5.5</b> | <b>73,100</b> |

**Spain 4.4%**

|  |            |               |
|--|------------|---------------|
| Banco Bilbao Vizcaya Argentaria SA 611,313   | 0.7        | 9,498         |
| Banco Santander Central Hispano SA 1,114,188 | 1.0        | 13,019        |
| ■ Telefonica SA 884,400                      | 1.1        | 15,082        |
| Other Securities                             | 1.6        | 20,073        |
|  | <b>4.4</b> | <b>57,672</b> |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
|-------------------------------|-----------------|--------------------|

**Sweden 2.1%**

|  |            |               |
|--|------------|---------------|
| Telefonaktiebolaget LM Ericsson, Class B 2,715,488 | 0.6        | 8,056         |
| Other Securities                                   | 1.5        | 19,666        |
|  | <b>2.1</b> | <b>27,722</b> |

**Switzerland 7.4%**

|                                   |            |               |
|-----------------------------------|------------|---------------|
| ■ Credit Suisse Group 198,542     | 0.6        | 8,389         |
| ■ ⑧ Nestle SA, Registered 72,759  | 1.4        | 19,224        |
| ⑦ Novartis AG, Registered 438,082 | 1.6        | 21,409        |
| Roche Holdings - Genus 126,304    | 1.2        | 15,343        |
| UBS AG, Registered 184,721        | 1.1        | 14,830        |
| Other Securities                  | 1.5        | 19,494        |
|                                   | <b>7.4</b> | <b>98,689</b> |

**United Kingdom 27.1%**

|   |             |                |
|---|-------------|----------------|
| AstraZeneca PLC 291,743                     | 1.0         | 12,779         |
| Barclays PLC 1,159,501                      | 0.9         | 11,975         |
| ① BP PLC 3,841,438                          | 2.9         | 39,202         |
| Diageo PLC 543,966                          | 0.6         | 8,071          |
| ④ GlaxoSmithKline PLC 1,048,777             | 2.0         | 26,525         |
| HBOS PLC 697,524                            | 0.8         | 10,356         |
| ② HSBC Holdings PLC 1,990,084               | 2.4         | 31,860         |
| Lloyds TSB Group PLC 999,063                | 0.6         | 8,593          |
| ⑩ Royal Bank of Scotland Group PLC 571,593  | 1.3         | 17,279         |
| Shell Transport & Trading Co. PLC 1,732,396 | 1.2         | 15,581         |
| Tesco PLC 1,376,566                         | 0.6         | 8,138          |
| ③ Vodafone Group PLC 11,594,083             | 2.3         | 30,345         |
| Other Securities                            | 10.5        | 139,733        |
|   | <b>27.1</b> | <b>360,437</b> |

**Foreign Preferred Stock 0.1% of net assets****Germany 0.1%**

|                  |     |       |
|------------------|-----|-------|
| Other Securities | 0.1 | 1,043 |
|------------------|-----|-------|

Summary of Portfolio Holdings continued

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|--------------------|
| Warrants 0.0% of net assets   |                 |                    |
| France 0.0%                   |                 |                    |
| Other Securities              | 0.0             | —                  |
| United States 0.0%            |                 |                    |
| Other Securities              | 0.0             | —                  |

The foreign securities were valued at fair value in accordance with board approved procedures (see Accounting Policies)

|                          |     |       |
|--------------------------|-----|-------|
| Security                 |     |       |
| Rate, Maturity Date      |     |       |
| Face Amount (\$ x 1,000) |     |       |
| Short-Term Investment    |     |       |
| 0.1% of net assets       |     |       |
| Bank of America, London  |     |       |
| Time Deposit             |     |       |
| 2.36%, 05/02/05          |     |       |
| 2,054                    | 0.1 | 2,054 |

End of investments.

| Security and Number of Shares              | Value (\$ x 1,000) |
|--|--------------------|
| Collateral Invested for Securities on Loan |                    |
| 14.4% of net assets                        |                    |
| Short-Term Investment 14.4%                |                    |
| Securities Lending Investments             |                    |
| Fund 191,005,254                           | 191,005            |

End of collateral invested for securities on loan.

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                  |
|--|------------------|
| Investments, at value<br>(including \$186,048 of securities on loan) | \$1,322,527      |
| Collateral invested for securities on loan                           | 191,005          |
| Foreign currency   | 85               |
| Receivables:   |                  |
| Fund shares sold   | 643              |
| Dividends  | 7,755            |
| Income from securities on loan                                       | 177              |
| Dividend tax reclaim   | 257              |
| Prepaid expenses   | + 37             |
| <b>Total assets</b>  | <b>1,522,486</b> |

**Liabilities**

|   |                |
|---|----------------|
| Collateral invested for securities on loan  | 191,005        |
| Payables:                                   |                |
| Fund shares redeemed                        | 315            |
| Investments bought                          | 28             |
| Withholding taxes                           | 577            |
| Investment adviser and administrator fees   | 39             |
| Transfer agent and shareholder service fees | 9              |
| Accrued expenses                            | + 139          |
| <b>Total liabilities</b>                    | <b>192,112</b> |

**Net Assets**

|                          |                    |
|--------------------------|--------------------|
| <b>Total assets</b>      | 1,522,486          |
| <b>Total liabilities</b> | − 192,112          |
| <b>Net assets</b>        | <b>\$1,330,374</b> |

**Net Assets by Source**

|   |           |
|---|-----------|
| Capital received from investors           | 1,311,873 |
| Net investment income not yet distributed | 11,969    |
| Net realized capital losses               | (302,285) |
| Net unrealized capital gains              | 308,817   |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$588,334  |   | 37,402             |   | \$15.73 |
| Select Shares   | \$742,040  |   | 47,181             |   | \$15.73 |

Unless stated, all numbers x 1,000.

The fund paid \$1,013,716 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$113,255 |
| Sales/maturities | \$112,998 |

The fund's total security transactions with other Schwab Funds® during the period were \$7,302.

The fund paid \$85 for these currencies.

**Federal Tax Data**

|   |                  |
|---|------------------|
| <b>Portfolio cost</b>                   | \$1,019,023      |
| <b>Net unrealized gains and losses:</b> |                  |
| Gains                                   | \$374,910        |
| Losses                                  | + (71,406)       |
|   | <b>\$303,504</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$21,655 |
| Long-term capital gains | \$−      |

**Unused capital losses:**

|                   |                  |
|-------------------|------------------|
| Expires 10/31 of: | Loss amount      |
| 2005              | \$1,837          |
| 2006              | 11,905           |
| 2007              | 7                |
| 2008              | 3,669            |
| 2009              | 130,942          |
| 2010              | 112,722          |
| 2011              | 39,016           |
| 2012              | + 8,278          |
|                   | <b>\$308,376</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |               |
|--------------------------------|---------------|
| Dividends                      | \$18,593      |
| Interest                       | 38            |
| Securities on loan             | + 402         |
| <b>Total investment income</b> | <b>19,033</b> |

**Net Realized Gains and Losses**

|  |               |
|--|---------------|
| Net realized gains on investments                    | 11,759        |
| Net realized losses on foreign currency transactions | + (709)       |
| <b>Net realized gains</b>                            | <b>11,050</b> |

**Net Unrealized Gains and Losses**

|  |               |
|--|---------------|
| Net unrealized gains on investments                    | 74,468        |
| Net unrealized losses on foreign currency transactions | + (41)        |
| <b>Net unrealized gains</b>                            | <b>74,427</b> |

**Expenses**

|  |              |
|--|--------------|
| Investment adviser and administrator fees    | 2,653        |
| Transfer agent and shareholder service fees: |              |
| Investor Shares                              | 735          |
| Select Shares                                | 372          |
| Trustees' fees                               | 8            |
| Custodian fees                               | 258          |
| Portfolio accounting fees                    | 94           |
| Professional fees                            | 21           |
| Registration fees                            | 16           |
| Shareholder reports                          | 55           |
| Interest expense                             | 1            |
| Other expenses                               | + 33         |
| Total expenses                               | 4,246        |
| Expense reduction                            | - 358        |
| <b>Net expenses</b>                          | <b>3,888</b> |

**Increase in Net Assets from Operations**

|   |                  |
|---|------------------|
| Total investment income                       | 19,033           |
| Net expenses                                  | - 3,888          |
| <b>Net investment income</b>                  | <b>15,145</b>    |
| Net realized gains                            | 11,050           |
| Net unrealized gains                          | + 74,427         |
| <b>Increase in net assets from operations</b> | <b>\$100,622</b> |

Unless stated, all numbers x 1,000.

Net of \$2,329 foreign withholding tax.

Calculated as a percentage of average daily net assets: 0.43% of the first \$500 million and 0.38% of the 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.

Includes \$209 from the investment adviser (CSIM) and \$149 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through at least February 27, 2006, as follows:

| Share Class     | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 0.69                          |
| Select Shares   | 0.50                          |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$85,477.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for the current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$15,145        | \$22,962         |
| Net realized gains or losses                  | 11,050          | (7,817)          |
| Net unrealized gains                          | + 74,427        | 187,892          |
| <b>Increase in net assets from operations</b> | <b>100,622</b>  | <b>203,037</b>   |

**Distributions Paid****Dividends from net investment income**

|   |                 |                 |
|---|-----------------|-----------------|
| Investor Shares                                   | 14,231          | 9,069           |
| Select Shares                                     | + 10,423        | 12,465          |
| <b>Total dividends from net investment income</b> | <b>\$24,654</b> | <b>\$21,534</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|--|-----------------|--------------------|------------------|--------------------|
|  | SHARES          | VALUE              | SHARES           | VALUE              |
| <b>Shares Sold</b>                     |                 |                    |                  |                    |
| Investor Shares                        | 3,374           | \$53,535           | 5,725            | \$80,057           |
| Select Shares                          | + 4,453         | 70,540             | 5,772            | 80,804             |
| <b>Total shares sold</b>               | <b>7,827</b>    | <b>\$124,075</b>   | <b>11,497</b>    | <b>\$160,861</b>   |
| <b>Shares Reinvested</b>               |                 |                    |                  |                    |
| Investor Shares                        | 616             | \$9,445            | 629              | \$8,293            |
| Select Shares                          | + 864           | 13,224             | 882              | 11,628             |
| <b>Total shares reinvested</b>         | <b>1,480</b>    | <b>\$22,669</b>    | <b>1,511</b>     | <b>\$19,921</b>    |
| <b>Shares Redeemed</b>                 |                 |                    |                  |                    |
| Investor Shares                        | (3,714)         | (\$58,849)         | (7,955)          | (\$111,302)        |
| Select Shares                          | + (4,476)       | (70,996)           | (9,688)          | (136,414)          |
| <b>Total shares redeemed</b>           | <b>(8,190)</b>  | <b>(\$129,845)</b> | <b>(17,643)</b>  | <b>(\$247,716)</b> |
| <b>Net transactions in fund shares</b> | <b>1,117</b>    | <b>\$16,899</b>    | <b>(4,635)</b>   | <b>(\$66,934)</b>  |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                    | 11/1/03-10/31/04 |                    |
|----------------------------|-----------------|--------------------|------------------|--------------------|
|                            | SHARES          | NET ASSETS         | SHARES           | NET ASSETS         |
| Beginning of period        | 83,466          | \$1,237,507        | 88,101           | \$1,122,938        |
| Total increase or decrease | + 1,117         | 92,867             | (4,635)          | 114,569            |
| <b>End of period</b>       | <b>84,583</b>   | <b>\$1,330,374</b> | <b>83,466</b>    | <b>\$1,237,507</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$21,534 |
| Long-term capital gains | \$—      |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 1.50% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

**Current period:**

|                 |             |
|-----------------|-------------|
| Investor Shares | \$37        |
| Select Shares   | + 26        |
| <b>Total</b>    | <b>\$63</b> |

**Prior period:**

|                 |             |
|-----------------|-------------|
| Investor Shares | \$50        |
| Select Shares   | + 22        |
| <b>Total</b>    | <b>\$72</b> |

Dollar amounts are net of the redemption proceeds.

Includes distributable net investment income in the amount of \$11,969 and \$21,478 at the end of the current period and prior period, respectively.

Percent of fund shares owned by other Schwab Funds® as of the end of the current period:

**Schwab MarketTrack Portfolios**

|                        |       |
|------------------------|-------|
| All Equity Portfolio   | 10.2% |
| Growth Portfolio       | 9.7%  |
| Balanced Portfolio     | 5.9%  |
| Conservative Portfolio | 2.2%  |

**Schwab Annuity Portfolios**

|                     |      |
|---------------------|------|
| Growth Portfolio II | 0.5% |
|---------------------|------|

See financial notes. 67

# Financial Notes

## Business Structure of the Funds

Each of the funds discussed in this report is a series of a no-load, open-end management investment company. Each of these companies 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 by trust.

The funds offer multiple share classes. For any given fund, shares of each class represent interests in the same portfolio, but each class has different expenses and investment minimums. In addition, one share class, e.Shares, is available only to clients of Schwab Institutional®, Charles Schwab Trust Company and certain tax-advantaged retirement plans, and can only be traded electronically.

| Fund                          | Investor Shares | Select Shares | e.Shares |
|-------------------------------|-----------------|---------------|----------|
| S&P 500 Index Fund            | •               | •             | •        |
| Schwab 1000 Index Fund        | •               | •             |          |
| Small-Cap Index Fund          | •               | •             |          |
| Total Stock Market Index Fund | •               | •             |          |
| International Index Fund      | •               | •             |          |

For these funds, shares are bought and sold at net asset value (NAV), which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trusts may issue as many shares as necessary.

## The Trusts and Their Funds

This list shows the trust containing each fund in this report, along with all other funds included in these trusts. The funds discussed in this report are highlighted.

**Schwab Investments** organized October 26, 1990  
[Schwab 1000 Index Fund](#)  
Schwab Short-Term Bond Market Fund  
Schwab Total Bond Market Fund  
Schwab YieldPlus Fund  
Schwab Short/Intermediate Tax-Free Bond Fund  
Schwab Long-Term Tax-Free Bond Fund  
Schwab California Short/Intermediate Tax-Free Bond Fund  
Schwab California Long-Term Tax-Free Bond Fund  
Schwab GNMA Fund

**Schwab Capital Trust** organized May 7, 1993  
[Schwab S&P 500 Index Fund](#)  
[Schwab Small-Cap Index Fund](#)  
[Schwab Total Stock Market Index Fund](#)  
[Schwab International Index Fund](#)  
Schwab MarketTrack All Equity Portfolio  
Schwab MarketTrack Growth Portfolio  
Schwab MarketTrack Balanced Portfolio  
Schwab MarketTrack Conservative Portfolio  
Laudus U.S. MarketMasters Fund  
Laudus Balanced MarketMasters Fund  
Laudus Small-Cap MarketMasters Fund  
Laudus International MarketMasters Fund  
Schwab Premier Equity Fund  
Schwab Core Equity Fund  
Schwab Dividend Equity Fund  
Schwab Small-Cap Equity Fund  
Schwab Hedged Equity Fund  
Schwab Financial Services Fund  
Schwab Health Care Fund  
Schwab Technology Fund  
Schwab Institutional Select S&P 500 Fund  
Schwab Institutional Select Large-Cap Value Index Fund  
Schwab Institutional Select Small-Cap Value Index 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 fund operations 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 pay dividends** from net investment income and make distributions from net capital gains once a year.

**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. The potential for losses associated with futures contracts may exceed amounts recorded in the Statement of Assets and Liabilities.

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 a 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 Schwab International Index Fund may invest in forward currency contracts in connection with the purchase and sale of portfolio securities to minimize the uncertainty of changes in future exchange rates.**

"Forwards," as they are known, are contracts to buy and sell a currency at a set price on a future date. Forwards are similar to futures except that they are not publicly traded, but are agreements directly between two parties.

As with futures, forwards involve certain risks that are not fully reflected in the fund's financials. If counterparties to the contracts are unable to meet the terms of the contracts or if the value of the foreign currency changes unfavorably, the fund could sustain a loss.

**The funds may enter into repurchase agreements.** In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created.

The funds' repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds' custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

**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 pay fees to affiliates of the investment adviser for various services.** Through their trusts, 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 related parties.** For instance, a fund may own shares of The Charles Schwab Corporation if that company is included in its index. The funds also may let other Schwab Funds\* buy and sell fund shares, particularly Schwab MarketTrack Portfolios\*, which seek to provide investors with allocated portfolios of Schwab index funds.

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 trusts were in compliance with these limitations throughout the report period. The trusts did not pay any of these persons for their service as trustees, but they did pay the 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 Schwab Funds 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.

| Fund                            | Amount outstanding at 4/30/05 (\$ × 1,000) | Average borrowing* (\$ × 1,000) | Weighted average interest rate* (%) |
|---------------------------------|--|---------------------------------|-------------------------------------|
| Schwab S&P 500 Index Fund       | 817  | 9,665                           | 2.83                                |
| Schwab 1000 Index Fund          | 3,936                                      | 5,201                           | 2.77                                |
| Schwab Small-Cap Index Fund     | —  | 2,380                           | 2.90                                |
| Schwab International Index Fund | —  | 362                             | 2.90                                |

\* Based on the number of days for which the borrowing is outstanding.

**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 net realized 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. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of wash sale losses and foreign currency transactions.

**Under the funds’ organizational documents, its 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:

- **Securities traded on an exchange or over-the-counter:** valued at the closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes. Securities that are primarily traded on foreign exchanges are valued at the closing values of such securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.
- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security's last close and the time that a fund calculates net asset value: 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 and the Pricing Committee. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been de-listed from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.

Also, the foreign securities held by International Index

Fund are fair valued if a movement in the U.S. market exceeds a specific threshold that has been established using the guideline adopted by the fund's Board of Trustees. The fund uses a third party vendor to provide the fair valuation based on certain factors and methodologies including tracking valuation correlations between the U.S. market and each non-U.S. security.

- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards 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.

**Dividends and distributions from portfolio securities** are recorded on the date they are effective (the ex-dividend date), although the funds record certain foreign security dividends on the day they learn of the ex-dividend date.

**Income from interest and the accretion of discount** is recorded as it accrues.

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date.

Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

**Expenses** that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily 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 average daily 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 keeps certain assets in segregated accounts, as may be 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.

# Trustees and Officers of Schwab Capital Trust

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 Schwab Funds (of which there were 53 as of 4/30/05) 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.

| Individuals Who Are Interested Trustees and Officers of the Trust |   |  |
|---|---|--|
| Name and Birthdate  | Trust Position(s);<br>Trustee Since   | Main Occupations and Other Directorships and Affiliations  |
| <b>Charles R. Schwab</b> <sup>2</sup><br>7/29/37                  | Chairman, Trustee:<br>Family of Funds, 1989;<br>Investments, 1991;<br>Capital Trust, 1993;<br>Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co. |

<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.

### Individuals Who Are Interested Trustees but Not Officers of the Trust

| Name and Birthdate                | Trustee Since      | Main Occupations and Other Directorships and Affiliations  |
|-----------------------------------|--------------------|--|
| <b>Randall W. Merk</b><br>7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

### Individuals Who Are Officers of the Trust but Not Trustees

| Name and Birthdate                  | Trust Office(s) Held                                       | Main Occupations and Other Directorships and Affiliations   |
|-------------------------------------|--|---|
| <b>Evelyn Dilsaver</b><br>5/4/55    | President, CEO<br>(all trusts).                            | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust.   |
| <b>Stephen B. Ward</b><br>4/5/55    | SVP, Chief Investment<br>Officer (all trusts).             | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.   |
| <b>Kimon Daifotis</b><br>7/10/59    | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Jeffrey Mortimer</b><br>9/29/63  | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Randall Fillmore</b><br>11/11/60 | Chief Compliance<br>Officer (all trusts).                  | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc. <i>Until 9/04:</i> VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| <b>Koji E. Felton</b><br>3/13/61    | Secretary (all trusts).                                    | SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98:</i> Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.   |
| <b>George Pereira</b><br>6/9/64     | Treasurer, Principal<br>Financial Officer<br>(all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange.  |

## Individuals Who Are Independent Trustees

| Name and Birthdate                   | Trustee Since  | Main Occupations and Other Directorships and Affiliations   |
|--------------------------------------|--|---|
| <b>Mariann Byerwalter</b><br>8/13/60 | 2000 (all trusts).   | Chair, JDN Corp. Advisory LLC; 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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>2001:</i> Stanford University, Special Assistant to the President, <i>from 1996-2001</i> , VP of Business Affairs, CFO. |
| <b>Donald F. Dorward</b><br>9/23/31  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> EVP, Managing Director, Grey Advertising. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising.   |
| <b>William A. Hasler</b><br>11/22/41 | 2000 (all trusts).   | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solelectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals).  |
| <b>Robert G. Holmes</b><br>5/15/31   | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).   |
| <b>Gerald B. Smith</b><br>9/28/50    | 2000 (all trusts).   | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).  |
| <b>Donald R. Stephens</b><br>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> Chair, CEO, North American Trust (real estate investment trust).  |
| <b>Michael W. Wilsey</b><br>8/18/43  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).  |

# Glossary

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

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

**beta** A historical measure of an investment's volatility relative to a market index (usually the S&P 500®). The index is defined as having a beta of 1.00. Investments with a beta higher than 1.00 have been more volatile than the index; those with a beta of less than 1.00 have been less volatile.

**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.

**cap, capitalization** See "market cap."

**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.

**earnings growth rate** For a mutual fund, the average yearly rate at which the earnings of the companies in the fund's portfolio have grown, measured over the past five years.

**earnings per share (EPS)** A company's earnings, or net income, for the past 12 months, divided by the number of shares outstanding.

**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.

**market cap, market capitalization** The value of a company as determined by the total value of all shares of its stock outstanding.

**median market cap** The midpoint of the range of market caps of the stocks held by a fund. There are different ways of calculating median market cap. With a simple median, half of the stocks in the fund's portfolio would be larger than the median, and half would be smaller. With a weighted median (the type that is calculated for these funds), half of the fund's assets are invested in stocks that are larger than the median market cap, and half in stocks that are smaller.

**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.

**price-to-book ratio (P/B)** The market price of a company's stock compared with its "book value." A mutual fund's P/B is the weighted average of the P/B of all stocks in the fund's portfolio.

**price-to-earnings ratio (P/E)** The market price of a company's stock compared with earnings over the past year. A mutual fund's P/E is the weighted average of the P/E of all stocks in the fund's portfolio.

**return on equity (ROE)** The average yearly rate of return for each dollar of investors' money, measured over the past five years.

**stock** A share of ownership, or equity, in the issuing company.

**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.

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

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

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 web site at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds), the SEC's web site 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 web site 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 Financial Services Fund™  
Schwab Health Care Fund™  
Schwab Technology Fund™  
Schwab Institutional Select® S&P 500 Fund

### Asset Allocation Funds

Schwab MarketTrack Portfolios®  
Schwab MarketTrack All Equity Portfolio™  
Schwab MarketTrack Growth Portfolio™  
Schwab MarketTrack Balanced Portfolio™  
Schwab MarketTrack Conservative Portfolio™

### 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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# Semiannual Report

April 30, 2005



COMMAND PERFORMANCE™

## Laudus MarketMasters Funds™

(effective November 1, 2004 the Funds changed their name from the *Schwab MarketMasters Funds®* to the *Laudus MarketMasters Funds™*)

Laudus U.S. MarketMasters Fund™

Laudus Balanced MarketMasters Fund™

Laudus Small-Cap MarketMasters Fund™

Laudus International MarketMasters Fund™

*Four distinct Funds, each combining the expertise of leading investment managers with Schwab's overall supervision.*

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## *Select Shares<sup>®</sup> are available for the MarketMasters Funds<sup>™</sup>*

The Laudus MarketMasters Funds offer Select Shares, a share class that carries lower expenses than Investor Shares<sup>™</sup> in exchange for higher investment minimums. Select Shares are available for initial purchases of \$50,000 or more of a single fund in a single account and for shareholders who add to their existing Investor Share position, bringing the value to or above \$50,000. We encourage shareholders to review their portfolio to see if

they are eligible to exchange into Select Shares. If you believe you are eligible, you should contact Schwab or your broker dealer to perform a tax-free interclass exchange into Select Shares.

To learn more, please see the Funds' prospectus at [www.laudusfunds.com](http://www.laudusfunds.com). Or, call 1.800.435.4000 to order a prospectus or to speak with a representative.

# Management's Discussion

for the six months ended April 30, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. (CSIM). She joined the firm in 1992 and has held a variety of executive positions at Schwab.



**Jana Thompson** is President and CEO of Laudus Funds. Prior to joining Charles Schwab & Co., Inc. in 2000, she enjoyed a 16-year career in asset management and client services.

Dear Shareholder,

We're proud to say that, despite the turbulent past six months for equity markets, two of the four Laudus MarketMasters Funds enjoyed positive returns and outperformed their respective benchmarks. While there is little we can do to alter market sentiment, there are things we are doing to try to help our shareholders weather this rough climate.

One way in which we help is by offering Laudus MarketMasters Funds to retail investors. These four funds offer a multi-manager strategy. Using rigorous criteria, the managers are carefully selected, based on proven track records, to manage a portion of each fund's assets. By combining the strengths of different managers, the funds seek to bring together a variety of market-capitalization ranges across investment styles.

In so doing, we provide you with access to investment managers who take a disciplined approach that is designed to benefit shareholders. Investing in international companies, for example, takes a great deal of research that isn't readily available to most investors and is time-consuming for advisers to identify and monitor. Our fund managers do that for you and, as you can see from the Laudus International MarketMasters Fund's performance for the report period, they've done it well.

We will continue to look for more ways to offer you relevant choices and value. Your trust is very important to us and we at Schwab Funds and the Laudus Funds Group will do all we can to maintain that trust. Thank you for investing with us.

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

A handwritten signature in cursive script that reads "Jana Thompson".



**Jeffrey Mortimer, CFA**, senior vice president and chief investment officer, equities, of the investment adviser, has overall responsibility for the management of the Funds. Prior to joining the firm in 1997, he worked for nine years in asset allocation and manager selection.

**Kimberly Formon, CFA**, a director and portfolio manager of the investment adviser, co-manages the Funds. Prior to joining the firm in 1999, she worked for 10 years in equity and fixed-income analysis.

## The Investment Environment and the Funds

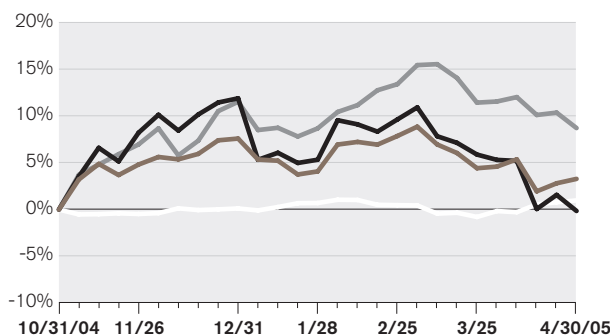
If the 2004 equity market ended with a bang, the 2005 market started with a whimper, with all the major equity indices down from their year-end highs at the end of April. For the six-month report period, however, the S&P 500 Index was still up 3.28%, due to the end-of-year rally. The broader Dow Jones Wilshire 5000 Composite Index was up 3.50% for the report period, again predominantly because of strong equity returns in November and December 2004. Small-cap stocks lost their leading position to their larger-cap cohorts, and value continued to be the favored style. Stocks were volatile and sentiment was fickle in the face of high energy prices, indications of budding inflation, and prospects of the Federal Reserve continuing to raise short-term interest rates, which it did four times during the six-month report period.

Early in the period, investors were heartened when oil prices dipped and the U.S. presidential election results were uncontested. Unfortunately, the brief respite in oil prices was short-lived and strengthening global demand for oil, particularly in the Pacific Rim, and refinery constraints at home drove crude prices to record highs, above \$50 per barrel in mid-February.

### Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 3.28% **S&P 500® Index:** measures U.S. large-cap stocks
- -0.15% **Russell 2000® Index:** measures U.S. small-cap stocks
- 8.71% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 0.98% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures 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. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

Source of Sector Classification: S&P and MSCI.

*The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive.*

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive. Consumer sentiment, however, hit a soft patch and started to weaken in 2005. First-quarter GDP came in at 3.1%, slightly below expectations and weaker than the fourth quarter, when it was 3.8%. In this environment, retail sales softened.

Despite the slowdown in the GDP, strong labor market conditions remained positive for domestic consumption. On the earnings front, fourth-quarter earnings were generally better than expected due, in part, to strong reports from companies in the Energy sector. Expectations for first-quarter earnings remained upbeat, although weaker than recent quarters, due to difficult year-over-year comparisons.

Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, productivity growth and slack in the economy have mostly kept a lid on core inflation. This productivity, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control.

While high energy prices remained a significant headwind for economic performance, they certainly helped boost oil companies' bottom lines. In fact, the strongest sector, according to S&P, was Energy, closely followed by Utilities and then Health Care. On the flip side, Information Technology was the worst performing sector over the report period, while the Consumer Discretionary sector also suffered.

**Performance of the Laudus MarketMasters Funds was mixed over the report period.** The best performer was the International Fund, which enjoyed double-digit gains. The other strong performer was the Balanced Fund. During the period, we were in close contact with the funds' sub-advisers and made adjustments to their allocations based on a combination of market conditions and daily cash flows.

**The Laudus U.S. MarketMasters Fund** returned 2.62% versus its benchmark, the S&P 500® Index, which was up 3.28% for the six-month period. Although large-cap stocks outperformed small-cap stocks over the report period, mid-cap stocks were the big winners. Consequently, sub-adviser TCW Investment Management Company, whose focus is on mid-cap stocks, had a positive impact on performance. With value

## Performance at a Glance

Total return for the six months ended 4/30/05

**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 more current performance information, please visit [www.schwab.com/marketmasters](http://www.schwab.com/marketmasters).**

### Laudus U.S. MarketMasters Fund™

|                      |              |
|----------------------|--------------|
| Investor Shares..... | <b>2.62%</b> |
| Select Shares®.....  | <b>2.71%</b> |
| Benchmark.....       | <b>3.28%</b> |
| Fund Category¹.....  | <b>3.26%</b> |

*Performance Details . . . . . pages 6-7*

### Laudus Balanced MarketMasters Fund™

|                      |              |
|----------------------|--------------|
| Investor Shares..... | <b>4.17%</b> |
| Select Shares.....   | <b>4.28%</b> |
| Benchmark.....       | <b>2.42%</b> |
| Fund Category¹.....  | <b>2.83%</b> |

*Performance Details . . . . . pages 9-10*

### Laudus Small-Cap MarketMasters Fund™

|                      |               |
|----------------------|---------------|
| Investor Shares..... | <b>-0.99%</b> |
| Select Shares.....   | <b>-0.90%</b> |
| Benchmark.....       | <b>-0.15%</b> |
| Fund Category¹.....  | <b>2.32%</b>  |

*Performance Details . . . . . pages 12-13*

### Laudus International MarketMasters Fund™

|                      |               |
|----------------------|---------------|
| Investor Shares..... | <b>10.76%</b> |
| Select Shares.....   | <b>10.93%</b> |
| Benchmark.....       | <b>8.71%</b>  |
| Fund Category¹.....  | <b>6.97%</b>  |

*Performance Details . . . . . pages 15-16*

stocks still in favor over the period, Harris Associates LP also contributed positively to performance. Newcomer Gardner Lewis, whose focus is growth, nearly matched the Russell 1000 Growth Index but was a slight drag on performance, as value was the favored style during the report period. (Gardner Lewis replaced Eagle Asset Management as of December 27, 2004.) Sub-adviser, Thornburg Investment Management, Inc. slightly outperformed the S&P 500® Index during the period, due to its stock selection in the strong Energy sector and careful analysis of the Telecommunications sector.

**The Laudus Balanced MarketMasters Fund** returned 4.17%, outperforming the Balanced Blended Index (60% S&P 500® Index /40% Lehman Brothers U.S. Aggregate Bond Index), which returned 2.42%. The fund was overweight in stocks for the reporting period, as we believed stocks would have the potential for higher returns. This overweight helped performance, as did all of the sub-advisers. Newcomer TCW Investment Management Company, whose focus is on large-cap value stocks, performed particularly well due, in part, to strong stock selection in the Consumer Discretionary and Health Care sectors. (TCW replaced Aronson+Johnson+Ortiz, LP on November 1, 2004.) Our other newcomer, Gardner Lewis, came in slightly ahead of the Russell 1000 Growth Index, but hurt performance slightly as value continued to be the more dominant style. (Growth manager Gardner Lewis replaced Eagle Asset Management on December 27, 2004.) Janus Capital Management LLC/Perkins, Wolf, McDonnell and Company, LLC performed well due to its lower-capitalization bias. Perkins focuses on mid-cap stocks, which performed better than larger or smaller stocks over the six-month period. On the fixed-income side, sub-adviser PIMCO also performed well, beating the Lehman Brothers U.S. Aggregate Bond Index for the six-month period.

Source of Sector Classification: S&P and MSCI. 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 CSIM and Schwab. Without these reductions, the Funds' total returns 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. Small-company stocks are subject to greater volatility than other asset categories. Foreign securities can involve risks such as political and economic instability and currency risk. These risks may be greater in emerging markets.

¹ Source for category information: Morningstar, Inc.

*Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, pro-productivity growth and slack in the economy have mostly kept a lid on core inflation.*

**The Laudus Small-Cap MarketMasters Fund** was down 0.99%, underperforming its benchmark, the Russell 2000® Index, which was down 0.15%. Small-cap stocks gave back a small portion of their gains over the reporting period, but mid-cap stocks continued to do well. TCW Investment Management Company handily outperformed the Russell 2000 benchmark due to its higher-capitalization stock bias and was a boon to performance. Veredus Asset Management LLC, with a growth-stock emphasis, managed to deliver positive returns versus the Russell 2000 Growth Index, which was down for the six-month period. Managers Tocqueville Asset Management LP and TAMRO Capital Partners LLC, both underperformed versus the Russell 2000 Index. Tocqueville was hurt by poor stock selection in most sectors, while TAMRO suffered from its sector allocations, particularly with its overweight in the underperforming Information Technology sector.

**The Laudus International MarketMasters Fund** was up 10.76%, outperforming its benchmark, the MSCI EAFE® Index, which was up 8.71%. All four sub-advisers did well during the report period, with American Century Global Investment Management, Inc. leading the way by a large margin. American Century returned 18.84% for the six months versus 8.71% for the MSCI EAFE Index. This was due to strong stock selection, particularly in France, Japan, Spain and the United Kingdom. Small-cap stocks continued to lead large caps during the report period, which also fueled American Century's outperformance. Both Harris Associates L.P. and William Blair & Company LLC also outperformed the MSCI EAFE by a wide margin. Harris benefited from strong stock selection, particularly in France, while William Blair gained ground due to some modest exposure to emerging markets. Artisan Partners Limited Partnership came in slightly ahead of the benchmark due to strong stock selection in Japan and Switzerland.

Source of Sector Classification: S&P and MSCI.

Small-company stocks are subject to greater volatility than other asset categories. Foreign securities can involve risks such as political and economic instability and currency risk. These risks may be greater in emerging markets.

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.

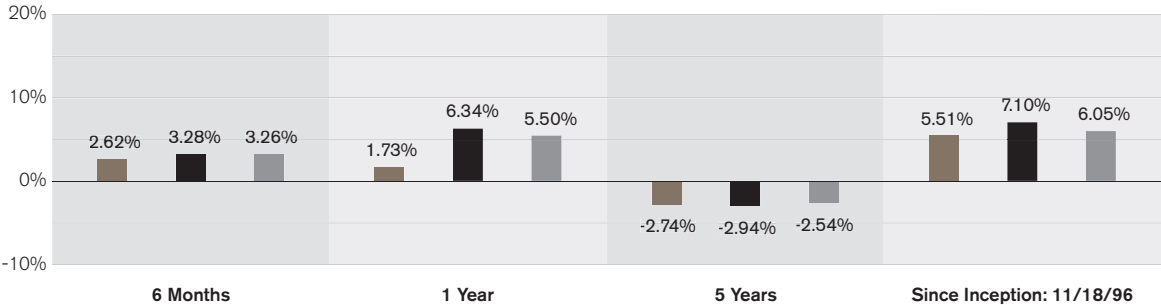
# Laudus U.S. MarketMasters Fund™

## Investor Shares Performance as of 4/30/05

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

This chart compares performance of the Fund with a benchmark and the Fund's Morningstar category.

- Fund: **Investor Shares** Ticker Symbol: SWOGX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Large-Cap Blend**

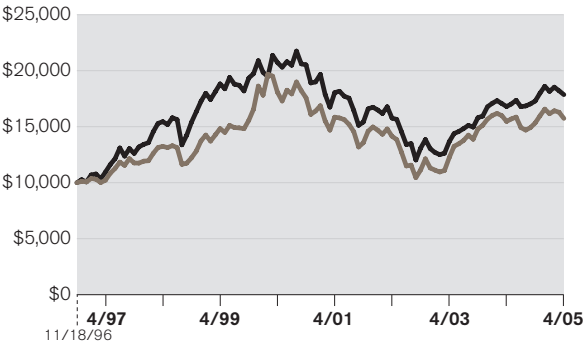


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the Fund, compared with a similar investment in a benchmark.

- \$15,739 **Investor Shares**
- \$17,860 **S&P 500® 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. Because the Fund was originally an asset allocation Fund with a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

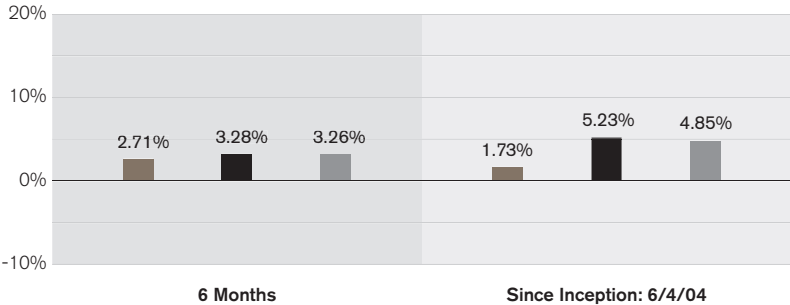
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

- Fund: **Select Shares** Ticker Symbol: SWMGX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Large-Cap Blend**

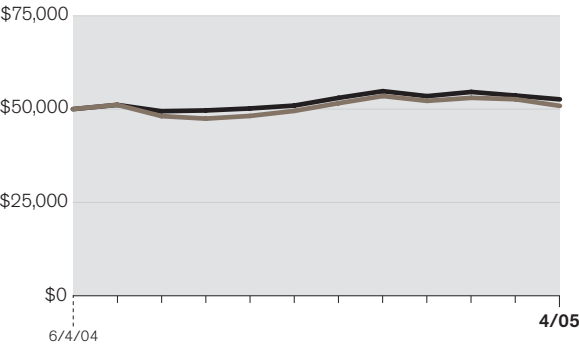


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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.

- \$50,865 **Select Shares**
- \$52,614 **S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the Fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

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

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

|  |          |
|--|----------|
| Number of Holdings   | 161      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$45,960 |
| Price/Earnings Ratio (P/E)                                 | 26.2     |
| Price/Book Ratio (P/B)                                     | 2.3      |
| Portfolio Turnover Rate <sup>2</sup>                       | 50%      |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Investment Managers and Allocations

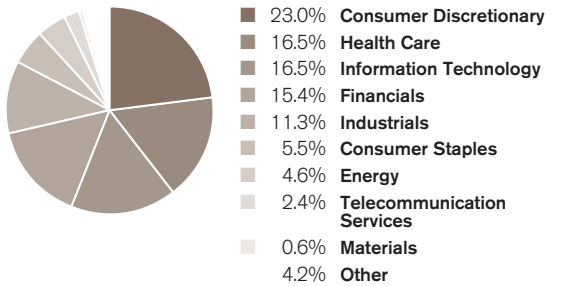
| Investment Manager                               | Investment Style    | % of Net Assets |
|--|---------------------|-----------------|
| Gardner Lewis Asset Management L.P. <sup>4</sup> | Large-Cap Growth    | 23.9%           |
| Harris Associates L.P.                           | Mid/Large-Cap Value | 22.4%           |
| TCW Investment Management Company                | Small/Mid-Cap Blend | 22.5%           |
| Thornburg Investment Management, Inc.            | Large-Cap Blend     | 31.0%           |

Top Holdings<sup>5</sup>

| Security                                      | % of Net Assets |
|---|-----------------|
| 1 Time Warner, Inc.                           | 2.5%            |
| 2 General Electric Co.                        | 1.6%            |
| 3 Comcast Corp., Class A                      | 1.5%            |
| 4 Pfizer, Inc.                                | 1.5%            |
| 5 Tiffany & Co.                               | 1.5%            |
| 6 Exxon Mobil Corp.                           | 1.4%            |
| 7 McDonald's Corp.                            | 1.4%            |
| 8 Cablevision Systems New York Group, Class A | 1.4%            |
| 9 Cendant Corp.                               | 1.4%            |
| 10 Baxter International, Inc.                 | 1.4%            |
| Total   | 15.6%           |

Sector Weightings % of Investments

This chart shows the Fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date. Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the Fund based on a ten-factor model for value and growth characteristics. The Fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the Fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> Gardner Lewis replaced Eagle Asset Management as of December 27, 2004.

<sup>5</sup> This list is not a recommendation of any security by the investment adviser.

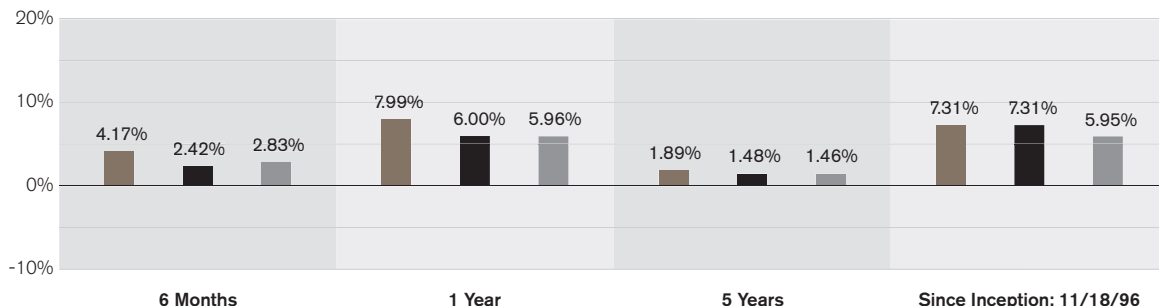
# Laudus Balanced MarketMasters Fund™

## Investor Shares Performance as of 4/30/05

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

This chart compares performance of the Fund with a benchmark and the Fund's Morningstar category.

■ Fund: **Investor Shares** Ticker Symbol: SWOBX  
 ■ Benchmark: **Balanced Blended Index**  
 ■ Fund Category: **Morningstar Moderate Allocation**

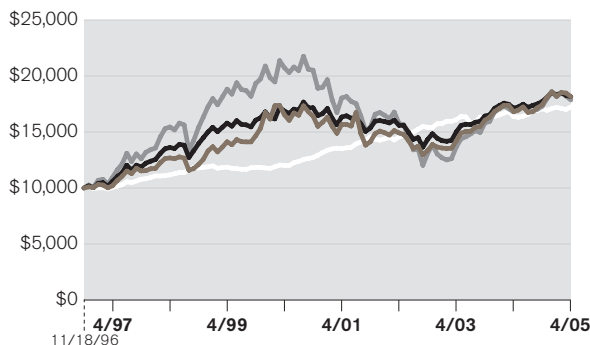


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the Fund, compared with a similar investment in a benchmark and two additional indices.

■ \$18,157 **Investor Shares**  
 ■ \$18,158 **Balanced Blended Index**  
 ■ \$17,860 **S&P 500® Index**  
 □ \$17,247 **Lehman Brothers U.S. Aggregate 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. Because the Fund originally used a different asset allocation strategy and a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the Fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The Balanced Blended Index is composed of 60% S&P 500® Index and 40% Lehman Brothers U.S. Aggregate Bond Index.

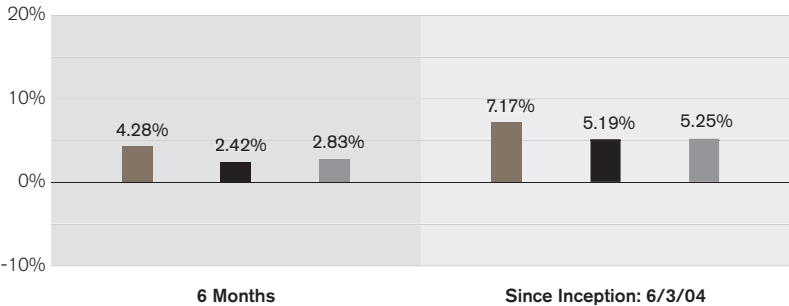
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

Fund: **Select Shares** Ticker Symbol: SWMBX  
Benchmark: **Balanced Blended Index**  
Fund Category: **Morningstar Moderate Allocation**

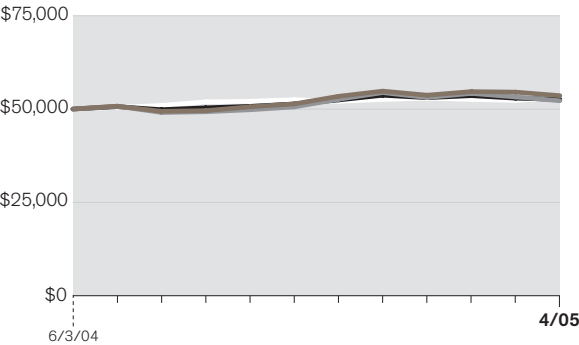


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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.

■ \$53,585 **Select Shares**  
■ \$52,596 **Balanced Blended Index**  
■ \$52,225 **S&P 500® Index**  
□ \$53,030 **Lehman Brothers U.S. Aggregate 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 partially absorbed by CSIM and Schwab. Without these reductions, the Fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The Balanced Blended Index is composed of 60% S&P 500® Index and 40% Lehman Brothers U.S. Aggregate Bond Index.  
<sup>2</sup> Source for category information: Morningstar, Inc.

## Fund Facts as of 4/30/05

### Top Holdings<sup>1</sup>

| Security                              | % of Net Assets |
|---------------------------------------|-----------------|
| ① Fannie Mae 5.50%, 05/12/2035        | 5.5%            |
| ② U.S. Treasury Note 3.625%, 07/15/09 | 5.1%            |
| ③ U.S. Treasury Note 3.375%, 09/15/09 | 3.5%            |
| ④ Fannie Mae TBA 5.00%, 05/12/35      | 2.6%            |
| ⑤ Fannie Mae TBA 4.50%, 05/12/35      | 2.2%            |
| ⑥ U.S. Treasury Bond 6.00%, 02/15/26  | 2.1%            |
| ⑦ U.S. Treasury Note 4.00%, 06/15/09  | 1.5%            |
| ⑧ HCA, Inc.                           | 1.4%            |
| ⑨ Time Warner, Inc.                   | 1.2%            |
| ⑩ The Boeing Co.                      | 1.2%            |
| <b>Total</b>                          | <b>26.3%</b>    |

### Statistics

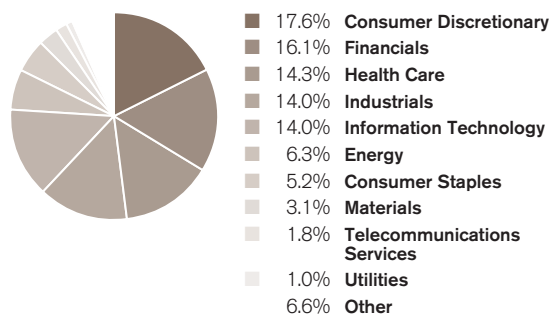
|  |          |
|--|----------|
| <b>Number of Long Holdings</b>                             | 312      |
| <b>Weighted Average Market Cap</b> (\$ x 1,000,000)        | \$35,225 |
| <b>Price/Earnings Ratio</b> (P/E)                          | 25.0     |
| <b>Price/Book Ratio</b> (P/B)                              | 2.1      |
| <b>Portfolio Turnover Rate</b> <sup>2</sup>                | 177%     |
| <b>Minimum Initial Investment</b> <sup>3</sup>             |          |
| <i>Investor Shares</i>                                     | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| <i>Select Shares</i>                                       | \$50,000 |

### Investment Managers and Allocations

| Investment Manager   | Investment Style          | % of Net Assets |
|--|---------------------------|-----------------|
| <b>TCW Investment Management Company</b> <sup>4</sup>                          | Large-Cap Value           | 34.0%           |
| <b>Gardner Lewis Asset Management L.P.</b> <sup>5</sup>                        | Large-Cap Growth          | 17.0%           |
| <b>Janus Capital Management LLC/ Perkins, Wolf, McDonnell and Company, LLC</b> | Mid-Cap Value             | 17.8%           |
| <b>Pacific Investment Management Company LLC</b>                               | Total Return Fixed-Income | 31.1%           |

### Sector Weightings % of Equity Securities

This chart shows the Fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> This list is not a recommendation of any security by the investment adviser.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> TCW Investment Management replaced Aronson+Johnson+Ortiz as of November 1, 2004.

<sup>5</sup> Gardner Lewis replaced Eagle Asset Management as of December 27, 2004.

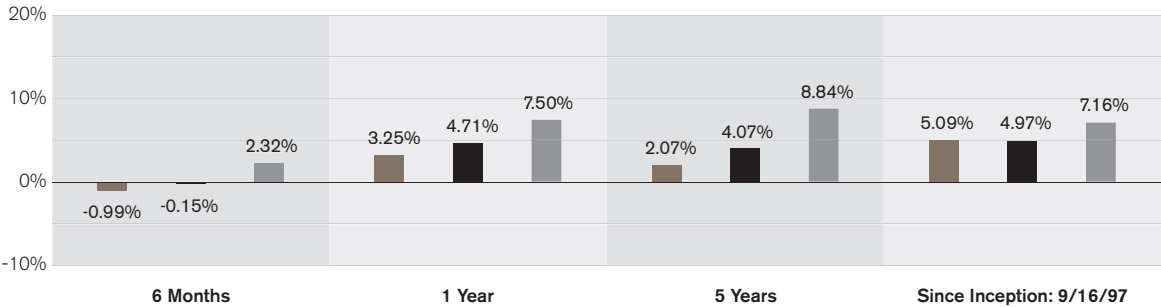
# Laudus Small-Cap MarketMasters Fund™

## Investor Shares Performance as of 4/30/05

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

This chart compares performance of the Fund with a benchmark and the Fund's Morningstar category.

- Fund: **Investor Shares** Ticker Symbol: SWOSX
- Benchmark: **Russell 2000® Index**
- Fund Category: **Morningstar Small-Cap Blend**

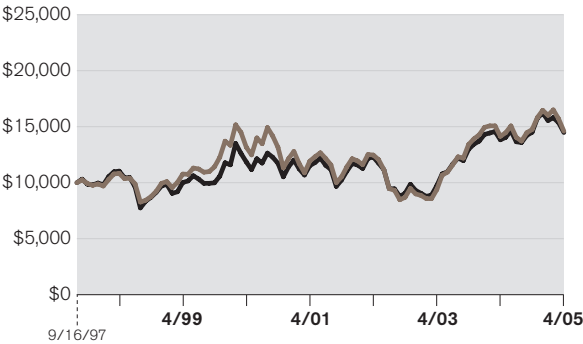


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the Fund, compared with a similar investment in a benchmark.

- \$14,603 **Investor Shares**
- \$14,480 **Russell 2000® 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. Because the Fund originally used a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

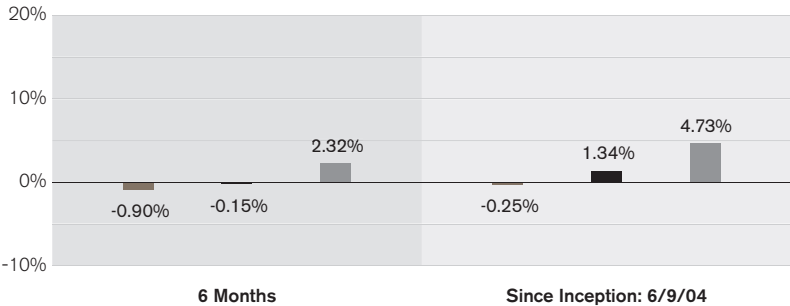
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

- Fund: **Select Shares** Ticker Symbol: SWMSX
- Benchmark: **Russell 2000® Index**
- Fund Category: **Morningstar Small-Cap Blend**

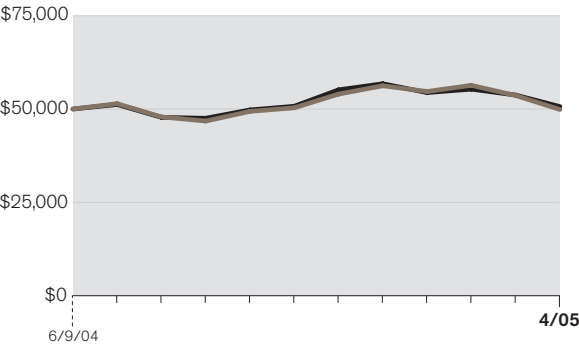


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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.

- \$49,875 **Select Shares**
- \$50,669 **Russell 2000® 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 partially absorbed by CSIM and Schwab. Without these reductions, the Fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

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

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

|  |          |
|--|----------|
| Number of Holdings   | 214      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$1,670  |
| Price/Earnings Ratio (P/E)                                 | 28.4     |
| Price/Book Ratio (P/B)                                     | 1.9      |
| Portfolio Turnover Rate <sup>2</sup>                       | 28%      |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Investment Managers and Allocations

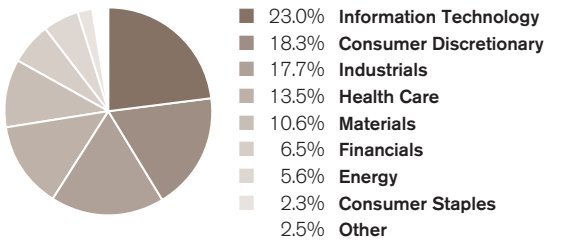
| Investment Manager                      | Investment Style    | % of Net Assets |
|---|---------------------|-----------------|
| TAMRO Capital Partners LLC <sup>4</sup> | Small-Cap Value     | 23.4%           |
| TCW Investment Management Company       | Small/Mid-Cap Blend | 14.4%           |
| Tocqueville Asset Management LP         | Small-Cap Blend     | 20.4%           |
| Veredus Asset Management LLC            | Small-Cap Growth    | 41.0%           |

Top Holdings<sup>5</sup>

| Security                               | % of Net Assets |
|--|-----------------|
| 1 Joy Global, Inc.                     | 1.5%            |
| 2 Portfolio Recovery Associates, Inc.  | 1.3%            |
| 3 The Ryland Group, Inc.               | 1.3%            |
| 4 Steelcase, Inc., Class A             | 1.3%            |
| 5 Arch Coal, Inc.                      | 1.3%            |
| 6 Tidewater, Inc.                      | 1.2%            |
| 7 ManTech International Corp., Class A | 1.2%            |
| 8 Ciber, Inc.                          | 1.1%            |
| 9 Beazer Homes USA, Inc.               | 1.1%            |
| 10 Bucyrus International, Inc.         | 1.0%            |
| Total                                  | 12.3%           |

Sector Weightings % of Investments

This chart shows the Fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date. Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the Fund based on a ten-factor model for value and growth characteristics. The Fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the Fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> TAMRO Capital Partners replaced Royce & Associates as of 4/1/04.

<sup>5</sup> This list is not a recommendation of any security by the investment adviser.

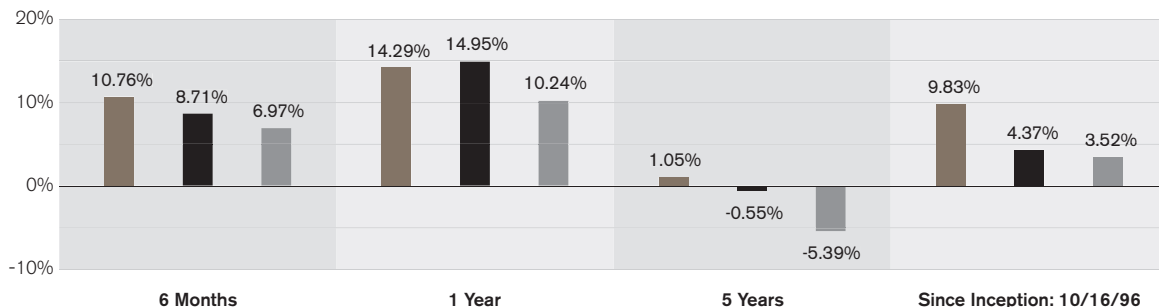
# Laudus International MarketMasters Fund™

## Investor Shares Performance as of 4/30/05

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

This chart compares performance of the Fund's Investor Shares with a benchmark and the Fund's Morningstar category.

■ Fund: **Investor Shares** Ticker Symbol: SWOIX  
 ■ Benchmark: **MSCI EAFE® Index**  
 ■ Fund Category: **Morningstar Foreign Large-Cap Growth**

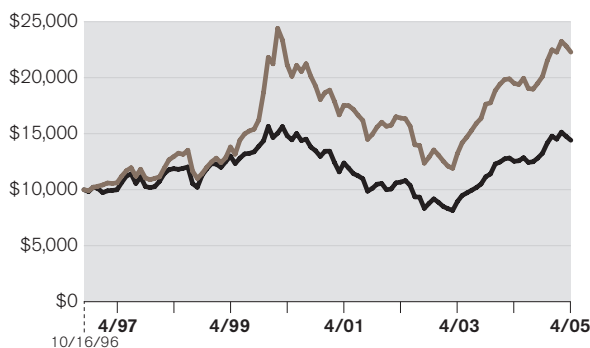


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

### 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 a benchmark.

■ \$22,283 **Investor Shares**  
 ■ \$14,414 **MSCI EAFE® 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. Because the Fund originally used a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

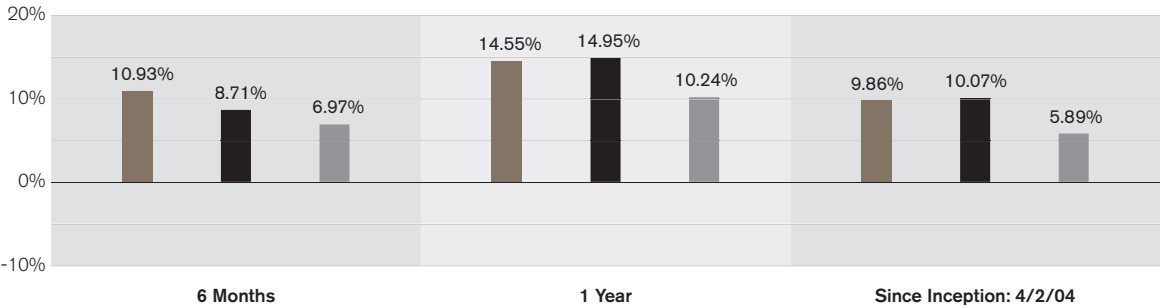
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

- Fund: **Select Shares** Ticker Symbol: SWMIX
- Benchmark: **MSCI EAFE® Index**
- Fund Category: **Morningstar Foreign Large-Cap Growth**

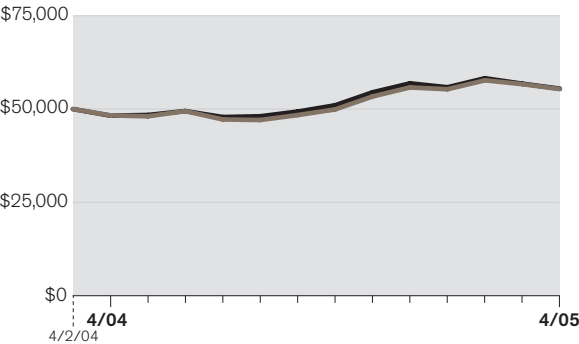


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

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.

- \$55,345 **Select Shares**
- \$55,458 **MSCI EAFE® 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 partially absorbed by CSIM and Schwab. Without these reductions, the Fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

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

## Fund Facts as of 4/30/05

### Top Holdings<sup>1</sup>

| Security                          | % of Net Assets |
|-----------------------------------|-----------------|
| ① Nestle SA                       | 1.7%            |
| ② GlaxoSmithKline PLC             | 1.5%            |
| ③ Diageo PLC                      | 1.4%            |
| ④ Sanofi-Aventis                  | 1.3%            |
| ⑤ Bayerische Motoren-Werke AG     | 1.3%            |
| ⑥ Honda Motor Co., Ltd.           | 1.3%            |
| ⑦ Takeda Chemical Industries Ltd. | 1.2%            |
| ⑧ SK Telecom Co., Ltd.            | 1.2%            |
| ⑨ Bank of Ireland                 | 1.1%            |
| ⑩ Novartis AG                     | 1.1%            |
| <b>Total</b>                      | <b>13.1%</b>    |

### Investment Managers and Allocations

| Investment Manager                                  | Investment Style            | % of Net Assets |
|---|-----------------------------|-----------------|
| American Century Global Investment Management, Inc. | International Small Company | 18.6%           |
| Artisan Partners Limited Partnership                | International Growth        | 17.6%           |
| Harris Associates L.P.                              | International Value         | 38.1%           |
| William Blair & Company, LLC                        | International Growth        | 24.2%           |

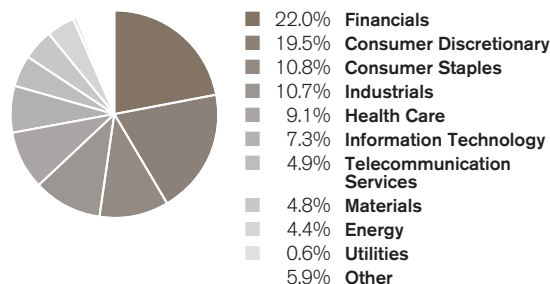
### Statistics

|  |          |
|--|----------|
| <b>Number of Holdings</b>                                  | 399      |
| <b>Weighted Average Market Cap</b> (\$ x 1,000,000)        | \$27,063 |
| <b>Price/Earnings Ratio (P/E)</b>                          | 17.4     |
| <b>Price/Book Ratio (P/B)</b>                              | 2.8      |
| <b>Portfolio Turnover Rate<sup>2</sup></b>                 | 30%      |
| <b>Minimum Initial Investment<sup>3</sup></b>              |          |
| <i>Investor Shares</i>                                     | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| <i>Select Shares</i>                                       | \$50,000 |

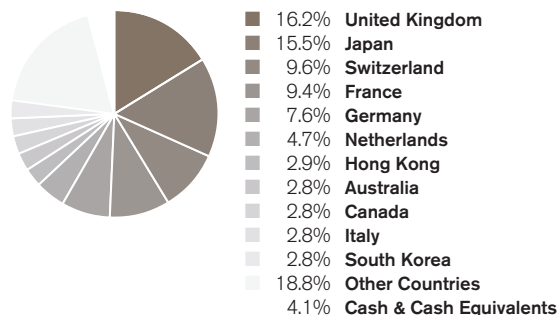
### Sector and Country Weightings % of Investments

These charts show the Fund's sector and country composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.

#### Sector



#### Country



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> This list is not a recommendation of any security by the investment adviser.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

# Fund Expenses

## 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 November 1, 2004 and held through April 30, 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  $\div$  \$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><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period <sup>2</sup><br>11/1/04–4/30/05 |
|--|--|--|--|--|
| <b>Laudus U.S. MarketMasters Fund™</b>         |  |  |  |  |
| <i>Investor Shares</i>                         |  |  |  |  |
| Actual Return                                  | 1.25%                                      | \$1,000                                  | \$1,026.20   | \$6.28   |
| Hypothetical 5% Return                         | 1.25%                                      | \$1,000                                  | \$1,018.60   | \$6.26   |
| <i>Select Shares®</i>                          |  |  |  |  |
| Actual Return                                  | 1.07%                                      | \$1,000                                  | \$1,027.10   | \$5.38   |
| Hypothetical 5% Return                         | 1.07%                                      | \$1,000                                  | \$1,019.49   | \$5.36   |
| <b>Laudus Balanced<br/>MarketMasters Fund™</b> |  |  |  |  |
| <i>Investor Shares</i>                         |  |  |  |  |
| Actual Return                                  | 1.10%                                      | \$1,000                                  | \$1,041.70   | \$5.57   |
| Hypothetical 5% Return                         | 1.10%                                      | \$1,000                                  | \$1,019.34   | \$5.51   |
| <i>Select Shares</i>                           |  |  |  |  |
| Actual Return                                  | 0.95%                                      | \$1,000                                  | \$1,042.80   | \$4.81   |
| Hypothetical 5% Return                         | 0.95%                                      | \$1,000                                  | \$1,020.08   | \$4.76   |

<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 the share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

## Fund Expenses continued

|   | Expense Ratio <sup>1</sup><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period <sup>2</sup><br>11/1/04–4/30/05 |
|---|--|--|--|--|
| <b>Laudus Small-Cap<br/>MarketMasters Fund™</b>     |  |  |  |  |
| <i>Investor Shares</i>                              |  |  |  |  |
| Actual Return                                       | 1.55%                                      | \$1,000                                  | \$990.10   | \$7.65   |
| Hypothetical 5% Return                              | 1.55%                                      | \$1,000                                  | \$1,017.11   | \$7.75   |
| <i>Select Shares</i>                                |  |  |  |  |
| Actual Return                                       | 1.37%                                      | \$1,000                                  | \$991.00   | \$6.76   |
| Hypothetical 5% Return                              | 1.37%                                      | \$1,000                                  | \$1,018.00   | \$6.85   |
| <b>Laudus International<br/>MarketMasters Fund™</b> |  |  |  |  |
| <i>Investor Shares</i>                              |  |  |  |  |
| Actual Return                                       | 1.65%                                      | \$1,000                                  | \$1,107.60   | \$8.62   |
| Hypothetical 5% Return                              | 1.65%                                      | \$1,000                                  | \$1,016.61   | \$8.25   |
| <i>Select Shares</i>                                |  |  |  |  |
| Actual Return                                       | 1.47%                                      | \$1,000                                  | \$1,109.30   | \$7.69   |
| Hypothetical 5% Return                              | 1.47%                                      | \$1,000                                  | \$1,017.51   | \$7.35   |

<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 the share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

# Laudus U.S. MarketMasters Fund™

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 10.30                | 9.94                 | 7.48                 | 9.20                 | 13.89                | 14.06                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income or loss                   | 0.02                 | (0.03)               | (0.01)               | 0.06                 | 0.38                 | 0.38                 |
| Net realized and unrealized gains or losses     | 0.25                 | 0.39                 | 2.47                 | (1.68)               | (3.21)               | 1.55                 |
| Total income or loss from investment operations | 0.27                 | 0.36                 | 2.46                 | (1.62)               | (2.83)               | 1.93                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | —                    | —                    | —                    | (0.10)               | (0.46)               | (0.33)               |
| Distributions from net realized gains           | —                    | —                    | —                    | —                    | (1.40)               | (1.77)               |
| Total distributions                             | —                    | —                    | —                    | (0.10)               | (1.86)               | (2.10)               |
| Net asset value at end of period                | 10.57                | 10.30                | 9.94                 | 7.48                 | 9.20                 | 13.89                |
| Total return (%)                                | 2.62 <sup>1</sup>    | 3.62                 | 32.89                | (17.92)              | (22.81)              | 12.98                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 1.25 <sup>2</sup>    | 1.25                 | 1.25                 | 0.83 <sup>3,4</sup>  | 0.50 <sup>4</sup>    | 0.51 <sup>4,5</sup>  |
| Gross operating expenses                        | 1.39 <sup>2</sup>    | 1.39                 | 1.42                 | 1.16 <sup>4</sup>    | 0.89 <sup>4</sup>    | 0.89 <sup>4</sup>    |
| Net investment income or loss                   | 0.32 <sup>2</sup>    | (0.25)               | (0.12)               | 0.50                 | 3.27                 | 2.34                 |
| Portfolio turnover rate                         | 50 <sup>1</sup>      | 72                   | 97                   | 390                  | 145                  | 179                  |
| Net assets, end of period (\$ x 1,000,000)      | 157                  | 180                  | 169                  | 129                  | 176                  | 248                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.74% if certain non-routine expenses (proxy fees) had not been included.

<sup>4</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>5</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                                   | 11/1/04–<br>4/30/05* | 6/4/04 <sup>1</sup> –<br>10/31/04– |
|---|----------------------|------------------------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                                    |
| Net asset value at beginning of period          | 10.32                | 10.42                              |
| Income or loss from investment operations:      |                      |                                    |
| Net investment income or loss                   | 0.02                 | (0.00) <sup>2</sup>                |
| Net realized and unrealized gains or losses     | 0.26                 | (0.10)                             |
| Total income or loss from investment operations | 0.28                 | (0.10)                             |
| Net asset value at end of period                | 10.60                | 10.32                              |
| Total return (%)                                | 2.71 <sup>3</sup>    | (0.96) <sup>3</sup>                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                                    |
| Ratios to average net assets:                   |                      |                                    |
| Net operating expenses                          | 1.07 <sup>4</sup>    | 1.07 <sup>4</sup>                  |
| Gross operating expenses                        | 1.35 <sup>4</sup>    | 1.37 <sup>4</sup>                  |
| Net investment income or loss                   | 0.42 <sup>4</sup>    | (0.08) <sup>4</sup>                |
| Portfolio turnover rate                         | 50 <sup>3</sup>      | 72 <sup>3</sup>                    |
| Net assets, end of period (\$ x 1,000,000)      | 2                    | 1                                  |

\* Unaudited.

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

<sup>2</sup> Per share amount was less than \$0.01.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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 security.

- ① Top ten holding
  - Non-income producing security
- ◆ American Depositary Receipt

| Holdings by Category |                                     | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|-------------------------------------|--------------------|---------------------|
| <b>92.7%</b>         | <b>Common Stock</b>                 | 135,817            | 147,372             |
| <b>2.1%</b>          | <b>Foreign Common Stock</b>         | 2,737              | 3,300               |
| <b>0.1%</b>          | <b>Short-Term Investments</b>       | 85                 | 85                  |
| <b>4.0%</b>          | <b>Other Investments</b>            | 6,394              | 6,394               |
| <b>98.9%</b>         | <b>Total Investments</b>            | <b>145,033</b>     | <b>157,151</b>      |
| <b>1.1%</b>          | <b>Other Assets and Liabilities</b> |                    | 1,821               |
| <b>100.0%</b>        | <b>Total Net Assets</b>             |                    | 158,972             |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Common Stock** 92.7% of net assets

**Banks 4.8%**

|  |        |       |
|--|--------|-------|
| Bank of America Corp.                  | 31,100 | 1,401 |
| Commerce Bancorp, Inc.                 | 27,400 | 767   |
| North Fork Bancorp, Inc.               | 32,300 | 909   |
| Peoples Bank                           | 4,300  | 179   |
| Peoples Heritage Financial Group, Inc. | 13,741 | 423   |

| Security and Number of Shares |        | Value<br>(\$ x 1,000) |
|-------------------------------|--------|-----------------------|
| Sovereign Bancorp, Inc.       | 82,000 | 1,687                 |
| Washington Mutual, Inc.       | 43,200 | 1,785                 |
| Zions Bancorp.                | 6,600  | 462                   |
|                               |        | <b>7,613</b>          |

**Business Machines & Software 0.6%**

|  |        |            |
|--|--------|------------|
| Hewlett Packard Co.                    | 45,000 | 921        |
| • Lexmark International, Inc., Class A | 1,000  | 70         |
|  |        | <b>991</b> |

**Capital Goods 5.2%**

|                             |        |              |
|-----------------------------|--------|--------------|
| 3M Co.                      | 10,200 | 780          |
| • Alliant Techsystems, Inc. | 11,300 | 782          |
| Dover Corp.                 | 17,400 | 632          |
| • EMCOR Group, Inc.         | 11,755 | 525          |
| ② General Electric Co.      | 71,000 | 2,570        |
| Grainger, Inc.              | 11,300 | 625          |
| Rockwell Collins, Inc.      | 4,400  | 202          |
| SPX Corp.                   | 9,300  | 360          |
| Tyco International Ltd.     | 35,100 | 1,099        |
| York International Corp.    | 17,000 | 665          |
|                             |        | <b>8,240</b> |

**Commercial Services & Supplies 3.4%**

|                              |         |              |
|------------------------------|---------|--------------|
| • Apollo Group Inc., Class A | 10,000  | 721          |
| ⑨ Cendant Corp.              | 111,700 | 2,224        |
| • FTI Consulting, Inc.       | 28,100  | 620          |
| Waste Management, Inc.       | 67,000  | 1,909        |
|                              |         | <b>5,474</b> |

**Consumer Durables & Apparel 2.1%**

|                                   |        |              |
|-----------------------------------|--------|--------------|
| American Greetings Corp., Class A | 42,500 | 963          |
| Jones Apparel Group, Inc.         | 37,365 | 1,138        |
| Leggett & Platt, Inc.             | 18,550 | 500          |
| Nike, Inc., Class B               | 9,400  | 722          |
|                                   |        | <b>3,323</b> |

**Consumer Services 4.8%**

|                          |        |       |
|--------------------------|--------|-------|
| Carnival Corp.           | 19,000 | 929   |
| Darden Restaurants, Inc. | 21,900 | 657   |
| Hilton Hotels Corp.      | 44,500 | 972   |
| ⑦ McDonald's Corp.       | 77,000 | 2,257 |

| Security and Number of Shares                     | Value<br>(\$ x 1,000) |
|---|-----------------------|
| Starwood Hotel & Resorts Worldwide, Inc. 15,700   | 853                   |
| Yum! Brands, Inc. 40,000                          | 1,878                 |
|   | <b>7,546</b>          |
| <b>Diversified Financials 7.0%</b>                |                       |
| American Express Co. 15,000                       | 791                   |
| Bank of New York Co., Inc. 52,200                 | 1,458                 |
| Capital One Financial Corp. 15,400                | 1,092                 |
| Citigroup, Inc. 45,050                            | 2,116                 |
| • E*TRADE Group, Inc. 41,100                      | 457                   |
| JP Morgan Chase & Co. 52,000                      | 1,845                 |
| Mellon Financial Corp. 17,700                     | 490                   |
| • Piper Jaffray Cos., Inc. 9,200                  | 254                   |
| T.Rowe Price Group, Inc. 11,400                   | 629                   |
| The Goldman Sachs Group, Inc. 18,850              | 2,013                 |
|   | <b>11,145</b>         |
| <b>Energy 4.3%</b>                                |                       |
| BJ Services Co. 6,500                             | 317                   |
| ChevronTexaco Corp. 28,100                        | 1,461                 |
| • Cooper Cameron Corp. 9,900                      | 544                   |
| ENSCO International, Inc. 11,700                  | 381                   |
| ⑥ Exxon Mobil Corp. 40,300                        | 2,298                 |
| ◆ Petroleo Brasileiro SA 29,100                   | 1,220                 |
| • Transocean, Inc. 14,200                         | 659                   |
|   | <b>6,880</b>          |
| <b>Food &amp; Staples Retailing 0.9%</b>          |                       |
| Costco Cos., Inc. 35,000                          | <b>1,420</b>          |
| <b>Food Beverage &amp; Tobacco 3.2%</b>           |                       |
| Coca-Cola Co. 41,000                              | 1,781                 |
| • Cott Corp. 12,850                               | 288                   |
| Hershey Foods Corp. 9,500                         | 607                   |
| Molson Coors Brewing Co. 6,700                    | 414                   |
| The Pepsi Bottling Group, Inc. 71,000             | 2,035                 |
|   | <b>5,125</b>          |
| <b>Health Care Equipment &amp; Services 11.4%</b> |                       |
| ⑩ Baxter International, Inc. 58,000               | 2,152                 |
| Beckman Coulter, Inc. 9,900                       | 660                   |
| • Boston Scientific Corp. 63,000                  | 1,864                 |

| Security and Number of Shares                          | Value<br>(\$ x 1,000) |
|--|-----------------------|
| Cardinal Health, Inc. 27,400                           | 1,523                 |
| • Caremark Rx, Inc. 26,250                             | 1,051                 |
| Cigna Corp. 9,600                                      | 883                   |
| • Eclipsys Corp. 46,000                                | 621                   |
| • Edwards Lifesciences Corp. 20,000                    | 881                   |
| Health Management Associates, Inc., Class A 51,900     | 1,284                 |
| • Health Net, Inc. 16,700                              | 568                   |
| Hillenbrand Industries, Inc. 12,800                    | 707                   |
| PerkinElmer, Inc. 7,535                                | 139                   |
| • St. Jude Medical, Inc. 26,000                        | 1,015                 |
| • Tenet Healthcare Corp. 57,700                        | 691                   |
| • Thermo Electron Corp. 24,300                         | 607                   |
| United Healthcare Corp. 14,900                         | 1,408                 |
| • Varian, Inc. 21,900                                  | 726                   |
| • Wellpoint, Inc. 10,800                               | 1,380                 |
|  | <b>18,160</b>         |
| <b>Healthcare / Drugs &amp; Medicine 0.3%</b>          |                       |
| Valeant Pharmaceuticals International 23,460           | <b>487</b>            |
| <b>Household &amp; Personal Products 0.7%</b>          |                       |
| Colgate-Palmolive Co. 22,900                           | <b>1,140</b>          |
| <b>Household Products 0.5%</b>                         |                       |
| Procter & Gamble Co. 14,300                            | <b>774</b>            |
| <b>Insurance 2.8%</b>                                  |                       |
| Arthur J. Gallagher & Co. 16,650                       | 463                   |
| Assurant, Inc. 30,640                                  | 1,014                 |
| Marsh & McLennan Cos., Inc. 39,200                     | 1,099                 |
| Old Republic International Corp. 23,500                | 555                   |
| St. Paul Cos., Inc. 35,200                             | 1,260                 |
|  | <b>4,391</b>          |
| <b>Materials 0.6%</b>                                  |                       |
| Monsanto Co. 16,700                                    | <b>979</b>            |
| <b>Media 9.1%</b>                                      |                       |
| • ⑧ Cablevision Systems New York Group, Class A 86,600 | 2,247                 |

**Portfolio Holdings** continued

| Security and Number of Shares                       | Value<br>(\$ x 1,000) |
|---|-----------------------|
| • ③ Comcast Corp., Class A 77,350                   | 2,454                 |
| • Cox Radio, Inc. 14,500                            | 228                   |
| • Directv Group, Inc. 93,011                        | 1,313                 |
| • Entercom Communications Corp. 7,250               | 234                   |
| • Interpublic Group of Cos., Inc. 47,200            | 607                   |
| • Liberty Media Corp., Class A 183,000              | 1,837                 |
| • Liberty Media International, Inc., Class A 11,000 | 456                   |
| • Sirius Satellite Radio, Inc. 41,740               | 199                   |
| • ① Time Warner, Inc. 240,600                       | 4,045                 |
| • Univision Communications, Inc. 8,400              | 221                   |
| Westwood One, Inc. 13,850                           | 253                   |
| • XM Satellite Radio Holdings, Inc. 10,455          | 290                   |

**14,384****Non-Durables & Entertainment 0.2%**

|                               |            |
|-------------------------------|------------|
| • Electronic Arts, Inc. 7,200 | <b>384</b> |
|-------------------------------|------------|

**Pharmaceuticals & Biotechnology 4.2%**

|  |       |
|--|-------|
| • Amgen, Inc. 14,000                         | 815   |
| • Barr Pharmaceuticals, Inc. 4,900           | 254   |
| • Charles River Laboratories, Inc. 15,000    | 711   |
| ◆ GlaxoSmithKline PLC 15,900                 | 804   |
| • Par Pharmaceutical Cos., Inc. 13,100       | 393   |
| ④ Pfizer, Inc. 87,200                        | 2,369 |
| ◆ Roche Holdings Ltd. 3,200                  | 193   |
| ◆ Teva Pharmaceutical Industries Ltd. 35,200 | 1,100 |

**6,639****Producer Goods & Manufacturing 0.4%**

|                              |            |
|------------------------------|------------|
| Parker Hannifin Corp. 11,600 | <b>695</b> |
|------------------------------|------------|

**Retailing 7.0%**

|  |       |
|--|-------|
| • Ann Taylor Stores Corp. 28,800         | 705   |
| Federated Department Stores, Inc. 11,000 | 632   |
| • Linens 'n Things, Inc. 39,291          | 917   |
| May Department Stores Co. 26,550         | 931   |
| Officemax, Inc. 22,180                   | 720   |
| Talbots, Inc. 27,200                     | 695   |
| Target Corp. 41,650                      | 1,933 |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| The Gap, Inc. 86,000          | 1,836                 |
| The TJX Max Cos., Inc. 19,900 | 451                   |
| ⑤ Tiffany & Co. 76,900        | 2,319                 |
|                               | <b>11,139</b>         |

**Semiconductors & Semiconductor Equipment 5.2%**

|  |       |
|--|-------|
| • Agere Systems, Inc., Class B 602,300         | 711   |
| • Applied Materials, Inc. 53,600               | 797   |
| • Cypress Semiconductor Corp. 62,100           | 744   |
| • Freescale Semiconductor, Inc. Class B 26,400 | 498   |
| Intersil Holding Corp., Class A 25,700         | 449   |
| Microchip Technology, Inc. 24,400              | 695   |
| • Micron Technology, Inc. 52,700               | 512   |
| National Semiconductor Corp. 45,825            | 874   |
| • Novellus Systems, Inc. 34,300                | 804   |
| • Teradyne, Inc. 96,150                        | 1,059 |
| Texas Instruments, Inc. 46,500                 | 1,161 |

**8,304****Software & Services 4.4%**

|  |       |
|--|-------|
| Adobe Systems, Inc. 14,800                     | 880   |
| First Data Corp. 25,000                        | 951   |
| • Google, Inc. 6,000                           | 1,320 |
| • Mercury Interactive Corp. 19,300             | 798   |
| Microsoft Corp. 45,600                         | 1,154 |
| Reynolds & Reynolds Co., Class A 16,305        | 430   |
| ◆ Shanda Interactive Entertainment Ltd. 13,200 | 424   |
| • Unisys Corp. 54,500                          | 354   |
| • Veritas Software Corp. 32,600                | 671   |

**6,982****Technology Hardware & Equipment 5.2%**

|                                      |       |
|--------------------------------------|-------|
| • Andrew Corp. 53,000                | 650   |
| • Anixter International, Inc. 10,800 | 399   |
| • Arrow Electronics, Inc. 19,750     | 481   |
| • Celestica, Inc. 43,035             | 495   |
| • Cisco Systems, Inc. 62,600         | 1,082 |
| • Corning, Inc. 49,800               | 685   |
| • Ditech Communications Corp. 21,800 | 246   |
| • EMC Corp. 63,900                   | 838   |

| Security and Number of Shares         | Value<br>(\$ x 1,000) |
|---------------------------------------|-----------------------|
| • Juniper Networks, Inc. 36,200       | 818                   |
| Motorola, Inc. 67,300                 | 1,032                 |
| Qualcomm, Inc. 19,850                 | 693                   |
| • Vishay Intertechnology, Inc. 76,800 | 821                   |
|                                       | <b>8,240</b>          |

#### Telecommunication Services 2.4%

|  |              |
|--|--------------|
| Alltel Corp. 22,000                        | 1,253        |
| • Crown Castle International Corp. 41,100  | 663          |
| • Leap Wireless International, Inc. 18,100 | 430          |
| • NII Holdings, Inc. 27,800                | 1,392        |
|  | <b>3,738</b> |

#### Transportation 2.0%

|                                  |              |
|----------------------------------|--------------|
| Southwest Airlines, Inc. 133,332 | 1,984        |
| Union Pacific Corp. 18,700       | 1,195        |
|                                  | <b>3,179</b> |

#### Foreign Common Stock 2.1% of net assets

##### France 0.7%

|                       |              |
|-----------------------|--------------|
| Sanofi-Aventis 12,700 | <b>1,122</b> |
|-----------------------|--------------|

##### South Korea 0.5%

|  |            |
|--|------------|
| Samsung Electronics Co. Ltd. Preferred 1,800 | <b>816</b> |
|--|------------|

##### United Kingdom 0.9%

|                              |              |
|------------------------------|--------------|
| Lloyds TSB Group PLC 159,400 | <b>1,362</b> |
|------------------------------|--------------|

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

#### Short-Term Investments 0.1% of net assets

#### U.S. Government Securities 0.1%

|                                       |    |           |
|---------------------------------------|----|-----------|
| U.S. Treasury Bill<br>2.71%, 06/16/05 | 85 | <b>85</b> |
|---------------------------------------|----|-----------|

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

#### Other Investments 4.0% of net assets

#### Other Investment Companies 4.0%

|  |              |
|--|--------------|
| Provident Institutional Funds—<br>TempCash 994,284   | 994          |
| Provident Institutional Funds—<br>TempFund 5,399,719 | 5,400        |
|  | <b>6,394</b> |

#### End of investments

## Statement of

**Assets and Liabilities**

As of April 30, 2005, unaudited. All numbers x 1,000 except NAV.

**Assets**

|                       |                |
|-----------------------|----------------|
| Investments, at value | \$157,151      |
| Receivables:          |                |
| Fund shares sold      | 6              |
| Dividends             | 226            |
| Investments sold      | 2,155          |
| Prepaid expenses      | + 31           |
| <b>Total assets</b>   | <b>159,569</b> |

**Liabilities**

|  |            |
|--|------------|
| Payables:                                    |            |
| Fund shares redeemed                         | 126        |
| Investments bought                           | 406        |
| Investment adviser and administrator fees    | 9          |
| Transfer agency and shareholder service fees | 3          |
| Withholding taxes                            | 2          |
| Accrued expenses                             | + 51       |
| <b>Total liabilities</b>                     | <b>597</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 159,569          |
| <b>Total liabilities</b> | - 597            |
| <b>Net assets</b>        | <b>\$158,972</b> |

**Net Assets by Source**

|   |          |
|---|----------|
| Capital received from investors           | 186,784  |
| Net investment income not yet distributed | 278      |
| Net realized capital losses               | (40,207) |
| Net unrealized capital gains              | 12,117   |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$157,171  |   | 14,872             |   | \$10.57 |
| Select Shares   | \$1,801    |   | 170                |   | \$10.60 |

Unless stated, all numbers x 1,000.

The fund paid \$145,033 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$83,440  |
| Sales/maturities | \$113,644 |

These derive from investments, foreign currency transactions and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio cost</b>                   | \$146,511       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$17,892        |
| Losses                                  | + (7,252)       |
|   | <b>\$10,640</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |     |
|-------------------------|-----|
| Ordinary income         | \$— |
| Long-term capital gains | \$— |

**Capital losses utilized** **\$11,740****Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount:    |
| 2009              | \$16,032        |
| 2010              | 34,385          |
| 2011              | + 604           |
|                   | <b>\$51,021</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$1,372      |
| Interest                       | + 2          |
| <b>Total investment income</b> | <b>1,374</b> |

Net of \$4 foreign withholding tax.

**Net Realized Gains and Losses**

|  |               |
|--|---------------|
| Net realized gains on investments                    | 13,536        |
| Net realized losses of futures contracts             | (100)         |
| Net realized losses on foreign currency transactions | + (10)        |
| <b>Net realized gains</b>                            | <b>13,426</b> |

Calculated as a percentage of average daily net assets: 0.925% of the first \$500 million, 0.920% of the next \$500 million, and 0.910% over \$1 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM)

Prior to February 28, 2005, these fees were calculated as 1.00% of average daily net assets.

**Net Unrealized Gains and Losses**

|  |                |
|--|----------------|
| Net unrealized losses on investments                   | (8,104)        |
| Net unrealized losses on foreign currency transactions | + (1)          |
| <b>Net unrealized losses</b>                           | <b>(8,105)</b> |

**Expenses**

|  |                     |
|--|---------------------|
| Investment adviser and administrator fees    | 857                 |
| Transfer agent and shareholder service fees: |                     |
| Investor Shares                              | 217                 |
| Select Shares                                | 2                   |
| Trustees' fees                               | 3                   |
| Custodian and portfolio accounting fees      | 71                  |
| Professional fees                            | 20                  |
| Registration fees                            | 20                  |
| Shareholder reports                          | 28                  |
| Other expenses                               | + 4                 |
| Total expenses                               | <u>1,222</u>        |
| Expense reduction                            | - 126               |
| <b>Net expenses</b>                          | <u><b>1,096</b></u> |

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 0.15% 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.

**Increase in Net Assets From Operations**

|  |                |
|--|----------------|
| Total investment income                | 1,374          |
| Net expenses                           | <u>1,096</u>   |
| Net investment income                  | <b>278</b>     |
| Net realized gains                     | 13,426         |
| Net unrealized losses                  | <u>(8,105)</u> |
| Increase in net assets from operations | <b>\$5,599</b> |

Includes \$125 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). CSIM and Schwab has guaranteed to limit the annual operating expenses through February 28, 2006, as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 1.25%                                |
| Select Shares      | 1.07%                                |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$5,321.

## Statements of

**Changes in Net Assets**

For the current and prior report period. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income or loss                 | \$278           | (\$469)          |
| Net realized gains                            | 13,426          | 10,532           |
| Net unrealized losses                         | + (8,105)       | (5,030)          |
| <b>Increase in net assets from operations</b> | <b>\$5,599</b>  | <b>\$5,033</b>   |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                   | 11/1/03-10/31/04 |                   |
|--|-----------------|-------------------|------------------|-------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                   |                  |                   |
| Investor Shares                        | 321             | \$3,478           | 4,950            | \$52,179          |
| Select Shares                          | + 90            | 975               | 118              | 1,210             |
| <b>Total shares sold</b>               | <b>411</b>      | <b>\$4,453</b>    | <b>5,068</b>     | <b>\$53,389</b>   |
| <b>Shares Redeemed</b>                 |                 |                   |                  |                   |
| Investor Shares                        | (2,910)         | (\$31,685)        | (4,454)          | (\$46,021)        |
| Select Shares                          | + (37)          | (404)             | (1)              | (11)              |
| <b>Total shares redeemed</b>           | <b>(2,947)</b>  | <b>(\$32,089)</b> | <b>(4,455)</b>   | <b>(\$46,032)</b> |
| <b>Net transactions in fund shares</b> | <b>(2,536)</b>  | <b>(\$27,636)</b> | <b>613</b>       | <b>\$7,357</b>    |

**Shares Outstanding and Net Assets**

|                              | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|------------------------------|-----------------|------------------|------------------|------------------|
|                              | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period          | 17,578          | \$181,009        | 16,965           | \$168,619        |
| Total increase or decrease + | (2,536)         | (22,037)         | 613              | 12,390           |
| <b>End of period</b>         | <b>15,042</b>   | <b>\$158,972</b> | <b>17,578</b>    | <b>\$181,009</b> |

Unless stated, all numbers x 1,000.

The fund started offering Select shares on June 4, 2004.

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$278 and \$— at the end of the current and prior period respectively.

# Laudus Balanced MarketMasters Fund™

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 11.88                | 11.07                | 9.35                 | 10.12                | 13.44                | 13.44                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.07                 | 0.08                 | 0.12                 | 0.20                 | 0.43                 | 0.45                 |
| Net realized and unrealized gains or losses     | 0.43                 | 0.86                 | 1.75                 | (0.73)               | (2.12)               | 1.18                 |
| Total income or loss from investment operations | 0.50                 | 0.94                 | 1.87                 | (0.53)               | (1.69)               | 1.63                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.09)               | (0.13)               | (0.15)               | (0.24)               | (0.52)               | (0.35)               |
| Distributions from net realized gains           | —                    | —                    | —                    | —                    | (1.11)               | (1.28)               |
| Total distributions                             | (0.09)               | (0.13)               | (0.15)               | (0.24)               | (1.63)               | (1.63)               |
| Net asset value at end of period                | 12.29                | 11.88                | 11.07                | 9.35                 | 10.12                | 13.44                |
| Total return (%)                                | 4.17 <sup>1</sup>    | 8.59                 | 20.25                | (5.55)               | (13.95)              | 12.00                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 1.10 <sup>2</sup>    | 1.10                 | 1.10                 | 0.76 <sup>3,4</sup>  | 0.50 <sup>4</sup>    | 0.51 <sup>4,5</sup>  |
| Gross operating expenses                        | 1.31 <sup>2</sup>    | 1.32                 | 1.33                 | 1.10 <sup>4</sup>    | 0.89 <sup>4</sup>    | 0.90 <sup>4</sup>    |
| Net investment income                           | 1.02 <sup>2</sup>    | 0.68                 | 1.13                 | 1.89                 | 3.67                 | 3.18                 |
| Portfolio turnover rate                         | 177 <sup>1</sup>     | 242                  | 256                  | 380                  | 95                   | 114                  |
| Net assets, end of period (\$ x 1,000,000)      | 130                  | 130                  | 109                  | 97                   | 118                  | 153                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.72% if certain non-routine expenses (proxy fees) had not been included.

<sup>4</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>5</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                              | 11/1/04–<br>4/30/05* | 6/3/04*–<br>10/31/04 |
|--|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                 |                      |                      |
| Net asset value at beginning of period     | 11.89                | 11.57                |
| Income or loss from investment operations: |                      |                      |
| Net investment income                      | 0.08                 | 0.02                 |
| Net realized and unrealized gains          | 0.43                 | 0.30                 |
| Total income from investment operations    | 0.51                 | 0.32                 |
| Less distributions:                        |                      |                      |
| Dividends from net investment income       | (0.10)               | —                    |
| Net asset value at end of period           | 12.30                | 11.89                |
| Total return (%)                           | 4.28 <sup>2</sup>    | 2.77 <sup>2</sup>    |
| <b>Ratios/Supplemental Data (%)</b>        |                      |                      |
| Ratios to average net assets:              |                      |                      |
| Net operating expenses                     | 0.95 <sup>3</sup>    | 0.95 <sup>3</sup>    |
| Gross operating expenses                   | 1.26 <sup>3</sup>    | 1.29 <sup>3</sup>    |
| Net investment income                      | 1.11 <sup>3</sup>    | 0.73 <sup>3</sup>    |
| Portfolio turnover rate                    | 177 <sup>2</sup>     | 242 <sup>2</sup>     |
| Net assets, end of period (\$ x 1,000,000) | 4                    | 2                    |

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited.

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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 security.

- ① Top ten holding
  - Non-income producing security
- ▲ All or a portion of this security is held as collateral for future contract, short sale, swap agreements and delayed-delivery security
- ◆ American Depositary Receipt
- ✦ Credit-enhanced 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 or demand date.

| <b>Holdings by Category</b>                       | <b>Cost/Proceeds</b><br>(\$x1,000) | <b>Value</b><br>(\$x1,000) |
|---|------------------------------------|----------------------------|
| <b>64.9% Common Stock</b>                         | 84,643                             | 87,363                     |
| <b>15.7% U.S. Government Securities</b>           | 20,796                             | 21,090                     |
| <b>1.2% Foreign Government Securities</b>         | 1,570                              | 1,607                      |
| <b>2.5% Corporate Bonds</b>                       | 3,309                              | 3,357                      |
| <b>1.3% Municipal Bonds</b>                       | 1,708                              | 1,802                      |
| <b>10.9% Agency Mortgage-Backed Securities</b>    | 14,441                             | 14,600                     |
| <b>1.1% Non-Agency Mortgage-Backed Securities</b> | 1,531                              | 1,530                      |
| <b>0.0% Preferred Stock</b>                       | 11                                 | 12                         |
| <b>14.2% Short-Term Investments</b>               | 19,136                             | 19,127                     |
| <b>4.2% Other Investments</b>                     | 5,684                              | 5,684                      |
| <b>0.0% Options</b>                               | 3                                  | 3                          |
| <b>116.0% Total Investments</b>                   | <b>152,832</b>                     | <b>156,175</b>             |
| <b>(5.9)% Short Sales</b>                         | (7,767)                            | (7,917)                    |
| <b>0.0% Options Written</b>                       | (41)                               | (6)                        |
| <b>(10.1)% Other Assets and Liabilities</b>       |                                    | (13,604)                   |
| <b>100.0% Total Net Assets</b>                    |                                    | <b>134,648</b>             |

| <b>Security and Number of Shares</b> | <b>Value</b><br>(\$ x 1,000) |
|--------------------------------------|------------------------------|
|--------------------------------------|------------------------------|

|                     |                     |
|---------------------|---------------------|
| <b>Common Stock</b> | 64.9% of net assets |
|---------------------|---------------------|

|                                     |      |
|-------------------------------------|------|
| <b>Automobiles &amp; Components</b> | 1.1% |
|-------------------------------------|------|

|                              |        |              |
|------------------------------|--------|--------------|
| ▲ Cooper Tire & Rubber Co.   | 10,200 | 178          |
| ▲ General Motors Corp.       | 40,000 | 1,067        |
| •▲ Lear Corp.                | 3,200  | 109          |
| ◆▲ Magna International, Inc. | 2,800  | 171          |
|                              |        | <b>1,525</b> |

|              |      |
|--------------|------|
| <b>Banks</b> | 1.8% |
|--------------|------|

|                           |        |     |
|---------------------------|--------|-----|
| ▲ Astoria Financial Corp. | 10,350 | 274 |
| ▲ Brookline Bancorp, Inc. | 9,900  | 149 |

| <b>Security and Number of Shares</b> | <b>Value</b><br>(\$ x 1,000) |
|--------------------------------------|------------------------------|
|--------------------------------------|------------------------------|

|                                      |        |              |
|--------------------------------------|--------|--------------|
| ▲ Commerce Bancorp, Inc.             | 16,200 | 454          |
| ▲ Compass Bancshares, Inc.           | 3,000  | 129          |
| ▲ Independence Community Bank Corp.  | 7,600  | 271          |
| ▲ Peoples Bank                       | 3,500  | 145          |
| ▲ PNC Financial Services Group       | 6,300  | 335          |
| ▲ Provident Financial Services, Inc. | 10,700 | 182          |
| ▲ Suntrust Banks, Inc.               | 2,678  | 195          |
| ▲ Washington Federal, Inc.           | 13,310 | 297          |
|                                      |        | <b>2,431</b> |

|   |      |
|---|------|
| <b>Business Machines &amp; Software</b> | 0.1% |
|---|------|

|                    |       |            |
|--------------------|-------|------------|
| •▲ Tech Data Corp. | 3,700 | <b>135</b> |
|--------------------|-------|------------|

**Portfolio Holdings** continued

| Security and Number of Shares                    | Value<br>(\$ x 1,000) | Security and Number of Shares          | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <b>Capital Goods 5.4%</b>                        |                       | <b>Diversified Financials 5.4%</b>     |                       |
| ▲ 3M Co. 6,100                                   | 466                   | ▲ American Express Co. 29,000          | 1,528                 |
| ▲ Deere & Co. 3,400                              | 213                   | ▲ Capital One Financial Corp. 9,200    | 652                   |
| ▲ Dover Corp. 5,100                              | 185                   | ▲ CIT Group, Inc. 5,900                | 238                   |
| ▲ General Electric Co. 13,200                    | 478                   | ▲ Citigroup, Inc. 7,600                | 357                   |
| ▲ Grainger, Inc. 3,200                           | 177                   | ▲ Federated Investors, Inc. 5,700      | 162                   |
| ▲ Honeywell International, Inc. 39,600           | 1,416                 | ▲ Franklin Resources, Inc. 1,700       | 117                   |
| •▲ Jacobs Engineering Group, Inc. 6,100          | 297                   | ▲ JP Morgan Chase & Co. 41,400         | 1,469                 |
| ▲ Rockwell Collins, Inc. 2,600                   | 119                   | ▲ Legg Mason, Inc. 1,550               | 110                   |
| ▲ Textron, Inc. 11,200                           | 844                   | ▲ Mellon Financial Corp. 8,400         | 232                   |
| ⑩ The Boeing Co. 26,500                          | 1,577                 | ▲ Merrill Lynch & Co., Inc. 20,000     | 1,079                 |
| ▲ Tyco International Ltd. 21,100                 | 661                   | ▲ State Street Corp. 7,300             | 337                   |
| ▲ United Technologies Corp. 7,900                | 804                   | ▲ T.Rowe Price Group, Inc. 6,700       | 370                   |
|  | <b>7,237</b>          | ▲ The Goldman Sachs Group, Inc. 4,450  | 475                   |
|  |                       | ▲ Waddell & Reed Financial, Inc. 8,600 | 150                   |
|  |                       |  | <b>7,276</b>          |
| <b>Commercial Services &amp; Supplies 1.6%</b>   |                       | <b>Electronics 0.1%</b>                |                       |
| •▲ Apollo Group Inc., Class A 6,100              | 440                   | •▲ Andrew Corp. 8,200                  | <b>101</b>            |
| ▲ Cendant Corp. 32,200                           | 641                   |  |                       |
| ▲ H&R Block, Inc. 2,500                          | 125                   | <b>Energy 4.3%</b>                     |                       |
| ▲ Manpower, Inc. 6,200                           | 239                   | ▲ Anadarko Petroleum Corp. 3,500       | 256                   |
| ▲ Republic Services, Inc., Class A 8,000         | 277                   | ▲ Apache Corp. 3,000                   | 169                   |
| ▲ The ServiceMaster Co. 12,500                   | 160                   | ▲ BJ Services Co. 5,900                | 288                   |
| ▲ Waste Management, Inc. 7,200                   | 205                   | •▲ Cimarex Energy Co. 4,100            | 145                   |
|  | <b>2,087</b>          | ▲ Conoco Phillips 11,300               | 1,185                 |
|  |                       | •▲ Cooper Cameron Corp. 4,100          | 225                   |
| <b>Consumer Durables &amp; Apparel 2.7%</b>      |                       | ▲ Devon Energy Corp. 3,100             | 140                   |
| ▲ Eastman Kodak Co. 2,100                        | 53                    | ▲ Exxon Mobil Corp. 12,200             | 696                   |
| ▲ Jones Apparel Group, Inc. 9,000                | 274                   | •▲ Houston Exploration Co. 2,200       | 112                   |
| ▲ Mattel, Inc. 79,300                            | 1,431                 | •▲ Nabors Industries Ltd. 3,000        | 162                   |
| ▲ Nike, Inc., Class B 5,600                      | 430                   | •▲ Newfield Exploration Co. 4,000      | 284                   |
| ▲ Pulte Corp. 2,700                              | 193                   | ▲ Noble Energy, Inc. 3,100             | 199                   |
| ▲◆ Sony Corp. 32,300                             | 1,186                 | ▲ Patina Oil & Gas Corp. 2,400         | 92                    |
|  | <b>3,567</b>          | ▲ Patterson Energy, Inc. 7,200         | 172                   |
|  |                       | ▲ Pioneer Natural Resources Co. 2,800  | 114                   |
| <b>Consumer Services 1.1%</b>                    |                       | •▲ Precision Drilling Corp. 800        | 58                    |
| ▲◆ Fairmont Hotels & Resorts, Inc. 4,600         | 144                   | •▲ Stone Energy Corp. 3,000            | 135                   |
| ▲ Hilton Hotels Corp. 26,800                     | 585                   | •▲ Transocean, Inc. 22,700             | 1,052                 |
| ▲ McDonald's Corp. 5,700                         | 167                   | ▲ Unocal Corp. 3,200                   | 174                   |
| ▲ Starwood Hotel & Resorts Worldwide, Inc. 9,500 | 516                   | ▲ Western Gas Resources, Inc. 4,400    | 147                   |
| ▲ Wendy's International, Inc. 2,900              | 125                   |  | <b>5,805</b>          |
|  | <b>1,537</b>          |  |                       |

| Security and Number of Shares                       | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Food &amp; Staples Retailing 0.4%</b>            |                       |
| ▲ CVS Corp. 4,400                                   | 227                   |
| ▲ Supervalu, Inc. 7,700                             | 243                   |
|   | <b>470</b>            |
| <b>Food Beverage &amp; Tobacco 2.4%</b>             |                       |
| ▲ Brown-Forman Corp., Class B 1,500                 | 83                    |
| ▲ Flowers Foods, Inc. 16,100                        | 464                   |
| ▲ H.J. Heinz Co. 5,100                              | 188                   |
| ▲ Hershey Foods Corp. 5,700                         | 364                   |
| ▲ J.M. Smucker Co. 3,400                            | 169                   |
| ▲ Kraft Foods, Inc., Class A 41,700                 | 1,352                 |
| ▲ Molson Coors Brewing Co. 2,900                    | 179                   |
| ▲ Tyson Foods, Inc. 27,300                          | 461                   |
|   | <b>3,260</b>          |
| <b>Health Care Equipment &amp; Services 7.2%</b>    |                       |
| ▲ Becton Dickinson & Co. 15,900                     | 930                   |
| •▲ Boston Scientific Corp. 20,300                   | 601                   |
| •▲ Caremark Rx, Inc. 16,200                         | 649                   |
| ▲ Cigna Corp. 5,800                                 | 534                   |
| ▲ ⑧ HCA, Inc. 33,100                                | 1,848                 |
| ▲ Health Management Associates, Inc., Class A 6,600 | 163                   |
| •▲ Henry Schein, Inc. 5,600                         | 210                   |
| ▲ Hillenbrand Industries, Inc. 3,600                | 199                   |
| •▲ Laboratory Corporation of America Holdings 4,300 | 213                   |
| •▲ Lifepoint Hospitals, Inc. 3,400                  | 151                   |
| ▲ Manor Care, Inc. 7,000                            | 233                   |
| •▲ Medco Health Solutions, Inc. 30,000              | 1,529                 |
| •▲ Millipore Corp. 4,400                            | 212                   |
| ▲ Omnicare, Inc. 10,500                             | 364                   |
| •▲ Priority Healthcare Corp., Class B 3,700         | 84                    |
| •▲ St. Jude Medical, Inc. 15,800                    | 617                   |
| •▲ Steris Corp. 10,300                              | 244                   |
| •▲ Tenet Healthcare Corp. 76,100                    | 911                   |
|   | <b>9,692</b>          |
| <b>Household &amp; Personal Products 0.5%</b>       |                       |
| ▲ Kimberly-Clark Corp. 11,200                       | 699                   |

| Security and Number of Shares               | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Household Products 0.3%</b>              |                       |
| ▲ Procter & Gamble Co. 8,600                | <b>466</b>            |
| <b>Insurance 3.0%</b>                       |                       |
| ▲ Allstate Corp. 17,000                     | 955                   |
| ▲ American International Group, Inc. 20,700 | 1,053                 |
| •▲ Berkshire Hathaway, Inc., Class B 104    | 291                   |
| ▲ Chubb Corp. 9,100                         | 744                   |
| ▲ Everest Reinsurance Group Ltd. 1,900      | 156                   |
| ▲ IPC Holdings Ltd. 5,900                   | 222                   |
| ▲ Lincoln National Corp. 3,000              | 135                   |
| ▲ Mercury General Corp. 2,200               | 116                   |
| ▲ Old Republic International Corp. 15,450   | 365                   |
|   | <b>4,037</b>          |
| <b>Materials 2.1%</b>                       |                       |
| ▲ Agrium, Inc. 4,000                        | 71                    |
| ▲ Air Products & Chemicals, Inc. 2,500      | 147                   |
| ▲ Lubrizol Corp. 8,900                      | 345                   |
| ▲ MeadWestvaco Corp. 41,700                 | 1,228                 |
| ▲ Monsanto Co. 10,000                       | 586                   |
| •▲ Smurfit-Stone Container Corp. 13,900     | 182                   |
| ▲ Steel Dynamics, Inc. 3,700                | 101                   |
| ▲ Temple-Inland, Inc. 6,500                 | 220                   |
|   | <b>2,880</b>          |
| <b>Media 4.2%</b>                           |                       |
| ▲ Clear Channel Communications, Inc. 14,100 | 451                   |
| ▲ Comcast Corp. 24,800                      | 796                   |
| •▲ Comcast Corp., Class A 21,700            | 689                   |
| •▲ Cox Radio, Inc. 7,900                    | 124                   |
| •▲ Liberty Media Corp., Class A 27,100      | 272                   |
| ▲ McGraw Hill Cos., Inc. 2,300              | 200                   |
| ▲ Omnicom Group, Inc. 1,700                 | 141                   |
| ▲ Readers Digest Association, Inc. 30,000   | 510                   |
| •▲ ⑨ Time Warner, Inc. 98,350               | 1,653                 |
| ▲ Tribune Co. 17,800                        | 687                   |
| ▲ Westwood One, Inc. 7,200                  | 132                   |
|   | <b>5,655</b>          |

**Portfolio Holdings** continued

| Security and Number of Shares                   | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|---|-----------------------|--|-----------------------|
| <b>Non-Durables &amp; Entertainment 0.2%</b>    |                       |  |                       |
| •▲ Electronic Arts, Inc. 4,300                  | 230                   | ▲ Target Corp. 10,000                                    | 464                   |
|   |                       | •▲ Toys 'R' Us, Inc. 22,900                              | 581                   |
|   |                       |  | <b>4,010</b>          |
| <b>Pharmaceuticals &amp; Biotechnology 2.9%</b> |                       | <b>Semiconductors &amp; Semiconductor Equipment 2.6%</b> |                       |
| •▲ Endo Pharmaceutical Holdings, Inc. 7,300     | 145                   | •▲ Advanced Micro Devices, Inc. 82,600                   | 1,175                 |
| ◆ GlaxoSmithKline PLC 9,500                     | 480                   | •▲ Applied Materials, Inc. 32,900                        | 489                   |
| ▲ Perrigo Co. 11,000                            | 201                   | •▲ Fairchild Semiconductor International, Inc. 3,600     | 48                    |
| ▲ Pfizer, Inc. 17,700                           | 481                   | •▲ Integrated Device Technology, Inc. 6,200              | 66                    |
| ▲◆ Roche Holdings Ltd. 1,900                    | 115                   | ▲ Intersil Holding Corp., Class A 35,900                 | 627                   |
| ▲◆ Teva Pharmaceutical Industries Ltd. 20,700   | 647                   | ▲ Microchip Technology, Inc. 14,600                      | 416                   |
| •▲ Watson Pharmaceuticals, Inc. 19,400          | 582                   | •▲ Micron Technology, Inc. 31,200                        | 303                   |
| ▲ Wyeth 27,000                                  | 1,213                 | •▲ Teradyne, Inc. 23,300                                 | 257                   |
|   | <b>3,864</b>          | •▲ Zoran Corp. 11,400                                    | 121                   |
|   |                       |  | <b>3,502</b>          |
| <b>Producer Goods &amp; Manufacturing 0.3%</b>  |                       | <b>Software &amp; Services 2.8%</b>                      |                       |
| ▲ Parker Hannifin Corp. 6,900                   | 414                   | ▲ Adobe Systems, Inc. 8,900                              | 529                   |
| <b>Real Estate 1.0%</b>                         |                       | •▲ Check Point Software Technologies Ltd. 5,600          | 117                   |
| ▲ Archstone Communities Trust 3,200             | 115                   | ▲ Electronic Data Systems Corp. 23,000                   | 445                   |
| ▲ Equity One, Inc. 5,900                        | 124                   | •▲ Google, Inc. 2,300                                    | 506                   |
| ▲ Health Care Property Investors, Inc. 4,500    | 115                   | •▲ Mercury Interactive Corp. 11,500                      | 475                   |
| ▲ Home Properties of New York, Inc. 5,500       | 230                   | ▲ Microsoft Corp. 29,700                                 | 752                   |
| ▲ Plum Creek Timber Co., Inc. 4,000             | 138                   | •▲ Siebel Systems, Inc. 12,600                           | 113                   |
| ▲ Rayonier, Inc. 5,575                          | 280                   | •▲ Sungard Data Systems, Inc. 5,700                      | 190                   |
| ▲ The Macerich Co. 3,710                        | 224                   | •▲ Sybase, Inc. 5,000                                    | 95                    |
| ▲ Trizec Properties, Inc. 8,760                 | 175                   | •▲ Synopsys, Inc. 7,500                                  | 123                   |
|   | <b>1,401</b>          | •▲ Veritas Software Corp. 19,600                         | 404                   |
|   |                       | •▲ Verity, Inc. 6,300                                    | 52                    |
|   |                       |  | <b>3,801</b>          |
| <b>Retailing 3.0%</b>                           |                       | <b>Technology Hardware &amp; Equipment 4.1%</b>          |                       |
| •▲ Advance Auto Parts, Inc. 2,900               | 155                   | •▲ Avaya, Inc. 16,500                                    | 143                   |
| •▲ Ann Taylor Stores Corp. 3,900                | 95                    | •▲ Avocent Corp. 6,100                                   | 153                   |
| •▲ Big Lots, Inc. 8,000                         | 81                    | •▲ Corning, Inc. 30,100                                  | 414                   |
| ▲ Genuine Parts Co. 2,700                       | 116                   | •▲ EMC Corp. 38,400                                      | 504                   |
| •▲ IAC InterActiveCorp. 7,600                   | 165                   | •▲ Flextronics International Ltd. 6,100                  | 68                    |
| ▲ May Department Stores Co. 11,200              | 393                   | •▲ Foundry Networks, Inc. 14,600                         | 123                   |
| •▲ Office Depot, Inc. 39,100                    | 766                   | ▲ Hewlett Packard Co. 68,200                             | 1,396                 |
| •▲ Saks, Inc. 8,600                             | 147                   | ▲ International Business Machines Corp. 9,400            | 718                   |
| •▲ Sears Holdings Corp. 6,725                   | 909                   | •▲ Juniper Networks, Inc. 21,700                         | 490                   |
| ▲ Talbots, Inc. 5,400                           | 138                   |  |                       |

| Security and Number of Shares                         | Value<br>(\$ x 1,000) | Security<br>Rate, Maturity Date           | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---|-----------------------|---|-----------------------------|-----------------------|
| ▲ Motorola, Inc. 39,800                               | 610                   | U.S. Treasury Note                        |                             |                       |
| ▲ Qualcomm, Inc. 11,900                               | 415                   | ▶ 3.75%, 03/31/07                         | 300                         | 301                   |
| •▲ Solectron Corp. 80,500                             | 266                   | 3.13%, 04/15/09                           | 300                         | 292                   |
| ▲ Vishay Intertechnology, Inc. 11,600                 | 124                   | ▶ 4.00%, 06/15/09                         | 2,000                       | 2,013                 |
| ▲ Xerox Corp. 9,800                                   | 130                   | ▲ 3.63%, 07/15/09                         | 6,900                       | 6,844                 |
|   | <b>5,554</b>          | ▲ 3.38%, 09/15/09                         | 4,800                       | 4,710                 |
|   |                       | 6.50%, 02/15/10                           | 400                         | 445                   |
|   |                       | ▶ 4.00%, 04/15/10                         | 500                         | 502                   |
|   |                       | ▲ 1.63%, 01/15/15                         | 300                         | 302                   |
|   |                       | U.S. Treasury Stripped Bond               |                             |                       |
|   |                       | 0.00%, 11/15/16                           | 300                         | 180                   |
|   |                       |   |                             | <b>21,090</b>         |
| <b>Telecommunication Services 1.2%</b>                |                       |   |                             |                       |
| ▲ Alltel Corp. 3,300                                  | 188                   | <b>Foreign Government Securities</b>      |                             |                       |
| ▲ Century Telephone Enterprises, Inc. 8,500           | 261                   | 1.2% of net assets                        |                             |                       |
| •▲ IDT Corp. 8,135                                    | 109                   |   |                             |                       |
| •▲ Qwest Communication International, Inc. 291,500    | 997                   | ▶ Bundes Republic of Deutschland          |                             |                       |
| •▲ Wireless Facilities, Inc. 17,400                   | 92                    | Series 97                                 |                             |                       |
|   | <b>1,647</b>          | 6.50%, 07/04/27                           | 500                         | 892                   |
|   |                       | France Government Bond                    |                             |                       |
|   |                       | 4.00%, 04/25/49                           | 100                         | 130                   |
|   |                       | ▶ UK Treasury Gilt                        |                             |                       |
|   |                       | 4.75%, 09/07/15                           | 300                         | 585                   |
|   |                       |   |                             | <b>1,607</b>          |
|   |                       | <b>Corporate Bonds 2.5% of net assets</b> |                             |                       |
|   |                       |   |                             |                       |
|   |                       | <b>Fixed-Rate Obligations 1.9%</b>        |                             |                       |
|   |                       |   |                             |                       |
|   |                       | Centerpoint Energy                        |                             |                       |
|   |                       | Series B                                  |                             |                       |
|   |                       | 8.13%, 07/15/05                           | 100                         | 101                   |
|   |                       | DaimlerChrysler NA Holding                |                             |                       |
|   |                       | 3.20%, 03/07/07                           | 400                         | 396                   |
|   |                       | ▲ El Paso Corp.                           |                             |                       |
|   |                       | 7.80%, 08/01/31                           | 100                         | 91                    |
|   |                       | Federal Republic of Brazil                |                             |                       |
|   |                       | 4.31%, 04/15/09                           | 235                         | 232                   |
|   |                       | 11.00%, 08/17/40                          | 800                         | 908                   |
|   |                       | Series EI                                 |                             |                       |
|   |                       | 4.25%, 04/15/06                           | 32                          | 32                    |
|   |                       | General Motors Corp.                      |                             |                       |
|   |                       | 8.38%, 07/15/33                           | 100                         | 76                    |
|   |                       | ▲ Republic of Panama                      |                             |                       |
|   |                       | 9.38%, 01/16/23                           | 250                         | 295                   |
|   |                       | ▲ SBC Communications, Inc., 144A          |                             |                       |
|   |                       | 4.21%, 06/01/21                           | 400                         | 400                   |
|   |                       |   |                             | <b>2,531</b>          |
| <b>U.S. Government Securities 15.7% of net assets</b> |                       |   |                             |                       |
| U.S. Treasury Bond                                    |                       |   |                             |                       |
| ▲ 9.13%, 05/15/18                                     | 100                   | 147                                       |                             |                       |
| 8.13%, 08/15/19                                       | 500                   | 691                                       |                             |                       |
| 6.88%, 08/15/25                                       | 250                   | 324                                       |                             |                       |
| ▲ 6.00%, 02/15/26                                     | 2,400                 | 2,841                                     |                             |                       |
| ▲ 6.63%, 02/15/27                                     | 1,000                 | 1,274                                     |                             |                       |
| 5.50%, 08/15/28                                       | 100                   | 113                                       |                             |                       |
| U.S. Treasury Inflation-Protected Security            |                       |   |                             |                       |
| 2.38%, 01/15/25                                       | 100                   | 111                                       |                             |                       |

**Portfolio Holdings** continued

| Security<br>Rate, Maturity Date                      | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|--|-----------------------------|-----------------------|
| <b>Variable-Rate Obligations 0.6%</b>                |                             |                       |
| ▲ General Motors Acceptance Corp.<br>4.75%, 05/19/05 | 500                         | 500                   |
| HSBC Bank USA<br>2.59%, 06/21/05                     | 250                         | 251                   |
| PG&E Corp.<br>3.82%, 07/03/05                        | 25                          | 25                    |
| TXU Energy Co, L.L.C. 144A<br>3.42%, 07/14/05        | 50                          | 50                    |
|  |                             | <b>826</b>            |

**Municipal Bonds** 1.3% of net assets**Revenue Bonds** 1.3%

|  |     |              |
|--|-----|--------------|
| ▲ Golden State, California Securitization Corp.<br><i>Revenue Bond, Series 2003-A-1</i><br>6.25%, 06/01/33         | 250 | 258          |
| ▲+ Massachusetts State Water Resource<br>Authority<br><i>General Revenue Bond, Series 2002J</i><br>5.00%, 08/01/32 | 250 | 260          |
| ▲ Tobacco Settlement Financing Corp. of<br>Rhode Island<br><i>Revenue Bond, Series 2002A</i><br>6.25%, 06/01/42    | 500 | 504          |
| ▲+ Triborough, New York Bridge & Tunnel<br>Authority<br><i>Revenue Bond, Series 2002B</i><br>5.00%, 11/15/32       | 750 | 780          |
|  |     | <b>1,802</b> |

**Agency Mortgage-Backed Securities**

10.9% of net assets

**Collateralized Mortgage Obligations** 0.1%

|  |    |           |
|--|----|-----------|
| Fannie Mae<br><i>Series 2003-3 Class PA</i><br>4.50%, 08/25/09 | 61 | <b>61</b> |
|--|----|-----------|

**U.S. Government Agency Mortgages** 10.8%

|                     |       |       |
|---------------------|-------|-------|
| Fannie Mae          |       |       |
| ▶⑤ 4.50%, 05/12/35  | 3,000 | 2,897 |
| ▲① 5.50%, 05/12/35  | 7,400 | 7,472 |
| 4.46%, 09/01/31     | 32    | 33    |
| <i>Pool# 535846</i> |       |       |
| 6.00%, 04/01/16     | 40    | 42    |

| Security<br>Rate, Maturity Date                       | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---|-----------------------------|-----------------------|
| <i>Pool# 555454</i><br>6.00%, 03/01/18                | 28                          | 29                    |
| <i>Pool# 732153</i><br>4.50%, 07/01/33                | 145                         | 140                   |
| <i>Pool# 733910</i><br>4.50%, 08/01/33                | 212                         | 206                   |
| ▶④ Fannie Mae TBA<br>5.00%, 05/12/35                  | 3,500                       | 3,466                 |
| Freddie Mac<br><i>Pool# C90580</i><br>6.00%, 09/01/22 | 247                         | 254                   |
|   |                             | <b>14,539</b>         |

**Non-Agency Mortgage-Backed Securities**

1.1% of net assets

**Fixed-Rate Obligations** 0.2%

|   |     |            |
|---|-----|------------|
| ▲ Bank of America Mortgage<br>Securities<br><i>Series 2004-2 Class 5A1</i><br>6.50%, 10/25/19 | 152 | 157        |
| ▲ Residential Funding Mortgage<br>Security I<br><i>Series-S9 Class A1</i><br>6.50%, 03/25/32  | 81  | 82         |
|   |     | <b>239</b> |

**Variable-Rate Obligations** 0.9%

|  |     |              |
|--|-----|--------------|
| Bear Stearns Adjustable Rate<br>Mortgage Trust<br><i>Series 2002-11 Class 1A1</i><br>5.64%, 05/01/05 | 95  | 97           |
| <i>Series 2002-5 Class 6A</i><br>5.93%, 05/01/05   | 38  | 38           |
| <i>Series 2002-9 Class 2A</i><br>5.27%, 05/01/05   | 67  | 67           |
| <i>Series 2005-4 Class 23A2</i><br>5.45%, 05/01/05   | 200 | 203          |
| Quest Trust, 144A<br><i>Series 2004-X2 Class A1</i><br>3.21%, 05/25/05                               | 107 | 107          |
| Structured Asset Securities Corp.<br><i>Series 2002-13 Class 2A1</i><br>3.15%, 05/25/05              | 108 | 108          |
| ▲ Washington Mutual<br><i>Series 2003-R1 Class A1</i><br>2.92%, 05/25/05                             | 673 | 671          |
|  |     | <b>1,291</b> |

| Security and Number of Shares                     | Value<br>(\$ x 1,000)               |              |
|---|-------------------------------------|--------------|
| <b>Preferred Stock</b> 0.0% of net assets         |                                     |              |
| Fannie Mae Preferred 221                          |                                     | <b>12</b>    |
| <b>Security<br/>Rate, Maturity Date</b>           | <b>Face Amount<br/>(\$ x 1,000)</b> |              |
| <b>Short-Term Investments</b> 14.2% of net assets |                                     |              |
| <b>U.S. Government Securities</b> 3.1%            |                                     |              |
| Fannie Mae  |                                     |              |
| ▲ 2.98%, 07/20/05                                 | 1,100                               | 1,093        |
| ▲ 2.99%, 07/20/05                                 | 1,100                               | 1,093        |
| 3.01%, 07/27/05                                   | 200                                 | 199          |
| Freddie Mac                                       |                                     |              |
| 2.96%, 07/19/05                                   | 200                                 | 199          |
| ▲ 3.00%, 07/26/05                                 | 1,100                               | 1,093        |
| U.S. Treasury Bills                               |                                     |              |
| ▲ 2.69%, 06/02/05                                 | 40                                  | 40           |
| ▲ 2.73%, 06/16/05                                 | 40                                  | 40           |
| ▲ 2.74%, 06/16/05                                 | 210                                 | 209          |
| ▲ 2.73%, 06/17/05                                 | 175                                 | 174          |
|   |                                     | <b>4,140</b> |

**Commercial Paper & Other Corporate  
Obligations 11.1%**

|                                |       |       |
|--------------------------------|-------|-------|
| AB Spintab                     |       |       |
| 2.75%, 06/03/05                | 200   | 199   |
| Barclays U.S. Funding Corp.    |       |       |
| ▲ 2.93%, 06/14/05              | 1,100 | 1,096 |
| 2.95%, 06/16/05                | 100   | 100   |
| Carolina Light & Power Co.     |       |       |
| 3.67%, 10/11/05                | 200   | 197   |
| ▲ CBA (Delaware) Finance, Inc. |       |       |
| 2.86%, 06/06/05                | 1,100 | 1,097 |
| Comcast Corp.                  |       |       |
| 3.25%, 06/13/05                | 250   | 249   |
| Danske Corp.                   |       |       |
| 2.98%, 06/30/05                | 100   | 99    |
| ▲ 3.01%, 07/07/05              | 1,100 | 1,094 |
| ▲ Dexia Delaware, L.L.C.       |       |       |
| 2.81%, 05/23/05                | 400   | 399   |
| DnB NOR Bank ASA               |       |       |
| ▲ 2.75%, 06/10/05              | 900   | 897   |
| 2.98%, 07/14/05                | 300   | 298   |
| ▲ Ford Motor Credit Co.        |       |       |
| 3.97%, 03/21/07                | 400   | 389   |

| Security<br>Rate, Maturity Date      | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|--------------------------------------|-----------------------------|-----------------------|
| Foreningssparbanken AB<br>(Swedbank) |                             |                       |
| 2.80%, 05/24/05                      | 700                         | 699                   |
| 2.98%, 06/29/05                      | 300                         | 298                   |
| ▲ Fortis Funding, L.L.C.             |                             |                       |
| 2.64%, 05/20/05                      | 800                         | 799                   |
| General Electric Capital Corp.       |                             |                       |
| ▲ 2.84%, 06/01/05                    | 1,100                       | 1,097                 |
| 2.97%, 06/20/05                      | 100                         | 100                   |
| HBOS Treasury Services PLC           |                             |                       |
| 2.82%, 05/23/05                      | 400                         | 399                   |
| ▲ 2.95%, 06/16/05                    | 800                         | 797                   |
| ING (U.S.) Funding, L.L.C.           |                             |                       |
| ▲ 2.94%, 06/16/05                    | 1,100                       | 1,096                 |
| 2.96%, 06/21/05                      | 100                         | 100                   |
| Rabobank USA Finance Corp.           |                             |                       |
| 2.72%, 06/01/05                      | 200                         | 199                   |
| ▲ 2.95%, 06/21/05                    | 1,000                       | 996                   |
| ▲ Svenska Handelsbanken, Inc.        |                             |                       |
| 3.05%, 07/20/05                      | 1,100                       | 1,093                 |
| UBS Finance, Inc.                    |                             |                       |
| 2.81%, 05/06/05                      | 700                         | 700                   |
| ▲ 2.87%, 05/13/05                    | 500                         | 500                   |
|                                      |                             | <b>14,987</b>         |

**Security and Number of Shares**
**Other Investments** 4.2% of net assets

**Other Investment Companies 4.2%**

|  |              |
|--|--------------|
| ▲ Provident Institutional Funds—<br>TempCash 853,744   | 854          |
| ▲ Provident Institutional Funds—<br>TempFund 4,830,298 | 4,830        |
|  | <b>5,684</b> |

Portfolio Holdings continued

| Security Description | Number of<br>Contracts | Value<br>(\$ x 1,000) |
|----------------------|------------------------|-----------------------|
|----------------------|------------------------|-----------------------|

|         |                    |  |
|---------|--------------------|--|
| Options | 0.0% of net assets |  |
|---------|--------------------|--|

|              |      |
|--------------|------|
| Call Options | 0.0% |
|--------------|------|

|  |    |   |
|--|----|---|
| U.S. Treasury Note Futures, Strike Price 114, Expires 05/20/05 | 53 | 3 |
|--|----|---|

|             |      |
|-------------|------|
| Put Options | 0.0% |
|-------------|------|

|  |    |    |
|--|----|----|
| 90 Day Euro Dollar Futures, Strike Price 92.50, Expires 03/13/06 | 35 | —* |
| 90 Day Euro Dollar Futures, Strike Price 93.75, Expires 09/19/05 | 37 | —* |
| 90 Day Euro Dollar Futures, Strike Price 93.75, Expires 12/19/05 | 50 | —* |
|  |    | —* |

End of investments.

\*Amounts stated as “—” are less than \$1.

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Short Sales** 5.9% of net assets

**U.S. Government Securities** 5.9%

|                    |       |              |
|--------------------|-------|--------------|
| U.S. Treasury Note |       |              |
| • 6.00%,           | 400   | 434          |
| • 3.63%,           | 3,200 | 3,113        |
| • 3.88%,           | 2,800 | 2,763        |
| • 4.00%,           | 1,100 | 1,099        |
| • 4.38%,           | 500   | 508          |
|                    |       | <b>7,917</b> |

| Security Description | Number of<br>Contracts |
|----------------------|------------------------|
|----------------------|------------------------|

**Options Written** 0.0% of net assets

**Call Options** 0.0%

|  |    |          |
|--|----|----------|
| 3 Month LIBOR, Strike Price<br>4.00, Expires 10/31/05                | 70 | 2        |
| U.S. Treasury Note Futures,<br>Strike Price 112, Expires<br>05/20/05 | 1  | 1        |
| U.S. Treasury Note Futures,<br>Strike Price 115, Expires<br>05/20/05 | 21 | 1        |
|  |    | <b>4</b> |

| Security Description | Number of<br>Contracts | Value<br>(\$ x 1,000) |
|----------------------|------------------------|-----------------------|
|----------------------|------------------------|-----------------------|

**Put Options** 0.0%

|  |    |          |
|--|----|----------|
| 3 Month LIBOR, Strike Price<br>7.00, Expires 10/31/05                | 70 | —*       |
| U.S. Treasury Bond Futures,<br>Strike Price 108, Expires<br>05/20/05 | 9  | —*       |
| U.S. Treasury Note Futures,<br>Strike Price 107, Expires<br>05/20/05 | 1  | —*       |
| U.S. Treasury Note Futures,<br>Strike Price 108, Expires<br>05/20/05 | 2  | —*       |
| U.S. Treasury Note Futures,<br>Strike Price 109, Expires<br>05/20/05 | 21 | 1        |
| U.S. Treasury Note Futures,<br>Strike Price 110, Expires<br>05/20/05 | 8  | 1        |
|  |    | <b>2</b> |

**End of short sales and options written.**

\*Amounts stated as "—" are less than \$1.

In addition to the above, the fund held the following at 4/30/05. All numbers x 1,000 except number of futures contracts.

| Swap Agreements  |                 |                           |
|--|-----------------|---------------------------|
| Interest Rate Swaps  | Notional Amount | Unrealized Gains/(Losses) |
| <b>British Pounds</b>  |                 |                           |
| Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 5.00%, expires 06/15/08, Barclays Bank         | 2,800           | 73                        |
| <b>European Euro</b>   |                 |                           |
| Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 5.00%, expires 12/15/04, UBS AG                | 2,300           | (297)                     |
| Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 6.00%, expires 06/18/34, JP Morgan Chase       | 300             | 37                        |
| Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 6.00%, expires 03/15/32, JP Morgan Chase       | 500             | 41                        |
| <b>U.S. Dollars</b>  |                 |                           |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 4.00%, expires 06/15/07, Goldman Sachs         | 1,000           | 1                         |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 4.00%, expires 06/15/10, Lehman Brothers, Inc. | 400             | (1)                       |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 4.00%, expires 06/15/10, Goldman Sachs         | 5,300           | (9)                       |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 5.00%, expires 06/15/15, JP Morgan Chase       | 1,000           | (10)                      |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 6.00%, expires 12/15/24, UBS AG                | 200             | (5)                       |
| <b>Credit Default Swaps</b>  |                 |                           |
| <b>U.S. Dollars</b>  |                 |                           |
| Eli Lilly & Co. Rate 0.16%, expires 12/20/08, Barclays Bank PLC  | 100             | —*                        |
| Johnson & Johnson, Inc. Rate 0.11%, expires 12/20/08, Lehman Brothers, Inc.  | 100             | —*                        |

\*Amounts stated as "—" are less than \$1.

All numbers x 1,000 except number of futures contracts.

### Swap Agreements (continued)

|   | Notional<br>Amount | Unrealized<br>Gains/(Losses) |
|---|--------------------|------------------------------|
| Eaton Corp. Rate 0.28%,<br>expires 12/20/08, Citibank N.A.                        | 100                | —*                           |
| Whirlpool Corp. Rate 0.29%,<br>expires 12/20/08, Lehman Brothers, Inc.            | 100                | 1                            |
| Home Depot, Inc. Rate 0.12%,<br>expires 12/20/08, Lehman Brothers, Inc.           | 100                | —*                           |
| Fedex Corp. Rate 0.29%,<br>expires 12/20/08, Citibank N.A.                        | 100                | —*                           |
| Allstate Corp. Rate 0.26%,<br>expires 12/20/08, Morgan Stanley                    | 100                | (1)                          |
| Wal-mart Stores, Inc. Rate 0.14%,<br>Expires 12/20/08, Citibank N.A.              | 200                | —*                           |
| Ingersoll-Rand Co. Ltd. Rate 0.32%,<br>expires 12/20/08, Merrill Lynch            | 100                | —*                           |
| Emerson Electric Co. Rate 0.21%,<br>expires 12/20/08, Morgan Stanley              | 100                | —*                           |
| Autozone, Inc. Rate 0.35%,<br>expires 12/20/08, UBS AG                            | 200                | 2                            |
| Radioshack Corp. Rate 0.35%,<br>expires 12/20/08, Lehman Brothers, Inc.           | 100                | 1                            |
| Masco Corp. Rate 0.30%,<br>expires 12/20/08, Lehman Brothers, Inc.                | 100                | —*                           |
| People's Republic of China Rate 0.40%,<br>expires 06/20/09, Lehman Brothers, Inc. | 200                | (1)                          |
|   |                    | <b>(168)</b>                 |

### Futures Contracts

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Gains/(Losses) |
|---|------------------------|-------------------|------------------------------|
| S&P 500 Index, Long<br>expires 03/17/05                   |                        |                   |                              |
| 90 Day Eurodollar, Long<br>expires 03/13/06               | 20                     | 4,797             | (10)                         |
| 90 Day Eurodollar, Long<br>expires 09/19/05               | 11                     | 2,647             | (10)                         |
| 90 Day Eurodollar, Long<br>expires 12/19/05               | 94                     | 22,575            | (28)                         |
| 10 Year, Short<br>U.S. Treasury Note,<br>expires 06/21/05 | 56                     | 6,240             | (82)                         |

\*Amounts stated as "—" are less than \$1.

All numbers x 1,000 except number of futures contracts.

### Futures Contracts (continued)

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Gains/(Losses) |
|---|------------------------|-------------------|------------------------------|
| 30 Year, Short<br>U.S. Treasury Bond,<br>expires 06/21/05 | 9                      | 1,034             | (28)                         |
| 90 Day Libor, Long<br>expires 12/21/05                    | 10                     | 2,272             | (2)                          |
| UK Gilt, Long<br>expires 06/28/05                         | 2                      | 426               | 8                            |
|   |                        |                   | <b>(152)</b>                 |

### Forward Foreign Currency Contracts

| Expiration Date | Currency to<br>be Received | Amount of<br>Currency to<br>be Received | Currency to<br>be Delivered | Amount of<br>Currency to<br>be Delivered | Unrealized<br>Gains/(Losses) |
|-----------------|----------------------------|---|-----------------------------|--|------------------------------|
| 05/10/05        | U.S. Dollars               | 120                                     | European Euro               | 93                                       | —*                           |
| 05/16/05        | Chilean Pesos              | 11,119                                  | U.S. Dollars                | 20                                       | —*                           |
| 05/23/05        | Brazilian Real             | 27                                      | U.S. Dollars                | 10                                       | 1                            |
| 05/23/05        | Peruvian New Sol           | 35                                      | U.S. Dollars                | 11                                       | —*                           |
| 05/23/05        | Polish Zloty               | 33                                      | U.S. Dollars                | 11                                       | (1)                          |
| 05/23/05        | Russian Ruble              | 257                                     | U.S. Dollars                | 9  | —*                           |
| 05/24/05        | Singapore Dollars          | 16                                      | U.S. Dollars                | 10                                       | —*                           |
| 05/24/05        | Taiwanese Dollars          | 300                                     | U.S. Dollars                | 10                                       | —*                           |
| 05/25/05        | U.S. Dollars               | 718                                     | European Euro               | 548                                      | 11                           |
| 05/27/05        | Mexican Pesos              | 178                                     | U.S. Dollars                | 16                                       | —*                           |
| 05/27/05        | Slovakian Koruna           | 330                                     | U.S. Dollars                | 11                                       | (1)                          |
| 06/09/05        | British Pounds             | 17                                      | U.S. Dollars                | 32                                       | —*                           |
| 06/09/05        | U.S. Dollars               | 132                                     | British Pounds              | 69                                       | —*                           |
| 06/13/05        | Brazilian Real             | 27                                      | U.S. Dollars                | 10                                       | 1                            |
| 06/13/05        | Chilean Pesos              | 5,454                                   | U.S. Dollars                | 9  | —*                           |
| 06/13/05        | Japanese Yen               | 112,200                                 | U.S. Dollars                | 1,041                                    | 34                           |
| 06/14/05        | Peruvian New Sol           | 63                                      | U.S. Dollars                | 19                                       | —*                           |
| 06/21/05        | Indian Rupee               | 1,360                                   | U.S. Dollars                | 31                                       | —*                           |
| 06/21/05        | Singapore Dollars          | 16                                      | U.S. Dollars                | 10                                       | —*                           |
| 06/21/05        | South Korean Won           | 10,700                                  | U.S. Dollars                | 11                                       | —*                           |
| 06/21/05        | Tiawanese Dollars          | 299                                     | U.S. Dollars                | 10                                       | —*                           |
| 06/22/05        | Russian Ruble              | 275                                     | U.S. Dollars                | 10                                       | —*                           |
| 06/23/05        | Mexican Pesos              | 101                                     | U.S. Dollars                | 9  | —*                           |
| 06/23/05        | Polish Zloty               | 33                                      | U.S. Dollars                | 11                                       | (1)                          |

\*Amounts stated as "—" are less than \$1.

All numbers x 1,000 except number of futures contracts.

### Forward Foreign Currency Contracts (continued)

| Expiration Date | Currency to<br>be Received | Amount of<br>Currency to<br>be Received | Currency to<br>be Delivered | Amount of<br>Currency to<br>be Delivered | Unrealized<br>Gains/(Losses) |
|-----------------|----------------------------|---|-----------------------------|--|------------------------------|
| 06/23/05        | Slovakian Koruna           | 602                                     | U.S. Dollars                | 21                                       | (1)                          |
| 07/20/05        | Brazilian Real             | 27                                      | U.S. Dollars                | 10                                       | —*                           |
| 07/26/05        | Singapore Dollars          | 28                                      | U.S. Dollars                | 17                                       | —*                           |
| 07/27/05        | South Korean Won           | 34,676                                  | U.S. Dollars                | 29                                       | —*                           |
| 08/02/05        | Chilean Pesos              | 1,895                                   | U.S. Dollars                | 3  | —*                           |
|                 |                            |   |                             |  | <hr/> 43                     |

\*Amounts stated as “—” are less than \$1.

## Statement of

**Assets and Liabilities**

As of April 30, 2005, unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                |
|--|----------------|
| Investments, at value                                  | \$156,175      |
| Foreign currency                                       | 91             |
| Receivables:   |                |
| Fund shares sold                                       | 96             |
| Dividends  | 56             |
| Interest   | 360            |
| Due from brokers for futures                           | 2              |
| Investments sold                                       | 8,847          |
| Investments sold short                                 | 7,886          |
| Unrealized gains on forward foreign currency contracts | 47             |
| Prepaid expenses                                       | + 26           |
| <b>Total assets</b>                                    | <b>173,586</b> |

**Liabilities**

|   |               |
|---|---------------|
| Securities sold short, at value                         | 7,917         |
| Options written, at value                               | 6             |
| Swap agreements, at fair value                          | 391           |
| Payables:   |               |
| Fund shares redeemed                                    | 145           |
| Investments bought                                      | 30,278        |
| Due to brokers for futures                              | 10            |
| Interest on short sales                                 | 120           |
| Investment adviser and administrator fees               | 7             |
| Transfer agency and shareholder service fees            | 3             |
| Withholding taxes on foreign dividends                  | 1             |
| Unrealized losses on forward foreign currency contracts | 4             |
| Accrued expenses  | + 56          |
| <b>Total liabilities</b>                                | <b>38,938</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 173,586          |
| <b>Total liabilities</b> | - 38,938         |
| <b>Net assets</b>        | <b>\$134,648</b> |

**Net Assets by Source**

|   |         |
|---|---------|
| Capital received from investors           | 129,800 |
| Net investment income not yet distributed | 242     |
| Net realized capital gains                | 1,654   |
| Net unrealized capital gains              | 2,952   |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$130,484  |   | 10,618             |   | \$12.29 |
| Select Shares   | \$4,164    |   | 339                |   | \$12.30 |

All numbers x 1,000 except number of written option contracts.

The fund paid \$152,832 for these securities.

Includes certain restricted but deemed liquid 144A and section 4(2) securities worth \$557 or 0.4% 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        | \$104,739 |
| Sales/maturities | \$108,425 |

The fund's long-term government security transactions were:

|                  |           |
|------------------|-----------|
| Purchases        | \$120,800 |
| Sales/maturities | \$108,187 |

The fund paid \$86 for this currency.

The proceeds for securities sold short is \$7,767.

| Options Written     | Number of Contracts | Premiums Received |
|---------------------|---------------------|-------------------|
| Beginning of period | 982                 | \$219             |
| Options written     | 84                  | 27                |
| Options closed      | (373)               | (78)              |
| Options expired     | (490)               | (127)             |
| Options exercised   | + -                 | -                 |
| End of period       | <b>203</b>          | <b>\$41</b>       |

The fund received \$223 to enter into these swap agreements.

These derive from investments, short sales, options, foreign currency transactions, futures and swap agreements.

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$153,174      |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$7,511        |
| Losses                                  | + (4,510)      |
|   | <b>\$3,001</b> |

**As of October 31, 2004:****Net Undistributed earnings:**

|                         |       |
|-------------------------|-------|
| Ordinary income         | \$516 |
| Long-term capital gains | \$-   |

**Capital losses utilized** \$8,576**Unused capital losses:**

|                   |                |
|-------------------|----------------|
| Expires 10/31 of: | Loss amount:   |
| 2009              | \$405          |
| 2010              | + 9,116        |
|                   | <b>\$9,521</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$773        |
| Interest                       | + 675        |
| <b>Total investment income</b> | <b>1,448</b> |

Net of \$2 foreign withholding tax.

**Net Realized Gains and Losses**

|   |               |
|---|---------------|
| Net realized gains on investments                   | 11,507        |
| Net realized gains on short sales                   | 107           |
| Net realized gains on foreign currency transactions | 6             |
| Net realized gains on option contracts              | 64            |
| Net realized gains on futures contracts             | 369           |
| Net realized gains on swap agreements               | + 215         |
| <b>Net realized gains</b>                           | <b>12,268</b> |

Calculated as a percentage of average daily net assets: 0.775% of the first \$500 million, 0.75% of the next \$500 million, and 0.725% over \$1 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM)

Prior to February 28, 2005, these fees were calculated as 0.85% of average daily net assets.

**Net Unrealized Gains and Losses**

|   |                |
|---|----------------|
| Net unrealized losses on investments                  | (6,842)        |
| Net unrealized losses on short sales                  | (66)           |
| Net unrealized gains on foreign currency transactions | 137            |
| Net unrealized gains on option contracts              | 27             |
| Net unrealized losses on futures contracts            | (373)          |
| Net unrealized losses on swap agreements              | + (299)        |
| <b>Net unrealized losses</b>                          | <b>(7,416)</b> |

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 0.15% of the assets of each respective share class. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

**Expenses**

|  |            |
|--|------------|
| Investment adviser and administrator fees    | 564        |
| Transfer agent and shareholder service fees: |            |
| Investor shares                              | 167        |
| Select shares                                | 3          |
| Trustees' fees                               | 3          |
| Custodian and portfolio accounting fees      | 101        |
| Professional fees                            | 20         |
| Registration fees                            | 18         |
| Shareholder reports                          | 12         |
| Other expenses                               | + 4        |
| Total expenses                               | 892        |
| Expense reduction                            | - 142      |
| <b>Net expenses</b>                          | <b>750</b> |

For the fund's independent trustees only.

Includes \$141 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). CSIM and Schwab has guaranteed to limit the annual operating expenses through February 28, 2006, as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 1.10%                                |
| Select Shares      | 0.95%                                |

These limits exclude interest, taxes and certain non-routine expenses.

**Increase in Net Assets from Operations**

|   |                |
|---|----------------|
| <b>Total investment income</b>                | 1,448          |
| <b>Net expenses</b>                           | - 750          |
| <b>Net investment income</b>                  | <b>698</b>     |
| <b>Net realized gains</b>                     | 12,268         |
| <b>Net unrealized losses</b>                  | + (7,416)      |
| <b>Increase in net assets from operations</b> | <b>\$5,550</b> |

These add up to a net gain on investments of \$4,852.

## Statements of

**Changes in Net Assets**

For the current and prior report period. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$698           | \$852            |
| Net realized gains                            | 12,268          | 8,042            |
| Net unrealized gains or losses                | + (7,416)       | 782              |
| <b>Increase in Net Assets from Operations</b> | <b>5,550</b>    | <b>9,676</b>     |

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

|   |              |                |
|---|--------------|----------------|
| Investor Shares                                   | \$947        | \$1,360        |
| Select Shares                                     | + 21         | —              |
| <b>Total dividends from net investment income</b> | <b>\$968</b> | <b>\$1,360</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                   | 11/1/03-10/31/04 |                   |
|--|-----------------|-------------------|------------------|-------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                   |                  |                   |
| Investor Shares                        | 848             | \$10,515          | 3,519            | \$40,718          |
| Select Shares                          | + 261           | 3,220             | 169              | 1,957             |
| <b>Total shares sold</b>               | <b>1,109</b>    | <b>\$13,735</b>   | <b>3,688</b>     | <b>\$42,675</b>   |
| <b>Shares Reinvested</b>               |                 |                   |                  |                   |
| Investor Shares                        | 76              | \$947             | 112              | \$1,274           |
| Select Shares                          | + 2             | 21                | —                | —                 |
| <b>Total shares reinvested</b>         | <b>78</b>       | <b>\$968</b>      | <b>112</b>       | <b>\$1,274</b>    |
| <b>Shares Redeemed</b>                 |                 |                   |                  |                   |
| Investor Shares                        | (1,291)         | (\$16,006)        | (2,489)          | (\$28,746)        |
| Select Shares                          | + (62)          | (762)             | (31)             | (361)             |
| <b>Total shares redeemed</b>           | <b>(1,353)</b>  | <b>(\$16,768)</b> | <b>(2,520)</b>   | <b>(\$29,107)</b> |
| <b>Net transactions in fund shares</b> | <b>(166)</b>    | <b>(\$2,065)</b>  | <b>1,280</b>     | <b>\$14,842</b>   |

**Shares Outstanding and Net Assets**

|                              | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|------------------------------|-----------------|------------------|------------------|------------------|
|                              | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period          | 11,123          | \$132,131        | 9,843            | \$108,973        |
| Total increase or decrease + | (166)           | 2,517            | 1,280            | 23,158           |
| <b>End of period</b>         | <b>10,957</b>   | <b>\$134,648</b> | <b>11,123</b>    | <b>\$132,131</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$1,360 |
| Long-term capital gains | \$—     |

The fund started offering Select Shares on June 3, 2004.

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$242 and \$512 at the end of the current period and prior period, respectively.

# Laudus Small-Cap MarketMasters Fund<sup>™</sup>

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 12.18                | 11.08                | 7.18                 | 8.73                 | 12.27                | 11.04                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income or loss                   | (0.07)               | (0.14)               | (0.09)               | 0.04                 | 0.41                 | 0.39                 |
| Net realized and unrealized gains or losses     | (0.05) <sup>1</sup>  | 1.24                 | 3.99                 | (1.54)               | (2.68)               | 1.30                 |
| Total income or loss from investment operations | (0.12)               | 1.10                 | 3.90                 | (1.50)               | (2.27)               | 1.69                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | —                    | —                    | (0.00) <sup>2</sup>  | (0.03)               | (0.55)               | (0.46)               |
| Distributions from net realized gains           | —                    | —                    | —                    | (0.02)               | (0.72)               | —                    |
| Total distributions                             | —                    | —                    | —                    | (0.05)               | (1.27)               | (0.46)               |
| Net asset value at end of period                | 12.06                | 12.18                | 11.08                | 7.18                 | 8.73                 | 12.27                |
| Total return (%)                                | (0.99) <sup>3</sup>  | 9.93                 | 54.32                | (17.34)              | (19.99)              | 15.17                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 1.55 <sup>4</sup>    | 1.55                 | 1.55                 | 0.93 <sup>5,6</sup>  | 0.50 <sup>5</sup>    | 0.51 <sup>5,7</sup>  |
| Gross operating expenses                        | 1.74 <sup>4</sup>    | 1.77                 | 1.80                 | 1.31 <sup>5</sup>    | 0.91 <sup>5</sup>    | 0.92 <sup>5</sup>    |
| Net investment income or loss                   | (1.04) <sup>4</sup>  | (1.08)               | (0.98)               | 0.06                 | 4.17                 | 2.86                 |
| Portfolio turnover rate                         | 28 <sup>3</sup>      | 140                  | 94                   | 324                  | 172                  | 128                  |
| Net assets, end of period (\$ x 1,000,000)      | 111                  | 129                  | 115                  | 81                   | 111                  | 162                  |

\* Unaudited.

<sup>1</sup> The per share amount does not correspond with the aggregate realized/unrealized gains in Statement of Operations due to the large fund share transactions at the time of market depreciation.

<sup>2</sup> Per-share amount was less than \$0.01.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

<sup>5</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>6</sup> The ratio of net operating expenses would have been 0.84% if certain non-routine expenses (proxy fees) had not been included.

<sup>7</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                               | 11/1/04–<br>4/30/05* | 6/9/04*–<br>10/31/04 |
|---|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                  |                      |                      |
| Net asset value at beginning of period      | 12.19                | 12.11                |
| Income or loss from investment operations:  |                      |                      |
| Net investment loss                         | (0.04)               | (0.03)               |
| Net realized and unrealized gains or losses | (0.07) <sup>2</sup>  | 0.11                 |
| Total income from investment operations     | (0.11)               | 0.08                 |
| Net asset value at end of period            | 12.08                | 12.19                |
| Total return (%)                            | (0.90) <sup>3</sup>  | 0.66 <sup>3</sup>    |
| <b>Ratios/Supplemental Data (%)</b>         |                      |                      |
| Ratio to average net assets:                |                      |                      |
| Net operating expenses                      | 1.37 <sup>4</sup>    | 1.37 <sup>4</sup>    |
| Gross operating expenses                    | 1.68 <sup>4</sup>    | 1.79 <sup>4</sup>    |
| Net investment loss                         | (0.87) <sup>4</sup>  | (0.91) <sup>4</sup>  |
| Portfolio turnover rate                     | 28 <sup>3</sup>      | 140 <sup>3</sup>     |
| Net assets, end of period (\$ x 1,000,000)  | 1                    | 0.32                 |

\* Unaudited.

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

<sup>2</sup> The per share amount does not correspond with the aggregate realized/unrealized gains in Statement of Operations due to the large fund share transactions at the time of market depreciation.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited.

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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 security.

- ① Top ten holding
- Non-income producing security

|                             |                                     | Cost           | Value          |
|-----------------------------|-------------------------------------|----------------|----------------|
|                             |                                     | (\$x1,000)     | (\$x1,000)     |
| <b>Holdings by Category</b> |                                     |                |                |
| <b>93.8%</b>                | <b>Common Stock</b>                 | 98,867         | 105,073        |
| <b>0.1%</b>                 | <b>Short-Term Investments</b>       | 70             | 70             |
| <b>3.1%</b>                 | <b>Other Investments</b>            | 3,508          | 3,508          |
| <b>97.0%</b>                | <b>Total Investments</b>            | <b>102,445</b> | <b>108,651</b> |
| <b>3.0%</b>                 | <b>Other Assets and Liabilities</b> |                | 3,337          |
| <b>100.0%</b>               | <b>Total Net Assets</b>             |                | <b>111,988</b> |

|                                      |  | Value        |
|--------------------------------------|--|--------------|
|                                      |  | (\$ x 1,000) |
| <b>Security and Number of Shares</b> |  |              |

**Common Stock** 93.8% of net assets

**Banks 0.8%**

|  |        |            |
|--|--------|------------|
| North Fork Bancorp, Inc.               | 14,150 | 398        |
| Peoples Bank                           | 2,000  | 83         |
| Peoples Heritage Financial Group, Inc. | 6,459  | 199        |
| Zions Bancorp.                         | 3,100  | 217        |
|  |        | <b>897</b> |

**Business Machines & Software 0.0%**

|  |     |           |
|--|-----|-----------|
| • Lexmark International, Inc., Class A | 500 | <b>35</b> |
|--|-----|-----------|

|                                      |  | Value        |
|--------------------------------------|--|--------------|
|                                      |  | (\$ x 1,000) |
| <b>Security and Number of Shares</b> |  |              |

**Capital Goods 9.4%**

|                                      |        |               |
|--------------------------------------|--------|---------------|
| • Alliant Techsystems, Inc.          | 5,500  | 381           |
| Baldor Electric Co.                  | 30,900 | 769           |
| • BE Aerospace, Inc.                 | 48,300 | 586           |
| ⑩ Bucyrus International, Inc.        | 30,050 | 1,170         |
| C & D Technologies, Inc.             | 51,800 | 364           |
| Dover Corp.                          | 6,000  | 218           |
| • EMCOR Group, Inc.                  | 5,250  | 235           |
| • Freightcar America Inc             | 5,800  | 113           |
| • General Cable Corp.                | 40,350 | 490           |
| • Global Power Equipment Group, Inc. | 71,900 | 652           |
| Grainger, Inc.                       | 5,500  | 304           |
| • Infracore Services, Inc.           | 24,300 | 244           |
| ① Joy Global, Inc.                   | 49,950 | 1,692         |
| Pall Corp.                           | 21,400 | 574           |
| SPX Corp.                            | 4,500  | 174           |
| Teleflex, Inc.                       | 9,760  | 522           |
| The Manitowoc Co., Inc.              | 29,130 | 1,165         |
| • URS Corp.                          | 15,975 | 491           |
| York International Corp.             | 8,200  | 321           |
|                                      |        | <b>10,465</b> |

**Commercial Services & Supplies 6.5%**

|   |         |              |
|---|---------|--------------|
| Administaff Inc                         | 34,100  | 466          |
| Bowne & Co., Inc.                       | 32,200  | 419          |
| • DeVry, Inc.                           | 18,800  | 429          |
| • Education Management Corp.            | 18,650  | 522          |
| Knoll, Inc.                             | 15,550  | 253          |
| • Mobile Mini, Inc.                     | 7,450   | 261          |
| • ② Portfolio Recovery Associates, Inc. | 40,700  | 1,463        |
| • Resources Connection, Inc.            | 49,700  | 950          |
| ④ Steelcase, Inc., Class A              | 109,200 | 1,435        |
| • TRC Cos., Inc.                        | 39,180  | 542          |
| • Watson Wyatt & Co. Holdings           | 18,680  | 493          |
|   |         | <b>7,233</b> |

**Consumer Durables & Apparel 8.2%**

|                           |        |       |
|---------------------------|--------|-------|
| ⑨ Beazer Homes USA, Inc.  | 27,050 | 1,233 |
| • Deckers Outdoor Corp.   | 2,825  | 59    |
| Jones Apparel Group, Inc. | 10,685 | 325   |
| La-Z-Boy Chair Co.        | 19,690 | 233   |

**Portfolio Holdings** continued

| Security and Number of Shares            | Value<br>(\$ x 1,000) | Security and Number of Shares                     | Value<br>(\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| Leggett & Platt, Inc. 8,850              | 239                   | <b>Food Beverage &amp; Tobacco 1.3%</b>           |                       |
| MDC Holdings, Inc. 14,848                | 971                   | American Italian Pasta Co. Class A 18,200         | 431                   |
| • Meritage Corp. 18,100                  | 1,146                 | • Cott Corp. 6,050                                | 135                   |
| OshKosh B'Gosh, Inc. 11,900              | 314                   | • Hain Celestial Group, Inc. 37,110               | 659                   |
| Standard Pacific Corp. 11,100            | 795                   | MGP Ingredients, Inc. 25,625                      | 225                   |
| ⑤ The Ryland Group, Inc. 23,400          | 1,437                 |   | <b>1,450</b>          |
| • Timberland Co., Class A 6,650          | 459                   | <b>Health Care Equipment &amp; Services 9.1%</b>  |                       |
| • Toll Brothers, Inc. 13,900             | 1,054                 | • Amerigroup Corp. 23,500                         | 825                   |
| • WCI Communities, Inc. 31,300           | 877                   | Analogic Corp. 13,610                             | 568                   |
|  | <b>9,142</b>          | • Arthrocare Corp. 38,500                         | 1,131                 |
| <b>Consumer Services 2.8%</b>            |                       | Beckman Coulter, Inc. 4,800                       | 320                   |
| • California Pizza Kitchen, Inc. 25,510  | 582                   | • Cardiodynamics International Corp. 88,400       | 187                   |
| Darden Restaurants, Inc. 10,600          | 318                   | • Centene Corp. 35,650                            | 993                   |
| • O' Charleys, Inc. 26,460               | 528                   | • Cholestech Corp. 40,625                         | 418                   |
| • Six Flags, Inc. 128,631                | 502                   | • Eclipsys Corp. 36,100                           | 488                   |
| • Texas Roadhouse, Inc. Class A 19,650   | 511                   | • Edwards Lifesciences Corp. 9,600                | 423                   |
| • Vail Resorts, Inc. 27,420              | 709                   | • Emageon Inc. 14,475                             | 228                   |
|  | <b>3,150</b>          | • Health Net, Inc. 6,500                          | 221                   |
| <b>Diversified Financials 2.9%</b>       |                       | Hillenbrand Industries, Inc. 6,100                | 337                   |
| Jefferies Group, Inc. 19,325             | 700                   | Hooper Holmes, Inc. 71,350                        | 261                   |
| • Knight Trading Group, Inc. 47,780      | 403                   | • Intuitive Surgical, Inc. 1,400                  | 60                    |
| Mellon Financial Corp. 8,100             | 224                   | PerkinElmer, Inc. 3,270                           | 61                    |
| • Optionsxpress Holding, Inc. 16,100     | 210                   | • Pharmaceutical Product Development, Inc. 20,295 | 921                   |
| • Piper Jaffray Cos., Inc. 4,400         | 122                   | • Priority Healthcare Corp., Class B 32,900       | 749                   |
| Raymond James Financial, Inc. 20,590     | 555                   | • Rita Medical Systems Inc. 39,600                | 120                   |
| The Chicago Mercantile Exchange 5,300    | 1,036                 | • Synovis Life Technologies Inc. 28,300           | 247                   |
|  | <b>3,250</b>          | • Theragenics Corp. 58,800                        | 206                   |
| <b>Energy 5.3%</b>                       |                       | • Thermo Electron Corp. 11,700                    | 292                   |
| • Cooper Cameron Corp. 4,400             | 242                   | • Thoratec Corp. 62,300                           | 807                   |
| ENSCO International, Inc. 5,800          | 189                   | • Varian, Inc. 10,600                             | 352                   |
| • Global Industry Ltd. 117,800           | 1,136                 |   | <b>10,215</b>         |
| Helmerich & Payne, Inc. 16,700           | 642                   | <b>Healthcare / Drugs &amp; Medicine 0.8%</b>     |                       |
| • Oceaneering International, Inc. 21,100 | 692                   | • First Horizon Pharmaceutical Corp. 9,300        | 168                   |
| • Offshore Logistics, Inc. 21,050        | 610                   | • Lifepoint Hospitals, Inc. 12,300                | 547                   |
| • Tetra Technologies, Inc. 21,550        | 582                   | Valeant Pharmaceuticals International 10,545      | 219                   |
| ⑥ Tidewater, Inc. 40,040                 | 1,380                 |   | <b>934</b>            |
| • Whiting Petroleum Corp. 16,710         | 506                   |   |                       |
|  | <b>5,979</b>          |   |                       |
| <b>Food &amp; Staples Retailing 0.5%</b> |                       |   |                       |
| • Performance Food Group Co. 21,600      | <b>581</b>            |   |                       |

| Security and Number of Shares                    | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Household &amp; Personal Products 0.4%</b>    |                       |
| • NBTY, Inc. 22,600                              | <b>482</b>            |
| <b>Insurance 1.1%</b>                            |                       |
| Arthur J. Gallagher & Co. 8,000                  | 223                   |
| Assurant, Inc. 14,090                            | 466                   |
| Hilb, Rogal & Hobbs Co. 7,800                    | 273                   |
| Old Republic International Corp. 11,400          | 269                   |
|  | <b>1,231</b>          |
| <b>Materials 9.1%</b>                            |                       |
| • AK Steel Holding Corp. 96,700                  | 701                   |
| Allegheny Technologies, Inc. 30,100              | 674                   |
| • Alpha Natural Resources, Inc. 25,100           | 581                   |
| ⑤ Arch Coal, Inc. 31,500                         | 1,397                 |
| Commercial Metals Co. 36,050                     | 920                   |
| Foundation Coal Holdings, Inc. 24,200            | 565                   |
| Gibraltar Industries, Inc. 17,750                | 373                   |
| Martin Marietta Materials, Inc. 11,680           | 642                   |
| Olin Corp. 31,800                                | 564                   |
| • RTI International Metals, Inc. 28,850          | 649                   |
| Schnitzer Steel Industries, Inc., Class A 38,300 | 943                   |
| Sensient Technologies Corp. 26,430               | 529                   |
| Silgan Holdings, Inc. 7,650                      | 468                   |
| Steel Dynamics, Inc. 25,500                      | 693                   |
| Texas Industries, Inc. 1,575                     | 73                    |
| • Wheeling-Pittsburgh Corp. 16,350               | 392                   |
|  | <b>10,164</b>         |
| <b>Media 2.0%</b>                                |                       |
| • Cox Radio, Inc. 6,900                          | 108                   |
| • Emmis Communications Corp. 24,530              | 379                   |
| • Entercom Communications Corp. 3,450            | 111                   |
| • Interpublic Group of Cos., Inc. 22,790         | 293                   |
| • Radio One, Inc., Class D 40,480                | 529                   |
| • Univision Communications, Inc. 3,900           | 103                   |
| • Valassis Communications, Inc. 16,570           | 584                   |
| Westwood One, Inc. 6,600                         | 121                   |
|  | <b>2,228</b>          |

| Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Pharmaceuticals &amp; Biotechnology 3.9%</b>          |                       |
| • Andrx Corp. 24,440                                     | 487                   |
| • Barr Pharmaceuticals, Inc. 2,300                       | 119                   |
| • Charles River Laboratories, Inc. 7,100                 | 336                   |
| • Enzon, Inc. 44,700                                     | 346                   |
| • Eyetech Pharmaceuticals, Inc. 11,100                   | 255                   |
| • Human Genome Sciences, Inc. 33,250                     | 344                   |
| • Impax Laboratories, Inc. 33,240                        | 541                   |
| • Ivax Corp. 39,737                                      | 751                   |
| • Par Pharmaceutical Cos., Inc. 20,780                   | 624                   |
| Perrigo Co. 31,280                                       | 573                   |
|  | <b>4,376</b>          |
| <b>Producer Goods &amp; Manufacturing 0.3%</b>           |                       |
| • The Shaw Group, Inc. 16,300                            | <b>294</b>            |
| <b>Real Estate 1.7%</b>                                  |                       |
| • FelCor Lodging Trust, Inc. 28,270                      | 346                   |
| Innkeepers USA Trust 33,110                              | 439                   |
| Post Properties, Inc. 17,530                             | 571                   |
| Washington Real Estate Investment Trust 17,530           | 523                   |
|  | <b>1,879</b>          |
| <b>Retailing 4.3%</b>                                    |                       |
| • 99 Cents Only Stores 38,190                            | 423                   |
| • Ann Taylor Stores Corp. 14,200                         | 348                   |
| • Coldwater Creek, Inc. 54,500                           | 911                   |
| Federated Department Stores, Inc. 1,900                  | 109                   |
| Fred's, Inc. 30,340                                      | 438                   |
| • Genesco, Inc. 31,775                                   | 818                   |
| • Netflix, Inc. 25,420                                   | 294                   |
| Officemax, Inc. 9,690                                    | 315                   |
| Pier 1 Imports, Inc. 15,770                              | 229                   |
| Talbots, Inc. 13,300                                     | 340                   |
| The TJX Max Cos., Inc. 9,200                             | 208                   |
| Tiffany & Co. 13,900                                     | 419                   |
|  | <b>4,852</b>          |
| <b>Semiconductors &amp; Semiconductor Equipment 4.5%</b> |                       |
| • Agere Systems, Inc., Class B 291,100                   | 343                   |
| • Brooks Automation, Inc. 17,000                         | 219                   |
| • Cymer, Inc. 19,500                                     | 483                   |

**Portfolio Holdings** continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) |
|--|-----------------------|
| • Cypress Semiconductor Corp. 25,600           | 307                   |
| • Freescale Semiconductor, Inc. Class B 12,500 | 236                   |
| Intersil Holding Corp., Class A 12,200         | 213                   |
| National Semiconductor Corp. 20,960            | 400                   |
| • Novellus Systems, Inc. 16,600                | 389                   |
| • OmniVision Technologies, Inc. 16,470         | 230                   |
| • Sigmatel, Inc. 27,600                        | 723                   |
| • Teradyne, Inc. 27,300                        | 301                   |
| • Trident Microsystems, Inc. 21,550            | 367                   |
| • Ultratech, Inc. 50,305                       | 801                   |
|  | <b>5,012</b>          |
| <b>Software &amp; Services 12.1%</b>           |                       |
| • Agile Software Corp. 78,400                  | 515                   |
| • Aspen Technology, Inc. 128,000               | 576                   |
| • ⑧ Ciber, Inc. 161,640                        | 1,258                 |
| • Corillian Corp. 36,100                       | 111                   |
| • Digital River, Inc. 32,900                   | 875                   |
| • Doubleclick, Inc. 74,340                     | 598                   |
| Global Payments, Inc. 9,900                    | 641                   |
| • Hyperion Solutions Corp. 17,800              | 724                   |
| • Indus International, Inc. 156,600            | 340                   |
| • Informatica Corp. 114,930                    | 888                   |
| • InFoSpace, Inc. 15,400                       | 477                   |
| • Internet Security Systems, Inc. 30,400       | 591                   |
| • Keane, Inc. 37,000                           | 440                   |
| • Lionbridge Technologies, Inc. 46,200         | 196                   |
| • ⑦ ManTech International Corp. Class A 56,010 | 1,347                 |
| Maximus, Inc. 16,710                           | 513                   |
| • Micromuse 72,300                             | 374                   |
| • Raindance Communications, Inc. 164,100       | 361                   |
| Reynolds & Reynolds Co., Class A 7,805         | 206                   |
| • Seebeyond Technology Corp. 88,500            | 237                   |
| • Serena Software, Inc. 35,500                 | 676                   |
| • Tibco Software, Inc. 46,670                  | 333                   |
| • Tier Technologies, Inc. 35,100               | 259                   |
| • Unisys Corp. 25,700                          | 167                   |
| • Webmethods, Inc. 42,800                      | 200                   |
| • Websense, Inc. 13,000                        | 690                   |
|  | <b>13,593</b>         |

| Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Technology Hardware &amp; Equipment 5.3%</b> |                       |
| • 3Com Corp. 154,640                            | 487                   |
| • Andrew Corp. 65,660                           | 806                   |
| • Anixter International, Inc. 5,150             | 190                   |
| • Arrow Electronics, Inc. 9,450                 | 230                   |
| • Brocade Communications Systems, Inc. 108,500  | 473                   |
| • Celestica, Inc. 20,820                        | 239                   |
| Cognex Corp. 13,290                             | 290                   |
| • F5 Networks, Inc. 5,000                       | 214                   |
| • Faro Technologies, Inc. 17,200                | 462                   |
| • IXIA Communications 25,250                    | 404                   |
| • Powerwave Technologies, Inc. 150,200          | 1,085                 |
| • Synaptics, Inc. 24,200                        | 439                   |
| • Viisage Technology, Inc. 87,690               | 264                   |
| • Vishay Intertechnology, Inc. 35,800           | 383                   |
|   | <b>5,966</b>          |

**Transportation 1.5%**

|                                   |              |
|-----------------------------------|--------------|
| • AirTran Holdings, Inc. 96,300   | 799          |
| • Hub Group, Inc., Class A 10,850 | 597          |
| Southwest Airlines, Inc. 18,100   | 269          |
|                                   | <b>1,665</b> |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Short-Term Investments 0.1% of net assets****U.S. Government Securities 0.1%**

|                    |    |           |
|--------------------|----|-----------|
| U.S. Treasury Bill |    |           |
| 2.71%, 06/16/05    | 70 | <b>70</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Other Investments 3.1% of net assets****Other Investment Companies 3.1%**

|  |              |
|--|--------------|
| Provident Institutional Funds—<br>TempFund 3,508,641 | <b>3,508</b> |
|--|--------------|

**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2005, unaudited. All numbers x 1,000 except NAV.

**Assets**

|                       |                |
|-----------------------|----------------|
| Investments, at value | \$108,651      |
| Receivables:          |                |
| Fund shares sold      | 8              |
| Dividends             | 19             |
| Investments sold      | 4,835          |
| Prepaid expenses      | + 25           |
| <b>Total assets</b>   | <b>113,538</b> |

**Liabilities**

|  |              |
|--|--------------|
| Payables:                                    |              |
| Fund shares redeemed                         | 90           |
| Investments bought                           | 1,377        |
| Investment adviser and administrator fees    | 10           |
| Transfer agency and shareholder service fees | 2            |
| Accrued expenses                             | + 71         |
| <b>Total liabilities</b>                     | <b>1,550</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 113,538          |
| <b>Total liabilities</b> | - 1,550          |
| <b>Net assets</b>        | <b>\$111,988</b> |

**Net Assets by Source**

|  |         |
|--|---------|
| Capital received from investors                  | 101,447 |
| Distributions in excess of net investment income | (644)   |
| Net realized capital gains                       | 4,979   |
| Net unrealized capital gains                     | 6,206   |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$111,016  |   | 9,208              |   | \$12.06 |
| Select Shares   | \$972      |   | 80                 |   | \$12.08 |

Unless stated, all numbers x 1,000.

The fund paid \$102,445 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$34,697 |
| Sales/maturities | \$74,822 |

These derive from investments and futures.

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$103,281      |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$14,708       |
| Losses                                  | + (9,338)      |
|   | <b>\$5,370</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |     |
|-------------------------|-----|
| Ordinary income         | \$- |
| Long-term capital gains | \$- |

**Capital losses utilized** \$21,374**Unused capital losses:**

|                   |              |
|-------------------|--------------|
| Expires 10/31 of: | Loss amount: |
| 2010              | \$808        |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|           |              |
|-----------|--------------|
| Dividends | <b>\$330</b> |
|-----------|--------------|

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments       | 6,141        |
| Net realized gains on futures contracts | +            |
|   | 8            |
| <b>Net realized gains</b>               | <b>6,149</b> |

**Net Unrealized Gains and Losses**

|                                      |                |
|--------------------------------------|----------------|
| Net unrealized losses on investments | <b>(5,490)</b> |
|--------------------------------------|----------------|

**Expenses**

|  |            |
|--|------------|
| Investment adviser and administrator fees    | 811        |
| Transfer agent and shareholder service fees: |            |
| Investor shares                              | 160        |
| Select shares                                | 1          |
| Trustees' fees                               | 3          |
| Custodian and portfolio accounting fees      | 70         |
| Professional fees                            | 22         |
| Registration fees                            | 16         |
| Shareholder reports                          | 33         |
| Other expenses                               | +          |
|  | 4          |
| Total expenses                               | 1,120      |
| Expense reduction                            | -          |
|  | 121        |
| <b>Net expenses</b>                          | <b>999</b> |

**Decrease in Net Assets from Operations**

|   |               |
|---|---------------|
| <b>Total investment income</b>                | 330           |
| <b>Net expenses</b>                           | -             |
|   | 999           |
| <b>Net investment loss</b>                    | <b>(669)</b>  |
| <b>Net realized gains</b>                     | 6,149         |
| <b>Net unrealized losses</b>                  | +             |
|   | (5,490)       |
| <b>Decrease in net assets from operations</b> | <b>(\$10)</b> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 1.17% of the first \$500 million, 1.13% of the next \$500 million and 1.07% over \$1 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM)

Prior to February 28, 2005, these fees were calculated as 1.30% 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 0.15% 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 \$120 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). CSIM and Schwab has guaranteed to limit the annual operating expenses through February 28, 2006, as follows:

| Share Class     | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 1.55%                         |
| Select Shares   | 1.37%                         |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$659.

## Statements of

**Changes in Net Assets**

For the current and prior report period. All numbers x 1,000 except footnote.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment loss                                       | (\$669)         | (\$1,436)        |
| Net realized gains  | 6,149           | 21,842           |
| Net unrealized losses                                     | + (5,490)       | (9,695)          |
| <b>Increase or decrease in net assets from operations</b> | <b>(10)</b>     | <b>10,711</b>    |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                   | 11/1/03-10/31/04 |                   |
|--|-----------------|-------------------|------------------|-------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                   |                  |                   |
| Investor Shares                        | 267             | \$3,472           | 3,329            | \$40,268          |
| Select Shares                          | + 59            | 782               | 28               | 329               |
| <b>Total shares sold</b>               | <b>326</b>      | <b>\$4,254</b>    | <b>3,357</b>     | <b>\$40,597</b>   |
| <b>Shares Redeemed</b>                 |                 |                   |                  |                   |
| Investor Shares                        | (1,669)         | (\$21,726)        | (3,099)          | (\$36,800)        |
| Select Shares                          | + (5)           | (69)              | (2)              | (16)              |
| <b>Total shares redeemed</b>           | <b>(1,674)</b>  | <b>\$21,795</b>   | <b>(3,101)</b>   | <b>(\$36,816)</b> |
| <b>Net transactions in fund shares</b> | <b>(1,348)</b>  | <b>(\$17,541)</b> | <b>256</b>       | <b>\$3,781</b>    |

**Shares Outstanding and Net Assets**

|                              | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|------------------------------|-----------------|------------------|------------------|------------------|
|                              | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period          | 10,636          | \$129,539        | 10,380           | \$115,047        |
| Total increase or decrease + | (1,348)         | (17,551)         | 256              | 14,492           |
| <b>End of period</b>         | <b>9,288</b>    | <b>\$111,988</b> | <b>10,636</b>    | <b>\$129,539</b> |

Unless stated, all numbers x 1,000.

The fund started offering Select shares on June 9, 2004.

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 accumulated net investment loss in the amount of \$644 and distributable net investment income of \$25 at the end of the current and prior period, respectively.

# Laudus International MarketMasters Fund™

## Financial Statements

### Financial Highlights

| Investor Shares                                 | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 13.58                | 11.95                | 8.74                 | 10.80                | 15.53                | 14.84                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.01                 | 0.02                 | 0.03                 | 0.10                 | 0.73                 | 0.53                 |
| Net realized and unrealized gains or losses     | 1.46                 | 1.65                 | 3.18                 | (1.43)               | (3.90)               | 2.49                 |
| Total income or loss from investment operations | 1.47                 | 1.67                 | 3.21                 | (1.33)               | (3.17)               | 3.02                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.02)               | (0.04)               | (0.00) <sup>1</sup>  | (0.07)               | (0.77)               | (0.49)               |
| Distributions from net realized gains           | —                    | —                    | —                    | (0.66)               | (0.79)               | (1.84)               |
| Total distributions                             | (0.02)               | (0.04)               | —                    | (0.73)               | (1.56)               | (2.33)               |
| Net asset value at end of period                | 15.03                | 13.58                | 11.95                | 8.74                 | 10.80                | 15.53                |
| Total return (%)                                | 10.76 <sup>2</sup>   | 13.98                | 36.74                | (13.65)              | (22.41)              | 18.61                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratio to average net assets:                    |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 1.65 <sup>3</sup>    | 1.65                 | 1.65                 | 0.99 <sup>4,5</sup>  | 0.50 <sup>5</sup>    | 0.51 <sup>5,6</sup>  |
| Gross operating expenses                        | 1.80 <sup>3</sup>    | 1.89                 | 1.92                 | 1.32 <sup>5</sup>    | 0.88 <sup>5</sup>    | 0.90 <sup>5</sup>    |
| Net investment income                           | 0.16 <sup>3</sup>    | 0.15                 | 0.33                 | 0.60                 | 5.13                 | 1.94                 |
| Portfolio turnover rate                         | 30 <sup>2</sup>      | 69                   | 99                   | 158                  | 51                   | 80                   |
| Net assets, end of period (\$ x 1,000,000)      | 664                  | 552                  | 302                  | 206                  | 215                  | 278                  |

\* Unaudited.

<sup>1</sup> The per share amount was less than \$0.01.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.93% if certain non-routine expenses (proxy fees) had not been included.

<sup>5</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>6</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares                                   | 11/1/04–<br>4/30/05* | 4/2/04*–<br>10/31/04 |
|---|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |
| Net asset value at beginning of period          | 13.61                | 13.64                |
| Income or loss from investment operations:      |                      |                      |
| Net investment income                           | 0.04                 | 0.02                 |
| Net realized and unrealized losses              | 1.45                 | (0.05)               |
| Total income or loss from investment operations | 1.49                 | (0.03)               |
| Less distributions:                             |                      |                      |
| Dividends from net investment income            | (0.05)               | —                    |
| Net asset value at end of period                | 15.05                | 13.61                |
| Total return (%)                                | 10.93 <sup>2</sup>   | (0.22) <sup>2</sup>  |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |
| Ratio to average net assets:                    |                      |                      |
| Net operating expenses                          | 1.47 <sup>3</sup>    | 1.47 <sup>3</sup>    |
| Gross operating expenses                        | 1.74 <sup>3</sup>    | 1.86 <sup>3</sup>    |
| Net investment income                           | 0.54 <sup>3</sup>    | 0.37 <sup>3</sup>    |
| Portfolio turnover rate                         | 30 <sup>2</sup>      | 69 <sup>2</sup>      |
| Net assets, end of period (\$ x 1,000,000)      | 170                  | 81                   |

\* Unaudited.

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

**Portfolio Holdings** as of April 30, 2005, unaudited.

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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 security.

- ① Top ten holding
  - Non-income producing security
- ◆ American Depositary Receipt
- ▲ All or a portion of this security is held as collateral for future contract, short sale and delayed-delivery security

| <b>Holdings by Category</b>              | <b>Cost</b><br>(\$x1,000) | <b>Value</b><br>(\$x1,000) |
|--|---------------------------|----------------------------|
| <b>95.7% Foreign Common Stock</b>        | 669,018                   | 797,915                    |
| <b>0.1% Short-Term Investments</b>       | 997                       | 997                        |
| <b>4.0% Other Investments</b>            | 33,327                    | 33,327                     |
| <b>99.8% Total Investments</b>           | <b>703,342</b>            | <b>832,239</b>             |
| <b>0.2% Other Assets and Liabilities</b> |                           | 1,324                      |
| <b>100.0% Total Net Assets</b>           |                           | <b>833,563</b>             |

|                                      |                              |
|--------------------------------------|------------------------------|
| <b>Security and Number of Shares</b> | <b>Value</b><br>(\$ x 1,000) |
|--------------------------------------|------------------------------|

|                             |                     |
|-----------------------------|---------------------|
| <b>Foreign Common Stock</b> | 95.7% of net assets |
|-----------------------------|---------------------|

**Australia 2.7%**

|  |         |       |
|--|---------|-------|
| Australia and New Zealand Banking Group Ltd. | 394,000 | 6,651 |
| BHP Billiton Ltd.                            | 241,200 | 3,051 |
| Billabong International Ltd.                 | 135,400 | 1,214 |

| <b>Security and Number of Shares</b>            | <b>Value</b><br>(\$ x 1,000) |
|---|------------------------------|
| Macarthur Coal Ltd. 263,224                     | 1,359                        |
| Macquarie Bank Ltd. 55,300                      | 1,982                        |
| Perpetual Trustees Australia Ltd. 23,100        | 933                          |
| Publishing & Broadcasting Ltd. 21,456           | 240                          |
| • Raiffeisen International Bank Holdings 17,000 | 878                          |
| SFE Corp. 242,332                               | 1,730                        |
| Sigma Co. Ltd. 140,600                          | 893                          |
| Toll Holdings Ltd. 155,100                      | 1,541                        |
| Wesfarmers Ltd. 86,600                          | 2,439                        |
|   | <b>22,911</b>                |

**Austria 0.5%**

|   |              |
|---|--------------|
| Andritz AG 18,907                                     | 1,589        |
| Erste Bank der Oesterreichischen Sparkassen AG 45,560 | 2,217        |
| Palfinger AG 5,650                                    | 303          |
|   | <b>4,109</b> |

**Bahamas 0.2%**

|                               |              |
|-------------------------------|--------------|
| • Steiner Leisure Ltd. 58,773 | <b>1,761</b> |
|-------------------------------|--------------|

**Belgium 0.5%**

|                                  |              |
|----------------------------------|--------------|
| Colruyt NV 6,650                 | 1,008        |
| EVS Broadcast Equipment SA 2,899 | 364          |
| Interbrew SA 56,866              | 1,821        |
| • Option N.V. 27,995             | 848          |
|                                  | <b>4,041</b> |

**Brazil 0.6%**

|   |              |
|---|--------------|
| ◆ Banco Bradesco SA 300                   | 9            |
| Banco Itau SA Preferred 11,250            | 1,921        |
| Companhia de Concessoes Rodoviaria 13,500 | 282          |
| ◆ Gol Linhas Aereas International 22,400  | 635          |
| • Natura Cosméticos SA 29,500             | 882          |
| ◆ Telesp Celular Participacoes SA 183,258 | 968          |
|   | <b>4,697</b> |

**Canada 2.8%**

|   |       |
|---|-------|
| • Alimentation Couche-Tard, Inc. 53,100 | 711   |
| Canadian National Railway Co. 44,200    | 2,545 |
| CHC Helicopter Corp. 22,665             | 470   |
| Corus Entertainment, Inc. 39,300        | 952   |

| Security and Number of Shares            | Value<br>(\$ x 1,000) | Security and Number of Shares                | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| Encana Corp. 29,800                      | 1,912                 | • France Telecom SA 60,600                   | 1,787                 |
| • Extencicare, Inc., Class A 80,614      | 1,078                 | Hermes International 10,200                  | 1,951                 |
| Four Seasons Hotel, Inc., Ltd. 22,300    | 1,422                 | • JC Decaux SA 181,010                       | 4,800                 |
| Home Capital Group, Inc., Class B 35,560 | 991                   | Klepierre 6,800                              | 655                   |
| Manulife Financial Corp. 87,900          | 4,039                 | L'Oreal 82,000                               | 5,911                 |
| ♦ Nortel Networks Corp. 255,200          | 635                   | Lvmh Moet Hennessy Louis Vutton SA 7,000     | 496                   |
| Peyto Energy Trust 46,083                | 1,807                 | M6 Metropole Television 16,411               | 426                   |
| • Precision Drilling Corp. 17,600        | 1,273                 | • Michelin (C.G.D.E.), Class B 18,500        | 1,126                 |
| • Research in Motion Ltd. 29,300         | 1,892                 | Neopost SA 69,100                            | 5,810                 |
| • RONA, Inc. 36,600                      | 705                   | • Nexity Co. 66,705                          | 2,558                 |
| Rothmans, Inc. 91,688                    | 1,827                 | • Orpea 25,217                               | 1,042                 |
| • Shoppers Drug Mart Corp. 31,100        | 971                   | • PagesJaunes SA 57,513                      | 1,376                 |
|  | <b>23,230</b>         | Pernod-Ricard 18,375                         | 2,794                 |
|  |                       | Publicis Groupe SA 282,400                   | 8,107                 |
| <b>Chile 0.4%</b>                        |                       | ④ Sanofi-Aventis 126,060                     | 11,199                |
| ♦ Banco Santander Chile SA 29,900        | 938                   | • Silicon-On-Insulator Technologies 123,790  | 1,324                 |
| ♦ Cencosud SA ,144A 43,900               | 1,031                 | Spir Communication 6,024                     | 1,216                 |
| ♦ LanChile SA 28,800                     | 1,017                 | SR Teleperformance 67,818                    | 1,911                 |
|  | <b>2,986</b>          | Technip SA 6,150                             | 1,048                 |
|  |                       | Total SA, Class B 5,000                      | 1,115                 |
| <b>Denmark 0.4%</b>                      |                       | Trader Classified Media N.V. 43,858          | 568                   |
| • Genmab A/S 2,000                       | 39                    | • Vinci SA 11,400                            | 1,719                 |
| Kobenhavns Lufthavne 4,396               | 985                   | • Vivendi Universal SA 166,300               | 4,992                 |
| Novo Nordisk A/S 20,800                  | 1,055                 |  | <b>78,032</b>         |
| • TopDanmark Development A/S 22,157      | 1,579                 |  |                       |
|  | <b>3,658</b>          |  |                       |
|  |                       | <b>Germany 7.6%</b>                          |                       |
| <b>Egypt 0.1%</b>                        |                       | Allianz AG 10,795                            | 1,306                 |
| Orascom Construction Industries 42,605   | <b>938</b>            | AWD Holding AG 17,600                        | 701                   |
|  |                       | ⑤ Bayerische Motoren-Werke AG 247,000        | 10,490                |
| <b>Finland 0.8%</b>                      |                       | Bayerische Vereinsbank AG 78,926             | 1,886                 |
| Metso Oyj 171,100                        | 3,103                 | Bijou Brigitte Modische Accessoires AG 8,512 | 1,504                 |
| Nokian Renkaat Oyj 187,890               | 3,153                 | Celesio AG 25,120                            | 2,006                 |
|  | <b>6,256</b>          | • Commerzbank AG 78,700                      | 1,728                 |
|  |                       | • Continental AG 28,900                      | 2,141                 |
| <b>France 9.4%</b>                       |                       | Deutsche Boerse AG 102,500                   | 7,740                 |
| Air Liquide SA 1,633                     | 293                   | • Deutsche Euroshop AG 14,715                | 797                   |
| • Alten 35,356                           | 824                   | DIS Deutscher Industrie Service AG 25,095    | 1,041                 |
| April Group 35,238                       | 1,075                 | EON AG 46,400                                | 3,948                 |
| • AXAAlto Holding N.V. 106,030           | 3,066                 | Funkwerk AG 23,140                           | 938                   |
| Banque National de Paris 82,000          | 5,429                 | GFK AG 15,460                                | 627                   |
| Carrefour SA 30,093                      | 1,466                 |  |                       |
| Essilor International SA 27,200          | 1,948                 |  |                       |

**Portfolio Holdings** continued

| Security and Number of Shares                              | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| Hannover Rueckversicherung AG 96,000                       | 3,608                 | Giordano International Ltd. 1,436,000                    | 998                   |
| Henkel KGaA 90,000   | 7,360                 | Hang Lung Properties Ltd. 320,000                        | 492                   |
| Hugo Boss AG Preferred 18,235                              | 522                   | HSBC Holdings PLC 91,200                                 | 1,463                 |
| Krones AG 6,922  | 782                   | Lifestyle International Holdings Ltd. 266,500            | 418                   |
| Merck KGAA 6,400   | 489                   | • Pacific Basin Shipping Ltd. 2,120,000                  | 939                   |
| • Pfleiderer AG 41,648                                     | 654                   | Singamas Container Holdings Ltd. 910,000                 | 843                   |
| ProSiebenSat.1 Media AG Preferred 92,046                   | 1,578                 | Sinopec Beijing Yanhua Petrochemical Co., Ltd. 4,220,000 | 2,040                 |
| Rational AG 6,956  | 791                   | Sung Hung Kai Properties 126,900                         | 1,215                 |
| SAP AG 25,500  | 4,036                 | Techtronic Industries Co., Ltd. 1,419,000                | 3,156                 |
| • SBS Broadcasting SA 42,875                               | 1,977                 |  | <b>23,796</b>         |
| Software AG 31,546   | 1,080                 |  |                       |
| Stada Arzneimittel AG 23,000                               | 723                   |  |                       |
| • Techem AG 37,057   | 1,533                 |  |                       |
| Vivacon AG 21,275  | 421                   |  |                       |
| Wincor Nixdorf AG 12,798                                   | 1,045                 |  |                       |
|  | <b>63,452</b>         |  |                       |
|  |                       |  |                       |
| <b>Greece 0.9%</b>   |                       | <b>Hungary 0.1%</b>                                      |                       |
| Coca-Cola Hellenic Bottling Co. SA 43,000                  | 1,166                 | Otp Bank Rt. 35,500                                      | <b>1,095</b>          |
| EFG Eurobank Ergasias 39,700                               | 1,205                 |  |                       |
| Fourlis SA 57,160  | 489                   |  |                       |
| Hellenic Exchanges SA 150,891                              | 1,693                 |  |                       |
| Intralot SA Integrated Lottery 52,108                      | 1,553                 |  |                       |
| National Bank of Greece SA 51,230                          | 1,727                 |  |                       |
|  | <b>7,833</b>          |  |                       |
|  |                       |  |                       |
| <b>Hong Kong 2.9%</b>                                      |                       | <b>India 0.8%</b>  |                       |
| Cheung Kong Holdings Ltd. 111,600                          | 1,055                 | Associated Cement Cos., Ltd. 116,800                     | 965                   |
| China Insurance International Holdings Co., Ltd. 156,000   | 305                   | • Bharat Forge 513                                       | 3                     |
| China Insurance International Holdings Co., Ltd. 1,230,900 | 462                   | Bharat Forge Ltd. 26,225                                 | 782                   |
| China Mobile Ltd. 1,082,300                                | 3,795                 | • Bharti Televentures Ltd. 190,700                       | 906                   |
| China Travel International Investment Ltd. 2,478,000       | 724                   | HDFC Bank Ltd. 81,500                                    | 1,006                 |
| Citic Pacific Ltd. 233,800                                 | 703                   | Housing Development Finance Corp., Ltd. 75,200           | 1,266                 |
| CNOOC Ltd. 4,753,900                                       | 2,557                 | • Infosys Technologies Ltd. 30,000                       | 1,300                 |
| Cosco Pacific Ltd. 114,000                                 | 247                   | Mahindra & Mahindra Ltd. 61,200                          | 623                   |
| Esprit Holdings Ltd. 206,500                               | 1,538                 |  | <b>6,851</b>          |
| • Foxconn International Holdings 1,410,000                 | 846                   |  |                       |
|  |                       |  |                       |
|  |                       | <b>Indonesia 0.1%</b>                                    |                       |
|  |                       | PT Bank Danamon Indonesia Tbk 1,040,000                  | 507                   |
|  |                       | • PT Bank Rakyat Indonesia 2,295,500                     | 643                   |
|  |                       |  | <b>1,150</b>          |
|  |                       |  |                       |
|  |                       | <b>Ireland 1.8%</b>                                      |                       |
|  |                       | Anglo Irish Bank Corp. PLC 148,600                       | 1,721                 |
|  |                       | • Bank of Ireland 613,000                                | 9,346                 |
|  |                       | Grafton Group PLC - UTS 77,900                           | 886                   |
|  |                       | Kingspan Group PLC 68,700                                | 770                   |
|  |                       | • Paddy Power PLC 51,951                                 | 910                   |
|  |                       | • United Drug PLC 302,347                                | 1,337                 |
|  |                       |  | <b>14,970</b>         |

| Security and Number of Shares                     | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Israel 0.1%</b>                                |                       |
| ◆ Orbotech Ltd. 25,000                            | <b>508</b>            |
| <b>Italy 2.8%</b>                                 |                       |
| Amplifon SPA 8,617                                | 567                   |
| Assicurazioni Generali 65,860                     | 2,031                 |
| Banca Intesabci SPA 155,014                       | 743                   |
| Banco Popolare di Verona e Novara ScrI<br>259,400 | 4,792                 |
| Credito Emiliano SPA 73,900                       | 850                   |
| Eni SPA 62,400                                    | 1,574                 |
| Hera SPA 287,000                                  | 807                   |
| Marzotto SPA 47,938                               | 988                   |
| Mediobanca SPA 14,200                             | 234                   |
| Pirelli & C. Real Estate SPA 11,600               | 642                   |
| Recordati SPA 238,510                             | 1,669                 |
| Saipem SPA 164,226                                | 2,064                 |
| San Paolo IMI SPA 135,000                         | 2,006                 |
| Unicredito Italiano SPA 724,000                   | 4,066                 |
|   | <b>23,033</b>         |
| <b>Japan 15.5%</b>                                |                       |
| Aeon Credit Service Co., Ltd. 16,600              | 1,096                 |
| Aeon Mall Co., Ltd. 26,400                        | 998                   |
| Amano Corp. 107,000                               | 1,172                 |
| Arbeit-Times Co., Ltd. 60,327                     | 761                   |
| Arealink Co., Ltd. 358                            | 1,459                 |
| • Arnest One Corp. 23,100                         | 586                   |
| Askul Corp. 11,600                                | 645                   |
| Canon, Inc. 90,100                                | 4,683                 |
| • Chiyoda Corp. 103,000                           | 1,154                 |
| Credit Saison Co., Ltd. 94,900                    | 3,233                 |
| Daiwa Securities Group, Inc. 176,000              | 1,113                 |
| East Japan Railway Co. 182                        | 946                   |
| en-Japan, Inc. 612                                | 2,500                 |
| Hitachi Koki Co., Ltd. 175,000                    | 1,632                 |
| ⑥ Honda Motor Co., Ltd. 217,400                   | 10,456                |
| Honeys Co., Ltd. 7,400                            | 264                   |
| Hoya Corp. 23,200                                 | 2,421                 |
| ITO EN Ltd. 12,300                                | 603                   |
| • J-Oil Mills, Inc. 310,000                       | 1,252                 |
| Japan Tobacco, Inc. 79                            | 1,017                 |

| Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|
| • Jupiter Telecommunications Co., Ltd.<br>1,511 | 1,203                 |
| Kao Corp. 71,000                                | 1,642                 |
| • Kennedy-Wilson Japan 902                      | 2,430                 |
| Keyence Corp. 11,300                            | 2,491                 |
| Meitec Corp. 120,000                            | 3,969                 |
| Mitsubishi Corp. 101,800                        | 1,394                 |
| Mizuho Financial Group, Inc. 519                | 2,435                 |
| Musashino Bank Ltd. 7,700                       | 325                   |
| Nakanishi, Inc. 7,400                           | 702                   |
| • Neomax Co. Ltd. 26,600                        | 634                   |
| Nidec Corp. 15,700                              | 1,842                 |
| Nikko Cordial Corp. 219,750                     | 1,024                 |
| Nishimatsuya Chain Co. Ltd. 8,700               | 223                   |
| NTT DoCoMo, Inc. 2,500                          | 3,869                 |
| Nitori Co. Ltd. 11,180                          | 753                   |
| NIWS Co. Ltd. 453                               | 707                   |
| • Niws Co., Ltd.-W I 758                        | 1,142                 |
| Nomura Holdings, Inc. 51,000                    | 648                   |
| Olympus Optical Co., Ltd. 143,000               | 2,888                 |
| Orix Corp. 40,500                               | 5,495                 |
| Park24 Co., Ltd. 38,500                         | 767                   |
| Point, Inc. 64,640                              | 2,471                 |
| Promise Co., Ltd. 24,886                        | 1,605                 |
| Rohm Co., Ltd. 53,000                           | 4,981                 |
| • Roland DG Corp. 13,300                        | 335                   |
| • Roland DG Corp.,- W I 20,500                  | 504                   |
| • Ryohin Keikaku Co. Ltd. 13,500                | 679                   |
| • Sega Sammy Holdings, Inc. 56,824              | 3,327                 |
| Sharp Corp. 272,900                             | 4,248                 |
| Shinsei Bank Ltd. 204,000                       | 1,105                 |
| SMC Corp. 22,400                                | 2,352                 |
| Sparx Asset Management Co. Ltd. 102             | 217                   |
| • Sparx Asset Management Co., Ltd.-W I<br>102   | 238                   |
| Sumitomo Metal Industries, Ltd. 118,300         | 209                   |
| Sumitomo Trust and Banking Co., Ltd.<br>398,700 | 2,485                 |
| Sundrug Co., Ltd. 15,200                        | 573                   |
| Sysmex Corp. 50,000                             | 2,771                 |
| • Take and Give Needs Co., Ltd. 591             | 640                   |
| ⑦ Takeda Chemical Industries Ltd.<br>200,500    | 9,751                 |

**Portfolio Holdings** continued

| Security and Number of Shares                     | Value<br>(\$ x 1,000) | Security and Number of Shares                           | Value<br>(\$ x 1,000) |
|---|-----------------------|---|-----------------------|
| Toagosei Chemical Ltd. 490,000                    | 1,836                 | <b>Norway 1.9%</b>                                      |                       |
| • Toho Tenax Co., Ltd. 268,000                    | 968                   | Acta Holdings ASA 981,760                               | 1,772                 |
| Tokyo Broadcasting System, Inc. 29,600            | 562                   | Ekornes ASA 33,121                                      | 657                   |
| Tokyu Corp. 189,100                               | 915                   | • Fred Olsen Energy ASA 115,291                         | 2,196                 |
| Toyo Tire & Rubber Co., Ltd. 320,000              | 1,146                 | • NextGenTel Holding ASA 40,404                         | 217                   |
| Trend Micro, Inc. 33,500                          | 1,210                 | • Petroleum Geo Services ASA 17,476                     | 1,060                 |
| Uni-Charm Corp. 99,000                            | 4,422                 | • SIEM Offshore 117,119                                 | 756                   |
| Urban Corp. 80,100                                | 2,605                 | Statoil ASA 116,300                                     | 2,047                 |
| USS Co., Ltd. 9,230                               | 732                   | • Stolt Offshores SA 264,460                            | 1,955                 |
| Yamada Denki Co., Ltd. 23,800                     | 1,137                 | • Tandberg Television ASA 149,719                       | 1,535                 |
| Yodogawa Steel Works Ltd. 131,000                 | 814                   | Telenor ASA 142,400                                     | 1,192                 |
|   | <b>129,412</b>        | • TGS Nopec Geophysical Co. ASA 84,211                  | 2,283                 |
|   |                       |   | <b>15,670</b>         |
| <b>Malaysia 0.1%</b>                              |                       | <b>Portugal 0.2%</b>                                    |                       |
| • Airasia BHD 1,376,700                           | <b>587</b>            | Banco Comercial Portugues, SA 445,523                   | 1,202                 |
| <b>Mexico 1.6%</b>                                |                       | • Impresa Sociedade Gestora de Participacoes SA 122,614 | 872                   |
| America Mobil SA de CV 780,700                    | 1,939                 |   | <b>2,074</b>          |
| • Consorcio ARA SA de CV 155,700                  | 479                   | <b>Russia 0.5%</b>                                      |                       |
| Corporacion Geo SA, Series B 416,800              | 866                   | ◆ Lukoil Holding Co. 65,600                             | 2,234                 |
| ◆ Grupo Aeroportuario del Sureste SA de CV 21,000 | 621                   | ◆ Mobile Telesystems 23,600                             | 793                   |
| ◆ Grupo Televisa SA de CV 104,700                 | 5,882                 | ◆ OAO Gazprom SP 2,457                                  | 80                    |
| • Urbi Desarrollos Urbanos SA de CV 169,000       | 823                   | ◆ Sibneft SP 51,975                                     | 806                   |
| Walmart de Mexico, Series V 820,800               | 3,035                 |   | <b>3,913</b>          |
|   | <b>13,645</b>         | <b>Singapore 2.0%</b>                                   |                       |
| <b>Netherlands 4.6%</b>                           |                       | Capitaland Ltd. 983,000                                 | 1,535                 |
| Aalberts Industries N.V. 31,883                   | 1,520                 | Cosco Investments 3,815,520                             | 4,079                 |
| AKZO Nobel N.V. 177,000                           | 7,281                 | DBS Group Holdings Ltd. 116,750                         | 1,022                 |
| AM NV 125,100                                     | 1,352                 | Hyflux Ltd. 633,000                                     | 1,317                 |
| • ASM Lithography Holding N.V. 136,082            | 1,975                 | Jaya Holdings Ltd. 1,763,000                            | 1,130                 |
| • ASML Holding N.V. 24,000                        | 348                   | Keppel Corp., Ltd. 33,600                               | 221                   |
| Euronext N.V. 236,000                             | 7,801                 | Osim International Ltd. 400,600                         | 278                   |
| Fortis N.V. 163,920                               | 4,560                 | • Singapore Airlines Ltd. 130,800                       | 898                   |
| Heijmans N.V. 41,950                              | 1,650                 | Singapore Telecommunications Ltd. 905,407               | 1,417                 |
| Heineken Holding N.V. 200,000                     | 5,741                 | United Overseas Bank Ltd. 482,000                       | 4,218                 |
| ING Groep NV 56,570                               | 1,564                 | • Yellow Pages (Singapore) Ltd. 674,000                 | 693                   |
| Koninklijke Ten Cate NV 8,850                     | 783                   |   | <b>16,808</b>         |
| • Stork N.V. 78,865                               | 2,904                 |   |                       |
| United Services Group NV 41,396                   | 1,268                 |   |                       |
|   | <b>38,747</b>         |   |                       |

| Security and Number of Shares                | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>South Africa 0.5%</b>                     |                       |
| Edgars Consolidated Stores Ltd. 20,800       | 862                   |
| Ellerine Holdings Ltd. 49,856                | 394                   |
| Investec Ltd. 38,711                         | 1,118                 |
| MTN Group Ltd. 141,500                       | 1,007                 |
| • The Spar Group Ltd.-W I 104,847            | 414                   |
|  | <b>3,795</b>          |
| <b>South Korea 2.8%</b>                      |                       |
| Hana Bank 35,510                             | 896                   |
| • Kookmin Bank 207,260                       | 8,798                 |
| Samsung Electronics Co. Ltd. Preferred 6,100 | 2,790                 |
| Shinhan Financial Group Co. Ltd. 36,900      | 963                   |
| ⑧ SK Telecom Co. Ltd. 58,300                 | 9,654                 |
|  | <b>23,101</b>         |
| <b>Spain 2.0%</b>                            |                       |
| Banco Bilbao Vizcaya Argentaria SA 97,623    | 1,517                 |
| Banco Santander Central Hispano SA 95,400    | 1,115                 |
| Cortefiel SA 154,195                         | 2,834                 |
| Grupo Ferrovial SA 17,800                    | 1,017                 |
| • Inditex SA 102,300                         | 3,046                 |
| Prisa-Promotora de Informaciones SA 96,085   | 1,838                 |
| Prosegur Compania de Seguridad SA 71,220     | 1,569                 |
| Telefonica SA 113,053                        | 1,928                 |
| Tubacex SA 343,938                           | 1,181                 |
| Uralita SA 70,906                            | 381                   |
|  | <b>16,426</b>         |
| <b>Sweden 1.7%</b>                           |                       |
| Clas Ohlson AB Class B 25,000                | 488                   |
| • Elekta Ab-B 70,869                         | 2,491                 |
| • Ericsson Telefonab LM AB, Class B 824,000  | 2,444                 |
| ♦ Ericsson Telefonab LM SP 55,300            | 1,628                 |
| HIQ International AB 133,808                 | 552                   |
| JM AB 59,544                                 | 1,994                 |
| Lindex AB 41,612                             | 1,819                 |

| Security and Number of Shares                | Value<br>(\$ x 1,000) |
|--|-----------------------|
| • Scania AB 48,000                           | 1,866                 |
| Securitas Ab-B 8,800                         | 142                   |
| • Telelogic AB 227,812                       | 453                   |
| Unibet Group PLC 3,400                       | 375                   |
|  | <b>14,252</b>         |
| <b>Switzerland 9.6%</b>                      |                       |
| • Actelion Ltd. 7,020                        | 752                   |
| Clariant AG 127,709                          | 2,013                 |
| • Credit Suisse Group 201,664                | 8,521                 |
| • Georg Fischer AG 3,775                     | 1,104                 |
| Givaudan AG 7,150                            | 4,522                 |
| Julius Baer Holdings Ltd. 15,565             | 1,007                 |
| • Leica Geosystems AG 4,140                  | 1,193                 |
| Lonza Group AG 117,000                       | 7,069                 |
| ① Nestle SA 52,359                           | 13,834                |
| Nobel Biocare Holding AG 4,800               | 1,032                 |
| ⑩ Novartis AG 191,000                        | 9,334                 |
| Phonak Holding AG 20,900                     | 732                   |
| • Roche Holding AG Genusschein 69,358        | 8,425                 |
| Swatch Group AG 53,500                       | 6,902                 |
| • Syngenta AG 49,600                         | 5,159                 |
| United Bank of Switzerland AG 107,725        | 8,649                 |
|  | <b>80,248</b>         |
| <b>Taiwan 0.7%</b>                           |                       |
| ♦ Chunghwa Telecom Co. Ltd. 68,000           | 1,379                 |
| Hon Hai Precision Industry Co. Ltd. 579,549  | 2,752                 |
| MediaTek, Inc. 112,000                       | 848                   |
| Novatek Microelectronics Corp. Ltd. 133,000  | 593                   |
|  | <b>5,572</b>          |
| <b>Thailand 0.0%</b>                         |                       |
| Advanced Info Service Public Co. Ltd. 72,100 | <b>174</b>            |
| <b>Turkey 0.2%</b>                           |                       |
| • Boyner Buyuk Magazacilik (BBM) A/S 371,670 | 630                   |
| Cimsa Cimento Sanayi Ve Ticaret A.S. 115,500 | 363                   |

**Portfolio Holdings** continued

| Security and Number of Shares                 | Value<br>(\$ x 1,000) |
|---|-----------------------|
| • Denizbank A/S 152,842                       | 432                   |
| ♦ Dogan Yayin Holding A/S 175,493             | 421                   |
|   | <b>1,846</b>          |
| <b>United Kingdom 16.2%</b>                   |                       |
| Aegis Group PLC 1,900,000                     | 3,512                 |
| Aggreko PLC 244,129                           | 856                   |
| • Amino Technologies PLC 75,203               | 325                   |
| • Ark Therapeutics Group PLC 168,000          | 369                   |
| • Ashtead Group PLC 903,546                   | 1,512                 |
| Associated British Ports Holdings PLC 630,000 | 5,560                 |
| BG Group PLC 575,125                          | 4,466                 |
| BP PLC 375,000                                | 3,827                 |
| British Sky Broadcasting Group PLC 645,970    | 6,711                 |
| Burren Energy PLC. 52,400                     | 483                   |
| Cadbury Schweppes PLC 829,438                 | 8,352                 |
| • Cairn Energy PLC 46,400                     | 1,030                 |
| Capital Group PLC 288,120                     | 2,081                 |
| Carnival PLC 85,846                           | 4,424                 |
| • CSR PLC 157,859                             | 915                   |
| ③ Diageo PLC 784,000                          | 11,633                |
| DX Services PLC 108,870                       | 770                   |
| • Enodis PLC 1,515,000                        | 2,797                 |
| First Choice Holidays PLC 403,862             | 1,275                 |
| ② GlaxoSmithKline PLC 506,000                 | 12,797                |
| Homeserve PLC 51,813                          | 859                   |
| • IG Group Holdings PLC 538,828               | 1,194                 |
| Intertek Group 55,300                         | 804                   |
| ITV PLC 1,524,902                             | 3,546                 |
| Johnston Press PLC F P 81,800                 | 776                   |
| Kingfisher PLC 799,783                        | 3,779                 |
| Lloyds TSB Group PLC 670,000                  | 5,763                 |
| Man Group PLC 35,600                          | 830                   |
| Michael Page Group PLC 1,387,000              | 5,104                 |
| • Morgan Crucible Co., PLC 219,041            | 714                   |
| Morrison Wm. Supermarkets 323,360             | 1,205                 |
| • NETeller PLC 104,467                        | 883                   |
| Next PLC 47,900                               | 1,358                 |
| Northgate PLC 71,653                          | 1,114                 |
| • Orascom Telecommunications 29,100           | 1,193                 |
| Pearson PLC 26,246                            | 320                   |

| Security and Number of Shares           | Value<br>(\$ x 1,000) |
|---|-----------------------|
| Reckitt Benkiser PLC 97,497             | 3,171                 |
| Rotork PLC 69,331                       | 617                   |
| RTL Group SA 10,160                     | 779                   |
| S I G PLC 35,527                        | 371                   |
| Signet Group PLC 4,237,000              | 8,210                 |
| Smith & Nephew PLC 34,438               | 355                   |
| Standard Chartered PLC 54,900           | 991                   |
| ♦ Stolt Comex Seaway 158,031            | 1,154                 |
| Tesco PLC 1,403,404                     | 8,297                 |
| • Ultra Electronics Holdings PLC 55,373 | 792                   |
| • Vodafone Group PLC 2,805,000          | 7,341                 |
|   | <b>135,215</b>        |

**United States 0.1%**

|                                     |              |
|-------------------------------------|--------------|
| • AFK Sistema-144A GDR 33,799       | 524          |
| ♦ Bancolumbia S.A. Sponsored 37,700 | 557          |
| ♦ Kookmin Bank Sponsored 1,000      | 42           |
|                                     | <b>1,123</b> |

The foreign securities were valued at fair value in accordance with board approved procedures. (See Accounting Policies).

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Short-Term Investments 0.1% of net assets****U.S. Government Securities 0.1%**

|                      |       |            |
|----------------------|-------|------------|
| ▲ U.S. Treasury Bill |       |            |
| 2.71%, 06/16/05      | 1,000 | <b>997</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Other Investments 4.0% of net assets****Other Investment Companies 4.0%**

|   |               |
|---|---------------|
| ▲ Provident Institutional Funds—<br>TempFund 33,327,068 | <b>33,327</b> |
|---|---------------|

**End of investments.**

In addition to the above, the fund held the following at 4/30/05. All numbers x 1,000 except number of futures contracts.

### Futures Contracts

|                                   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Gains/(Losses) |
|-----------------------------------|------------------------|-------------------|------------------------------|
| S&P 500 Index<br>expires 06/16/05 | 27                     | 7,820             | (22)                         |

### Foreign Currency Contracts

| Expiration Date | Currency to<br>be Received | Amount of<br>Currency to<br>be Received | Currency to<br>be Delivered | Amount of<br>Currency to<br>be Delivered | Unrealized<br>Gains/(Losses) |
|-----------------|----------------------------|---|-----------------------------|--|------------------------------|
| 05/02/05        | European Euro              | 802                                     | U.S. Dollars                | 1,037                                    | (2)                          |
| 05/02/05        | Japanese Yen               | 10,461                                  | U.S. Dollars                | 99                                       | 1                            |
| 05/02/05        | Norwegian Krone            | 3,061                                   | U.S. Dollars                | 488                                      | (2)                          |
| 05/02/05        | Swedish Krona              | 2,926                                   | U.S. Dollars                | 415                                      | (4)                          |
| 05/02/05        | U.S. Dollars               | 416                                     | Canadian Dollars            | 520                                      | 1                            |
| 05/02/05        | U.S. Dollars               | 179                                     | European Euro               | 138                                      | —*                           |
| 05/02/05        | U.S. Dollars               | 730                                     | Norwegian Krone             | 4,590                                    | 1                            |
| 05/02/05        | U.S. Dollars               | 283                                     | Swedish Krona               | 2,008                                    | 1                            |
| 05/02/05        | U.S. Dollars               | 96                                      | Swiss Francs                | 115                                      | —*                           |
| 05/03/05        | British Pounds             | 174                                     | U.S. Dollars                | 332                                      | 1                            |
| 05/03/05        | European Euro              | 747                                     | U.S. Dollars                | 964                                      | —*                           |
| 05/03/05        | Norwegian Krone            | 794                                     | U.S. Dollars                | 126                                      | —*                           |
| 05/03/05        | South Korean Won           | 80,638                                  | U.S. Dollars                | 81                                       | —*                           |
| 05/03/05        | U.S. Dollars               | 220                                     | British Pounds              | 115                                      | —*                           |
| 05/03/05        | U.S. Dollars               | 80                                      | Canadian Dollars            | 100                                      | —*                           |
| 05/03/05        | U.S. Dollars               | 299                                     | Swedish Krona               | 2,126                                    | 1                            |
| 05/03/05        | U.S. Dollars               | 129                                     | Swiss Francs                | 153                                      | —*                           |
| 05/04/05        | British Pounds             | 672                                     | U.S. Dollars                | 1,283                                    | 1                            |
| 05/04/05        | Swiss Francs               | 38                                      | U.S. Dollars                | 32                                       | —*                           |
| 05/04/05        | European Euro              | 184                                     | U.S. Dollars                | 238                                      | —*                           |
| 05/04/05        | Swiss Francs               | 1,051                                   | U.S. Dollars                | 148                                      | —*                           |
| 05/05/05        | British Pounds             | 62                                      | U.S. Dollars                | 118                                      | —*                           |
| 05/06/05        | U.S. Dollars               | 1,524                                   | Japanese Yen                | 161,325                                  | (14)                         |
| 05/09/05        | Japanese Yen               | 2,499                                   | U.S. Dollars                | 24                                       | —*                           |
| 05/09/05        | U.S. Dollars               | 181                                     | Japanese Yen                | 19,004                                   | (1)                          |
|                 |                            |   |                             |  | (16)                         |

\*Amounts stated as "—" are less than \$1.

All numbers x 1,000 except number of futures contracts.

### Forward Foreign Currency Contracts

| Expiration Date | Currency to<br>be Received | Amount of<br>Currency to<br>be Received | Currency to<br>be Delivered | Amount of<br>Currency to<br>be Delivered | Unrealized<br>Gains/(Losses) |
|-----------------|----------------------------|---|-----------------------------|--|------------------------------|
| 07/13/05        | U.S. Dollars               | 10,424                                  | British Pounds              | 5,800                                    | (616)                        |
| 07/14/05        | U.S. Dollars               | 10,483                                  | British Pounds              | 5,800                                    | (557)                        |
| 11/16/05        | U.S. Dollars               | 13,369                                  | Swiss Francs                | 15,500                                   | 166                          |
| 11/17/05        | U.S. Dollars               | 7,757                                   | Swiss Francs                | 9,000                                    | 90                           |
| 11/22/05        | U.S. Dollars               | 5,738                                   | Swiss Francs                | 6,600                                    | 112                          |
| 11/28/05        | U.S. Dollars               | 6,087                                   | British Pounds              | 3,300                                    | (166)                        |
| 12/07/05        | U.S. Dollars               | 6,085                                   | British Pounds              | 3,200                                    | 24                           |
| 12/07/05        | U.S. Dollars               | 3,936                                   | Swiss Francs                | 4,400                                    | 182                          |
| 12/09/05        | U.S. Dollars               | 8,014                                   | British Pounds              | 4,200                                    | 59                           |
|                 |                            |   |                             |  | <b>(706)</b>                 |

\*Amounts stated as “—” are less than \$1.

## Statement of

**Assets and Liabilities**

As of April 30, 2005, unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

**Assets**

|   |                |
|---|----------------|
| Investments, at value   | \$832,239      |
| Foreign currency  | 1,324          |
| Receivables:  |                |
| Fund shares sold  | 3,784          |
| Dividends   | 2,801          |
| Due from brokers for futures                                  | 104            |
| Foreign tax reclaims  | 338            |
| Investments sold  | 7,231          |
| Unrealized appreciation on foreign currency contracts         | 7              |
| Unrealized appreciation on forward foreign currency contracts | 633            |
| Prepaid expenses  | + 67           |
| <b>Total assets</b>   | <b>848,528</b> |

**Liabilities**

|   |               |
|---|---------------|
| Payables:   |               |
| Fund shares redeemed                                  | 717           |
| Investments bought                                    | 12,515        |
| Investment adviser and administrator fees             | 83            |
| Transfer agency and shareholder service fees          | 15            |
| Withholding taxes                                     | 18            |
| Unrealized depreciation on foreign currency contracts | 23            |
| Unrealized depreciation on forward foreign contracts  | 1,339         |
| Accrued expenses                                      | + 255         |
| <b>Total liabilities</b>                              | <b>14,965</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 848,528          |
| <b>Total liabilities</b> | - 14,965         |
| <b>Net assets</b>        | <b>\$833,563</b> |

**Net Assets by Source**

|  |          |
|--|----------|
| Capital received from investors                  | 766,307  |
| Distributions in excess of net investment income | (602)    |
| Net realized capital losses                      | (60,324) |
| Net unrealized capital gains                     | 128,182  |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$663,795  |   | 44,154             |   | \$15.03 |
| Select Shares   | \$169,768  |   | 11,282             |   | \$15.05 |

The fund paid \$703,342 for these securities.

Includes certain restricted but deemed liquid 144A securities worth \$1,555 or 0.2% 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        | \$339,795 |
| Sales/maturities | \$219,153 |

The fund paid \$1,323 for these currencies.

These derive from investments, foreign currency transactions and futures.

**Federal Tax Data**

|   |                  |
|---|------------------|
| <b>Portfolio cost</b>                   | \$706,099        |
| <b>Net unrealized gains and losses:</b> |                  |
| Gains                                   | \$135,621        |
| Losses                                  | + (9,481)        |
|   | <b>\$126,140</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$1,221 |
| Long-term capital gains | \$-     |

**Capital losses utilized** \$15,097**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount:    |
| 2009              | \$25,229        |
| 2010              | 53,351          |
| 2011              | + 3,747         |
|                   | <b>\$82,327</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$6,971      |
| Interest                       | + 12         |
| <b>Total investment income</b> | <b>6,983</b> |

**Net Realized Gains and Losses**

|  |               |
|--|---------------|
| Net realized gains on investments                    | 26,422        |
| Net realized losses on foreign currency transactions | (773)         |
| Net realized gains on futures contracts              | + 381         |
| <b>Net realized gains</b>                            | <b>26,030</b> |

**Net Unrealized Gains and Losses**

|  |               |
|--|---------------|
| Net unrealized gains on investments                    | 42,612        |
| Net unrealized losses on foreign currency transactions | (754)         |
| Net unrealized losses on futures contracts             | + (141)       |
| <b>Net unrealized gains</b>                            | <b>41,717</b> |

**Expenses**

|  |              |
|--|--------------|
| Investment adviser and administrator fees    | 5,141        |
| Transfer agent and shareholder service fees: |              |
| Investor Shares                              | 791          |
| Select Shares                                | 125          |
| Trustees' fees                               | 4            |
| Custodian and portfolio accounting fees      | 553          |
| Professional fees                            | 23           |
| Registration fees                            | 73           |
| Shareholder reports                          | 53           |
| Other expenses                               | + 7          |
| Total expenses                               | 6,770        |
| Expense reduction                            | - 630        |
| <b>Net expenses</b>                          | <b>6,140</b> |

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | <b>6,983</b>    |
| <b>Net expenses</b>                           | <b>- 6,140</b>  |
| <b>Net investment income</b>                  | <b>843</b>      |
| <b>Net realized gains</b>                     | <b>26,030</b>   |
| <b>Net unrealized gains</b>                   | <b>+ 41,717</b> |
| <b>Increase in net assets from operations</b> | <b>\$68,590</b> |

Net of \$817 foreign withholding tax.

Calculated as a percentage of average daily net assets: 1.29% of the first \$500 million, 1.275% of the next \$500 million, and 1.25% over \$1 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM)

Prior to February 28, 2005, these fees were calculated as 1.40% 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 0.15% 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 \$548 from the investment adviser (CSIM) and \$82 from the transfer agent and shareholder service agent (Schwab). CSIM and Schwab has guaranteed to limit the annual operating expenses through February 28, 2006, as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 1.65%                                |
| Select Shares      | 1.47%                                |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$67,747.

## Statements of

**Changes in Net Assets**

For the current and prior report period. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$843           | \$789            |
| Net realized gains                            | 26,030          | 12,953           |
| Net unrealized gains                          | + 41,717        | 39,625           |
| <b>Increase in net assets from operations</b> | <b>68,590</b>   | <b>53,367</b>    |

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

|   |                |                |
|---|----------------|----------------|
| Investor Shares                                   | 907            | 1,007          |
| Select Shares                                     | + 317          | —              |
| <b>Total dividends from net investment income</b> | <b>\$1,224</b> | <b>\$1,007</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                   | 11/1/03-10/31/04 |                   |
|--|-----------------|-------------------|------------------|-------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                   |                  |                   |
| Investor Shares                        | 8,890           | \$133,622         | 22,257           | \$290,173         |
| Select Shares                          | + 5,736         | 86,797            | 6,216            | 82,103            |
| <b>Total shares sold</b>               | <b>14,626</b>   | <b>\$220,419</b>  | <b>28,473</b>    | <b>\$372,276</b>  |
| <b>Shares Reinvested</b>               |                 |                   |                  |                   |
| Investor Shares                        | 62              | \$907             | 77               | \$938             |
| Select Shares                          | + 21            | 316               | —                | —                 |
| <b>Total shares reinvested</b>         | <b>83</b>       | <b>\$1,223</b>    | <b>77</b>        | <b>\$938</b>      |
| <b>Shares Redeemed</b>                 |                 |                   |                  |                   |
| Investor Shares                        | (5,433)         | (\$81,876)        | (6,975)          | (\$91,166)        |
| Select Shares                          | + (454)         | (6,856)           | (237)            | (3,110)           |
| <b>Total shares redeemed</b>           | <b>(5,887)</b>  | <b>(\$88,732)</b> | <b>(7,212)</b>   | <b>(\$94,276)</b> |
| <b>Net transactions in fund shares</b> | <b>8,822</b>    | <b>\$132,910</b>  | <b>21,338</b>    | <b>\$278,938</b>  |

**Shares Outstanding and Net Assets**

|                      | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|----------------------|-----------------|------------------|------------------|------------------|
|                      | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period  | 46,614          | \$633,287        | 25,276           | \$301,989        |
| Total increase       | + 8,822         | 200,276          | 21,338           | 331,298          |
| <b>End of period</b> | <b>55,436</b>   | <b>\$833,563</b> | <b>46,614</b>    | <b>\$633,287</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$1,007 |
| Long-term capital gains | \$—     |

The fund started offering Select Shares on April 2, 2004.

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 1.50% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

**Current period**

|                 |             |
|-----------------|-------------|
| Investor Shares | \$61        |
| Select Shares   | + 11        |
| <b>Total</b>    | <b>\$72</b> |

**Prior period**

|                 |              |
|-----------------|--------------|
| Investor Shares | \$129        |
| Select Shares   | + 24         |
| <b>Total</b>    | <b>\$153</b> |

Dollar amounts are net of the redemption fees.

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 distributions in excess of net investment income in the amount of \$602 and \$221 at the end of the current period and prior period, respectively.

# Financial Notes unaudited

## Business Structure of the Funds

**Each of the funds discussed in this report is a series of Schwab Capital Trust, 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.

Prior to June 3, 2002, each fund invested in a mix of actively managed mutual funds. The transition to their multi-manager strategy began on June 3, 2002. Also, effective November 1, 2004 the Schwab MarketMasters Funds were renamed the Laudus MarketMasters Funds.

### The Trust and Its Funds

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

**Schwab Capital Trust** organized May 7, 1993

Schwab S&P 500 Index Fund  
 Schwab Small-Cap Index Fund  
 Schwab Total Stock Market Index Fund  
 Schwab International Index Fund  
 Schwab MarketTrack All Equity Portfolio  
 Schwab MarketTrack Growth Portfolio  
 Schwab MarketTrack Balanced Portfolio  
 Schwab MarketTrack Conservative Portfolio  
**Laudus U.S. MarketMasters Fund**  
**Laudus Balanced MarketMasters Fund**  
**Laudus Small-Cap MarketMasters Fund**  
**Laudus International MarketMasters Fund**  
 Schwab Core Equity Fund  
 Schwab Dividend Equity Fund  
 Schwab Small-Cap Equity Fund  
 Schwab Hedged Equity Fund  
 Schwab Premier Equity Fund  
 Financial Services Fund  
 Health Care Fund  
 Technology Fund  
 Schwab Institutional Select S&P 500 Index Fund  
 Schwab Institutional Select Large-Cap Value Index Fund  
 Schwab Institutional Select Small-Cap Value Index Fund

**Laudus MarketMasters Funds 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.

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

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other fund operations 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 pay dividends** from net investment income and make distributions from net capital gains once a year.

**The funds may buy securities on a delayed-delivery basis.** In these transactions, the funds agree to buy a security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the funds 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 the 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, the funds must give the broker a deposit of cash and/or securities (the “initial margin”) whenever they enter 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. The potential for losses associated with futures contracts may exceed amounts recorded in the Statement of Assets and Liabilities.

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

**The funds may also sell securities short (selling 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 Laudus Balanced MarketMasters Fund and Laudus International MarketMasters Fund invest in forward currency contracts in connection with the purchase and sale of portfolio securities to minimize the uncertainty of changes in future exchange rates.** “Forwards,” as they are known, are contracts to buy and sell a currency at a set price on a future date. Similar to futures, forwards are agreements directly between two parties, however forwards are not publicly traded.

As with futures, forwards involve certain risks that are not fully reflected in the fund’s financials. If counterparties to the contracts are unable to meet the terms of the

contracts or if the value of the foreign currency changes unfavorably, the fund could sustain a loss.

**The funds may enter into repurchase agreements.**

In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created.

The funds’ repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds’ custodian (or, with tri-party agreements, the agent’s bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

**The funds may enter into swap agreements.** In these transactions, a fund and a counterparty agree to swap payments that are based on two different rates. The counterparty is typically a large financial institution, and the terms of the swap are specified in advance. For example, a fund may agree that for six months it will pay the counterparty the equivalent of the interest on a given amount invested at LIBOR (the London Interbank Offered Rate). In exchange, the counterparty might agree to pay a fund the equivalent of the same amount invested in a certain bond index during this same six month period.

Swap agreements carry certain risks. Because the net gains or losses stemming from a swap agreement depend on the movements of one rate relative to another, a fund could experience unanticipated losses if one or both rates failed to behave as expected. A fund also could lose money if a counterparty failed to honor the terms of a swap agreement.

The Credit Swap or “Credit Default Swap” is a bilateral financial contract in which one counterparty (the Protection Buyer) pays a periodic fee, typically expressed in basis points on the notional amount, in return for a Contingent Payment by the Protection Seller following a Credit Event of a Reference Entity.

The definitions of a Credit Event and the settlement mechanism used to determine the Contingent Payment are flexible and determined by negotiation between the counterparties at the inception of the transaction.

**The funds are authorized to write and purchase put and call options.** The risk in writing a call option is that a fund gives up the opportunity for profit if the market price of the security increases. The risk in writing a put option is that the funds may incur a loss if the market price of the security decreases and the option is exercised. The risk in purchasing an option is that a fund pays a premium whether or not the option is exercised. The funds also have the additional risk of being unable to enter into a closing transaction at an acceptable price if a liquid secondary market does not exist.

**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 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 adviser is responsible for compensating each fund’s investment managers.

**The funds may engage in certain transactions involving affiliates.** 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 trust to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds 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.

| Fund                                | Amount Outstanding at 04/30/05 (\$ × 1,000) | Average Borrowing* (\$ × 1,000) | Weighted Average Interest Rate* (%) |
|-------------------------------------|---|---------------------------------|-------------------------------------|
| Laudus U.S. MarketMasters Fund      | —   | 480                             | 2.75                                |
| Laudus Small-Cap MarketMasters Fund | —   | 434                             | 2.79                                |

\* Based on the number of days for which the borrowing is outstanding.

**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 net realized 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. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales, foreign currency transactions and paydown gains and losses.

**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:

- **Securities traded on an exchange or over-the-counter:** valued at closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes. Securities that are primarily traded on foreign exchanges are valued at the closing values of such securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.
- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security's last close and the time that a fund calculates net asset value: valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the funds' Board of Trustees and the Pricing Committee. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been delisted from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.

Also, the foreign securities held by International MarketMasters Fund are fair valued if a movement in the U.S. market exceeds a specific threshold that has been established using the guideline adopted by the fund's Board of Trustees. The fund uses a third party vendor to provide the fair valuation based on certain factors and methodologies including tracking valuation correlations between the U.S. market and each non-U.S. security.

- **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.
- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards 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.

- **Swap agreements:** swaps may be valued based on a model that constructs curves, such as swap yield curves, based on market data, and that uses the curves to calculate prices. Or swaps may be valued based on dealer quotes.
- **Options:** open contracts are valued at their last quoted sale price or in the case of swaptions (options on swaps) at fair value, that varies with the specific terms of the underlying swap agreement.
- **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.

**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 or dividends paid on securities sold short are recorded as an expense on the fund's records.

**Options** purchased are recorded as assets and written options are recorded as liabilities to the extent of premiums paid or received. Each fund will realize a gain or loss when the option transaction expires or closes. When an option is exercised, the proceeds on sales for a written call option, the purchase cost for a written put option or the cost of a security for a purchased put or call option is adjusted by the amount of the premium received or paid.

**Swap** premiums paid are recorded as assets and premiums received are recorded as liabilities. Each fund begins recording income on swaps based on the effective date and terms of the swap agreement.

Interest is paid to or received from the counterparty periodically. Realized gains and losses are recognized on interest rate swaps at the termination or closing of the agreement. Credit Default swaps record gains or losses when a credit event occurs involving the underlying entity.

**Dividends and distributions from portfolio securities** are recorded on the date they are effective (the ex-dividend date), although the funds record certain foreign security dividends on the day they learn of the ex-dividend date.

**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.

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

**Expenses** that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily 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 keeps certain assets in segregated accounts, as may be 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.

# Investment Sub-Advisory Agreement Approval

## Investment Sub-Advisory Contract Approval

Eagle Asset Management, Inc. (“Eagle”) served as investment sub-adviser to the Laudus U.S. MarketMasters Fund™ and Laudus Balanced MarketMasters Fund™ (each a “Fund” and collectively, the “Funds”) pursuant to a sub-advisory agreement between Charles Schwab Investment Management, Inc. (“CSIM”), each Fund’s investment adviser and Eagle (the “Current Sub-Advisory Agreement”). On November 16, 2004, the Board of Trustees of Schwab Capital Trust (the “Trust”) authorized the officers of the Trust, to terminate on behalf of each Fund, the Current Sub-Advisory Agreement, dated January 31, 2002, as amended, between CSIM and Eagle, effective December 27, 2004.

At a meeting of the Board of Trustees of the Trust held on November 16, 2004, CSIM recommended and the Board of Trustees, including a majority of Trustees who are not parties to the investment sub-advisory agreement or “interested persons” (as defined in the 1940 Act) of any party to the agreement (the “Independent Trustees”), approved a new investment sub-advisory agreement between CSIM and Gardner Lewis Asset Management L.P. (“Gardner Lewis”) (the “New Sub-Advisory Agreement”). The New Sub-Advisory Agreement to be effective on December 27, 2004.

On November 16, 2004, the Board of Trustees held a meeting to decide, among other things, whether to approve the New Sub-Advisory Agreement between CSIM and Gardner Lewis. Before the meeting and in preparation for it, the Board of Trustees requested and received written materials from Gardner Lewis about its (a) quality of investment management and other services; (b) investment management personnel; (c) operations and financial condition; (d) brokerage practices (including any soft dollar arrangements) and other investment strategies; (e) the level of the sub-advisory fees the Funds are charged, (f) the Funds’ overall fees and operating expenses; (g) Gardner Lewis’

compliance systems; (h) Gardner Lewis’ policies on and compliance procedures for personal securities transactions; (i) Gardner Lewis’ reputation, expertise and resources in domestic financial markets; and (k) Gardner Lewis’ performance compared with similar advisers. At the meeting, representatives from CSIM and Gardner Lewis presented additional oral and written information to the Board of Trustees to help the Trustees evaluate Gardner Lewis’ fees and other aspects of its agreement. The Board of Trustees then discussed the written materials that they received before the meeting and CSIM’s and Gardner Lewis’ oral presentations and other information that the Trustees received at the meeting, and deliberated on the approval of the New Sub-Advisory Agreement in light of this information. In their deliberations, the Board of Trustees did not identify any single piece of information that was all-important or controlling. Based on the Board of Trustees’ deliberations and its evaluation of the information described above, the Board of Trustees, including all of the Independent Trustees, unanimously: (a) concluded that terms of the New Sub-Advisory Agreement are fair and reasonable; and (b) concluded that Gardner Lewis’ fees are reasonable in light of the services that they provide to the Funds. The required Notice to Shareholders was sent to existing shareholders on March 21, 2005.

# Trustees and Officers of Schwab Capital Trust

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 Schwab Funds (of which there were 53 as of 4/30/05) 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.

| Individuals Who Are Interested Trustees and Officers of the Trust |   |  |
|---|---|--|
| Name and Birthdate  | Trust Position(s); Trustee Since  | Main Occupations and Other Directorships and Affiliations  |
| <b>Charles R. Schwab</b> <sup>2</sup><br>7/29/37                  | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co. |

<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.

### Individuals Who Are Interested Trustees but Not Officers of the Trust

| Name and Birthdate                | Trustee Since      | Main Occupations and Other Directorships and Affiliations  |
|-----------------------------------|--------------------|--|
| <b>Randall W. Merk</b><br>7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

### Individuals Who Are Officers of the Trust but Not Trustees

| Name and Birthdate                  | Trust Office(s) Held                                       | Main Occupations and Other Directorships and Affiliations   |
|-------------------------------------|--|---|
| <b>Evelyn Dilsaver</b><br>5/4/55    | President, CEO<br>(all trusts).                            | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust.   |
| <b>Stephen B. Ward</b><br>4/5/55    | SVP, Chief Investment<br>Officer (all trusts).             | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.   |
| <b>Kimon Daifotis</b><br>7/10/59    | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Jeffrey Mortimer</b><br>9/29/63  | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Randall Fillmore</b><br>11/11/60 | Chief Compliance<br>Officer (all trusts).                  | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc. <i>Until 9/04:</i> VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| <b>Koji E. Felton</b><br>3/13/61    | Secretary (all trusts).                                    | SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98:</i> Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.   |
| <b>George Pereira</b><br>6/9/64     | Treasurer, Principal<br>Financial Officer<br>(all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange.  |

## Individuals Who Are Independent Trustees

| Name and Birthdate                   | Trustee Since  | Main Occupations and Other Directorships and Affiliations   |
|--------------------------------------|--|---|
| <b>Mariann Byerwalter</b><br>8/13/60 | 2000 (all trusts).   | Chair, JDN Corp. Advisory LLC; 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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>2001:</i> Stanford University, Special Assistant to the President, <i>from 1996-2001</i> , VP of Business Affairs, CFO. |
| <b>Donald F. Dorward</b><br>9/23/31  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> EVP, Managing Director, Grey Advertising. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising.   |
| <b>William A. Hasler</b><br>11/22/41 | 2000 (all trusts).   | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals).  |
| <b>Robert G. Holmes</b><br>5/15/31   | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).   |
| <b>Gerald B. Smith</b><br>9/28/50    | 2000 (all trusts).   | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).  |
| <b>Donald R. Stephens</b><br>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> Chair, CEO, North American Trust (real estate investment trust).  |
| <b>Michael W. Wilsey</b><br>8/18/43  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).  |

# Glossary

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

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

**beta** A historical measure of an investment's volatility relative to a market index (usually the S&P 500®). The index is defined as having a beta of 1.00. Investments with a beta higher than 1.00 have been more volatile than the index; those with a beta of less than 1.00 have been less volatile.

**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.

**cap, capitalization** See "market cap."

**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.

**earnings growth rate** For a mutual fund, the average yearly rate at which the earnings of the companies in the fund's portfolio have grown, measured over the past five years.

**earnings per share (EPS)** A company's earnings, or net income, for the past 12 months, divided by the number of shares outstanding.

**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.

**market cap, market capitalization** The value of a company as determined by the total value of all shares of its stock outstanding.

**median market cap** The midpoint of the range of market caps of the stocks held by a fund. There are different ways of calculating median market cap. With a simple median, half of the stocks in the fund's portfolio would be larger than the median, and half would be smaller. With a weighted median (the type that is calculated for these funds), half of the fund's assets are invested in stocks that are larger than the median market cap, and half in stocks that are smaller.

**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.

**price-to-book ratio (P/B)** The market price of a company's stock compared with its "book value." A mutual fund's P/B is the weighted average of the P/B of all stocks in the fund's portfolio.

**price-to-earnings ratio (P/E)** The market price of a company's stock compared with earnings over the past year. A mutual fund's P/E is the weighted average of the P/E of all stocks in the fund's portfolio.

**return on equity (ROE)** The average yearly rate of return for each dollar of investors' money, measured over the past five years.

**stock** A share of ownership, or equity, in the issuing company.

**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.

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

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

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

### 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 Laudus MarketMasters 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 web site at [www.schwab.com/marketmasters](http://www.schwab.com/marketmasters), the SEC's web site 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 web site at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds) or the SEC's website at <http://www.sec.gov>.

## The Laudus Funds™

### Laudus MarketMasters Funds™

Laudus U.S. MarketMasters Fund™  
Laudus Balanced MarketMasters Fund™  
Laudus Small-Cap MarketMasters Fund™  
Laudus International MarketMasters Fund™

### Laudus Rosenberg U.S. Equity Funds

Laudus Rosenberg U.S. Large Capitalization Fund  
Laudus Rosenberg U.S. Large Capitalization Growth Fund  
Laudus Rosenberg U.S. Discovery Fund  
Laudus Rosenberg U.S. Small Capitalization Growth Fund

### Laudus Rosenberg Equity Funds

Laudus Rosenberg International Equity Fund  
Laudus Rosenberg International Small Capitalization Fund  
Laudus Rosenberg European Fund

### Laudus Rosenberg Long/Short Funds

Laudus Rosenberg U.S. Large/Mid Capitalization Long/Short Equity Fund  
Laudus Rosenberg Global Long/Short Equity Fund  
Laudus Rosenberg Value Long/Short Equity Fund

<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.

The Laudus Funds includes the Laudus Rosenberg Funds, which are part of the Laudus Trust and distributed by Laudus Distributor, Inc.; and the Laudus MarketMasters Funds, which are part of the Schwab Capital Trust, and distributed by Charles Schwab & Co., Inc.



## **For More Information about the Funds:**

### **Investment Adviser**

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

### **Distributor**

Charles Schwab & Co., Inc. (Schwab)

### **Funds**

Laudus MarketMasters Funds™  
P.O. Box 3812, Englewood, CO 80155-3812

This report is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

# Schwab MarketTrack Portfolios<sup>®</sup>

## **Semiannual Report**

April 30, 2005

Schwab MarketTrack  
All Equity Portfolio<sup>™</sup>

Schwab MarketTrack  
Growth Portfolio<sup>™</sup>

Schwab MarketTrack  
Balanced Portfolio<sup>™</sup>

Schwab MarketTrack  
Conservative Portfolio<sup>™</sup>

*Four portfolios that combine the power of indexing  
with the benefits of asset allocation.*

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM)  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I am a big fan of mutual funds and have been throughout my 40-year career. During this time I've watched the mutual fund market grow, with investors today having nearly 17,000 funds from which to choose.

I also have advocated the need to take a long-term view of investing, as well as the importance of developing and maintaining an asset allocation plan. I continue to believe that mutual funds are excellent vehicles to help you build a diversified portfolio in keeping with your goals.

We have designed Schwab equity funds to deliver a combination of strong performance and good value. While I am proud of Schwab Funds® in general, I am especially pleased with the Schwab Dividend Equity Fund, which performed very well over the report period. The Fund is one of eight powered by Schwab Equity Ratings® and uses the same stock-ranking expertise that helped Schwab's model equity portfolio achieve industry recognition in Barron's 2004 annual stock-selection competition.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. We will continue to expand the array of products and services that can help you meet your long- and short-term investment goals.

In closing, I want to remind you that our commitment to our shareholders will not change. Thank you for investing with us.

Sincerely,

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

*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.*

# Management's Discussion for the six months ended April 30, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. and is president 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,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

I'm also happy to announce that Schwab Funds has launched another fund. The Schwab Premier Equity Fund™, the newest addition to Schwab Funds' Active Equity Fund family, was launched on March 21, 2005. The Schwab Premier Equity Fund portfolio managers use a multi-cap strategy and include a variety of investment styles and asset classes, shifting between growth and value according to market conditions. The Fund also is diversified across all sectors. With this broad coverage, the Schwab Premier Equity Fund can be an integral part of a balanced, diversified portfolio that can help you reach your long-term investment goals.

In terms of value, the Schwab Premier Equity Fund, as well as other Schwab funds, offer Select Shares, a share class that has lower expenses and higher investment minimums than Investor Shares.

I speak for all of Schwab Funds when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can trust to watch out for their best interests.

I continue to look for more ways to offer you relevant choices and value. Your trust is very important to us, and I will do all I can to maintain that trust. 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 small dot above the 'i' in 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.*



**Larry Mano**, vice president and senior portfolio manager, is responsible for the overall management of the funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.



**Tom Brown**, an associate portfolio manager of the investment adviser, is the day-to-day manager of the equity portions of the funds. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

## The Investment Environment and the Funds

If the 2004 equity market ended with a bang, the 2005 market started with a whimper, with all the major equity indices down from their year-end highs at the end of April. For the six-month report period, however, the S&P 500® Index<sup>1</sup> was still up 3.28%, due to the end-of-year rally. The broader Dow Jones Wilshire 5000 Composite Index<sup>SM2</sup> was up 3.50% for the report period, again predominantly because of strong equity returns in November and December 2004. Small-cap stocks lost their leading position to their larger-cap cohorts, and value continued to be the favored style. Stocks were volatile and sentiment was fickle in the face of high energy prices, indications of budding inflation, and prospects of the Federal Reserve continuing to raise short-term interest rates, which it did four times during the six-month report period.

Early in the period, investors were heartened when oil prices dipped and the U.S. presidential election results were uncontested. Unfortunately, the brief respite in oil prices was short-lived and strengthening global demand for oil, particularly in the Pacific Rim, and refinery constraints at home drove crude prices to record highs, above \$50 per barrel in mid-February.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive. Consumer sentiment, however, hit a soft patch and started to weaken in 2005. First-quarter GDP came in at 3.1%, slightly below expectations and weaker than the fourth quarter, when it was 3.8%. In this environment, retail sales softened.

Despite the slowdown in the GDP, strong labor market conditions remained positive for domestic consumption. On the earnings front, fourth-quarter earnings were generally better than expected due, in part, to strong reports from companies in the Energy sector. Expectations for first-quarter earnings remained upbeat, although weaker than recent quarters, due to difficult year-over-year comparisons.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Standard & Poor's®, S&P®, S&P 500®, Standard & Poor's 500® and 500® are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by the fund. The fund is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

<sup>2</sup> Dow Jones®, "Wilshire", "The DJW 5000<sup>SM</sup>", "The Dow Jones Wilshire 5000<sup>SM</sup>" and "The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>" are service marks of Dow Jones & Company, Inc. and Wilshire Associates Incorporated. The Schwab Total Stock Market Index Fund, based on The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>, is not sponsored, endorsed, sold or promoted by Dow Jones or Wilshire; and, neither Dow Jones nor Wilshire makes any representation regarding the advisability of investing in such a product.

*Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, productivity growth and slack in the economy have mostly kept a lid on core inflation.*

Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, productivity growth and slack in the economy have mostly kept a lid on core inflation. This productivity, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control.

While high energy prices remained a significant headwind for economic performance, they certainly helped boost oil companies' bottom lines. In fact, the strongest sector, according to S&P, was Energy, closely followed by Utilities and then Health Care. On the flip side, Information Technology was the worst performing sector over the report period, while the Consumer Discretionary sector also suffered.

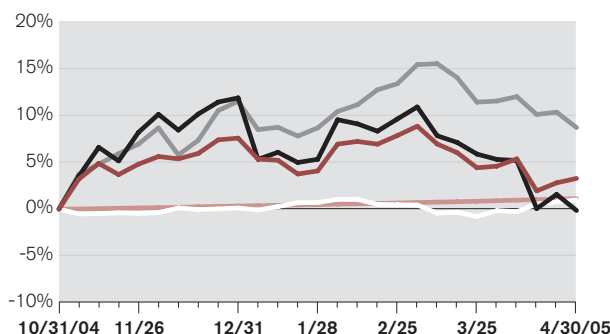
**The MarketTrack Portfolios incorporate a mix of different asset classes.** Accordingly, their returns over a given period will reflect a blend of the returns of those asset classes, and will depend on their relative weightings within each portfolio. By spreading their exposure over various asset classes, the MarketTrack Portfolios are designed to provide more stable returns while seeking to reduce risk over various market cycles.

During the report period, bonds enjoyed positive returns, up 0.98%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. But it was more the strength in the equity markets, up 3.28%, as measured by the S&P 500 Index, which helped to boost returns in the MarketTrack portfolios.

#### Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 3.28% **S&P 500® Index:** measures U.S. large-cap stocks
- -0.15% **Russell 2000® Index:** measures U.S. small-cap stocks
- 8.71% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 0.98% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 1.12% **Three-Month U.S. Treasury Bills (T-bills):** measures short-term U.S. Treasury obligations



These figures 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. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

Source of Sector Classification: S&P and MSCI.

## Performance at a Glance

Total return for the six months ended 4/30/05

**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 MarketTrack  
All Equity Portfolio™ . . . . . 3.78%**  
Benchmark . . . . . **4.11%**  
*Performance Details . . . . . page 6*

**Schwab MarketTrack  
Growth Portfolio™ . . . . . 3.16%**  
Benchmark . . . . . **3.57%**  
*Performance Details . . . . . page 8*

**Schwab MarketTrack  
Balanced Portfolio™ . . . . . 2.69%**  
Benchmark . . . . . **2.74%**  
*Performance Details . . . . . page 10*

**Schwab MarketTrack  
Conservative Portfolio™ . . . . . 2.15%**  
Benchmark . . . . . **2.11%**  
*Performance Details . . . . . page 12*

**The Schwab MarketTrack All Equity Portfolio** was the best performing of the four MarketTrack portfolios, due to its 100% allocation to equities, which performed better than fixed-income securities over the six-month report period. Performance of the Fund was up 3.78%, compared to a 4.11% return for the All Equity Composite Index. The Fund's 30% target allocation to international stocks helped, as international performance, as measured by the MSCI EAFE® Index, was stronger than domestic stocks over the six-month report period.

**The Schwab MarketTrack Growth Portfolio** was up 3.16% over the six-month period, tracking the Growth Composite Index. The Fund's 20% target allocation to the International sector helped to boost returns, as international recorded the strongest returns over the report period. The portfolio's 15% target allocation to fixed income, an asset class that tends to be less volatile, also did well, while seeking to reduce overall risk.

**The Schwab MarketTrack Balanced Portfolio** returned 2.69% during the report period. With a 60% target allocation to equities, the Portfolio is weighted toward equities but also includes substantial bond investments to add income and reduce volatility. While equities were the stronger performers, the 40% fixed-income allocation (35% bonds/5% cash) also contributed positive returns, while seeking to reduce overall risk.

*Effective March 2005, the large-cap allocation in the three previous portfolios was converted from the Schwab S&P 500 Index Fund to the Schwab Institutional Select® S&P 500 Fund to provide shareholders with lower-cost shares for their MarketTrack Portfolio investment.*

**The Schwab MarketTrack Conservative Portfolio** was up 2.15% and slightly outperformed the Conservative Composite Index, for the report period. Equities, especially in the International sector, performed well and contributed positively to the Portfolio's returns. While equities were the better performers, the Portfolio's 45% fixed-income allocation (40% bonds/5% cash) also contributed positively to the Portfolio's returns, while seeking to reduce overall risk.

Source of Sector Classification: S&P and MSCI. All portfolio 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 CSIM and Schwab. Without these reductions, the portfolios' total returns would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or on the redemption of portfolio shares. Small-company stocks are subject to greater volatility than other asset categories. Foreign securities can involve risks such as political and economic instability and currency risk. 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.

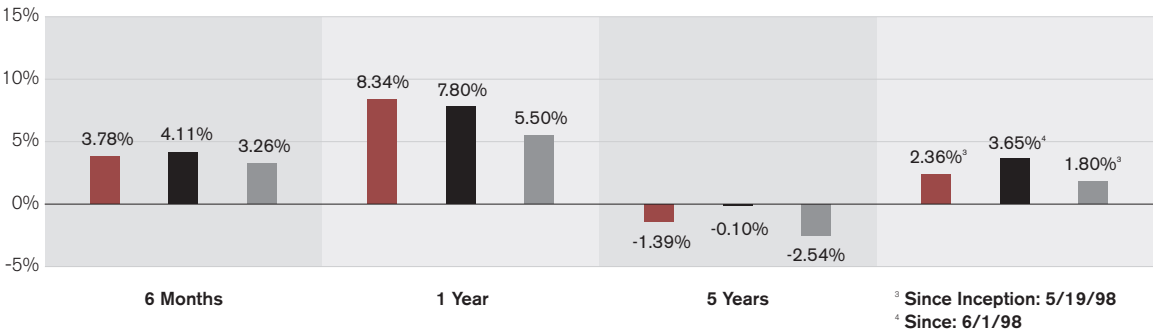
# Schwab MarketTrack All Equity Portfolio<sup>TM</sup>

Performance as of 4/30/05

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

This chart compares performance of the portfolio with a benchmark and the portfolio's Morningstar category.

- Portfolio Ticker Symbol: SWEGX
- Benchmark: All Equity Composite Index
- Fund Category: Morningstar Large-Cap Blend

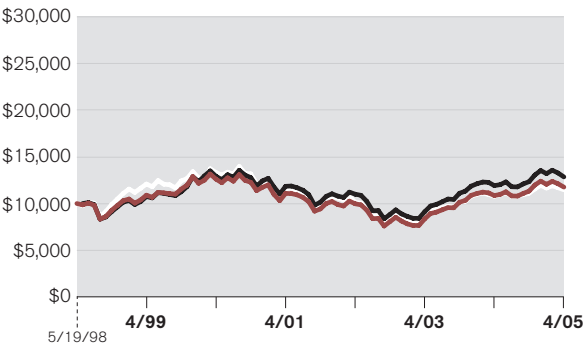


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## Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the portfolio, compared with a similar investment in a benchmark and an additional index.

- \$11,759 Portfolio
- \$12,849 All Equity Composite Index
- \$11,468 S&P 500® 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> Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.

<sup>2</sup> The All Equity Composite Index is composed of Morningstar category averages and is calculated using the following portion allocations: 45% large-cap stocks, 25% small-cap stocks and 30% foreign stocks. Source: Morningstar, Inc.

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

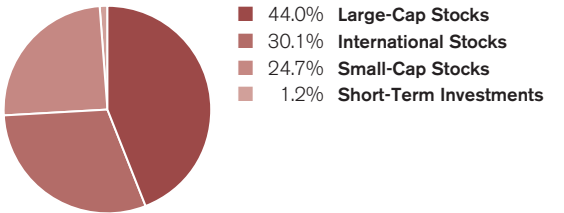
|  |          |
|--|----------|
| Number of Holdings                                       | 5        |
| Weighted Average Market Cap (\$ x 1,000,000)             | \$58,559 |
| Price/Earnings Ratio (P/E)                               | 20.5     |
| Price/Book Ratio (P/B)                                   | 2.4      |
| Portfolio Turnover Rate <sup>2</sup>                     | 48%      |
| Minimum Initial Investment <sup>3</sup>                  | \$1,000  |
| (\$500 for retirement, education and custodial accounts) |          |

Top Holdings<sup>4</sup>

| Security  | % of Net Assets |
|---|-----------------|
| 1 Schwab Institutional Select® S&P 500 Fund       | 44.0%           |
| 2 Schwab International Index Fund®, Select Shares | 30.1%           |
| 3 Schwab Small-Cap Index Fund®, Select Shares     | 24.7%           |
| Total   | 98.8%           |

Asset Class Weightings % of Investments

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the portfolio based on a ten-factor model for value and growth characteristics. The portfolio's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the portfolio's holdings as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

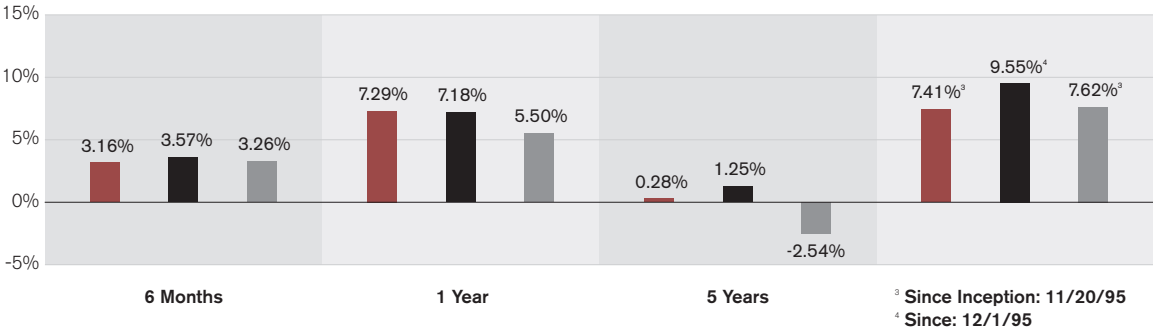
# Schwab MarketTrack Growth Portfolio<sup>TM</sup>

Performance as of 4/30/05

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

This chart compares performance of the portfolio with a benchmark and the portfolio's Morningstar category.

- Portfolio Ticker Symbol: SWHGX
- Benchmark: Growth Composite Index
- Fund Category: Morningstar Large-Cap Blend

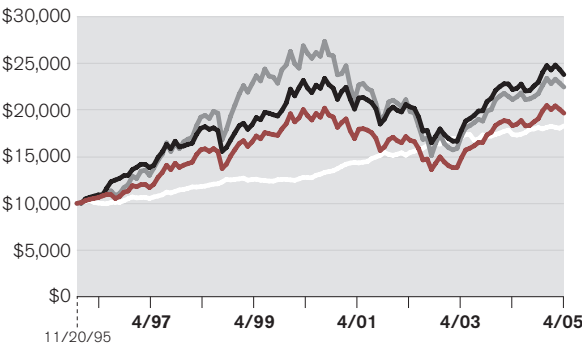


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## Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the portfolio, compared with a similar investment in a benchmark and two additional indices.

- \$19,664 Portfolio
- \$23,789 Growth Composite Index
- \$22,461 S&P 500<sup>®</sup> Index
- \$18,300 Lehman Brothers U.S. Aggregate 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> Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.

<sup>2</sup> The Growth Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 40% large-cap stocks, 20% small-cap stocks, 20% foreign stocks, 15% bonds and 5% cash. Source: Morningstar, Inc.

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

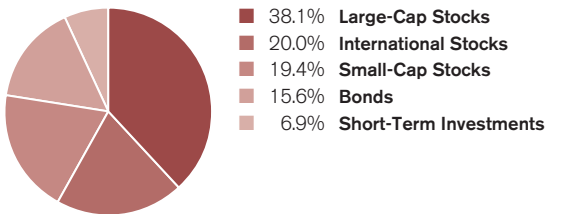
|   |          |
|---|----------|
| Number of Holdings  | 515      |
| Weighted Average Market Cap (\$ x 1,000,000)  | \$59,403 |
| Price/Earnings Ratio (P/E)  | 23.9     |
| Price/Book Ratio (P/B)  | 2.6      |
| Portfolio Turnover Rate <sup>2</sup>  | 29%      |
| Minimum Initial Investment <sup>3</sup><br>(\$500 for retirement, education and custodial accounts) | \$1,000  |

Top Holdings<sup>4</sup>

| Security   | % of Net Assets |
|--|-----------------|
| 1 Schwab Institutional Select® S&P 500 Fund                | 22.0%           |
| 2 Schwab International Index Fund®, Select Shares          | 20.0%           |
| 3 Schwab Small-Cap Index Fund®, Select Shares              | 19.4%           |
| 4 Schwab Total Bond Market Fund™                           | 15.6%           |
| 5 Schwab Value Advantage Money Fund®, Institutional Shares | 4.7%            |
| 6 General Electric Co.                                     | 0.6%            |
| 7 Exxon Mobil Corp.  | 0.6%            |
| 8 Microsoft Corp.  | 0.4%            |
| 9 Citigroup, Inc.  | 0.4%            |
| 10 Johnson & Johnson                                       | 0.3%            |
| Total  | 84.0%           |

Asset Class Weightings % of Investments

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the portfolio based on a ten-factor model for value and growth characteristics. The portfolio's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the portfolio's holdings as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

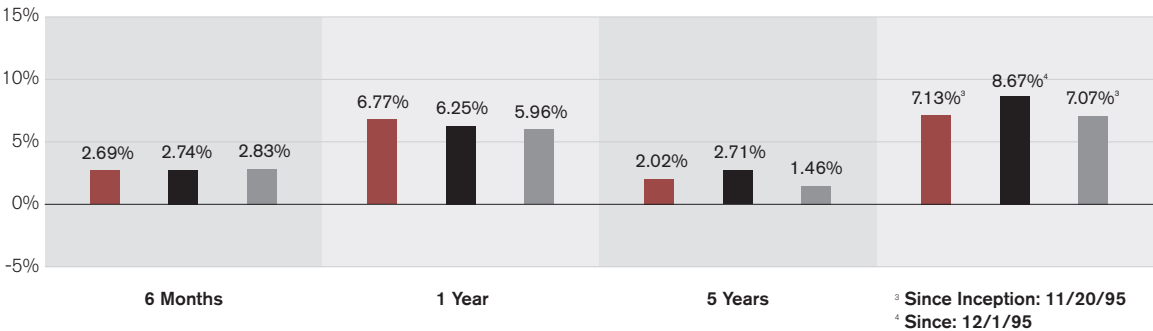
# Schwab MarketTrack Balanced Portfolio<sup>TM</sup>

## Performance as of 4/30/05

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

This chart compares performance of the portfolio with a benchmark and the portfolio's Morningstar category.

- Portfolio Ticker Symbol: SWBGX
- Benchmark: **Balanced Composite Index**
- Fund Category: **Morningstar Moderate Allocation**

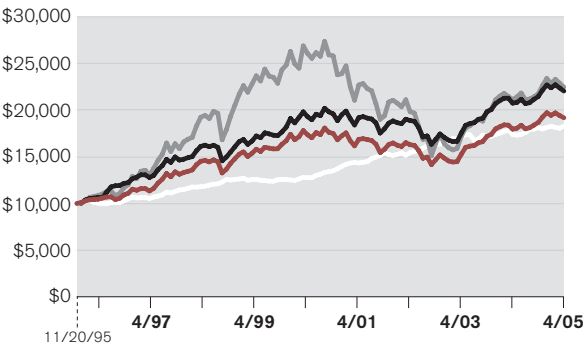


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### Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the portfolio, compared with a similar investment in a benchmark and two additional indices.

- \$19,176 **Portfolio**
- \$22,042 **Balanced Composite Index**
- \$22,461 **S&P 500<sup>®</sup> Index**
- \$18,300 **Lehman Brothers U.S. Aggregate 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> Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.

<sup>2</sup> The Balanced Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 30% large-cap stocks, 15% small-caps stocks, 15% foreign stocks, 35% bonds and 5% cash. Source: Morningstar, Inc.

Fund Facts as of 4/30/05

Top Holdings<sup>1</sup>

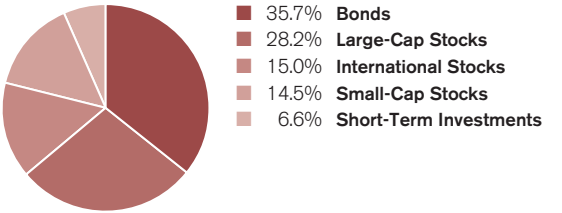
| Security  | % of<br>Net Assets |
|---|--------------------|
| 1 Schwab Total Bond Market Fund™                              | 35.7%              |
| 2 Schwab International Index Fund®,<br>Select Shares          | 15.0%              |
| 3 Schwab Institutional Select® S&P 500 Fund                   | 14.9%              |
| 4 Schwab Small-Cap Index Fund®, Select Shares                 | 14.5%              |
| 5 Schwab Value Advantage Money Fund®,<br>Institutional Shares | 4.4%               |
| 6 General Electric Co.  | 0.5%               |
| 7 Exxon Mobil Corp.   | 0.5%               |
| 8 Microsoft Corp.   | 0.3%               |
| 9 Citigroup, Inc.   | 0.3%               |
| 10 Pfizer, Inc.   | 0.3%               |
| Total   | 86.4%              |

Statistics

|   |         |
|---|---------|
| Number of Holdings  | 514     |
| Portfolio Turnover Rate <sup>2</sup>  | 21%     |
| Minimum Initial Investment <sup>3</sup><br>(\$500 for retirement, education and custodial accounts) | \$1,000 |

Asset Class Weightings % of Investments

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.  
<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

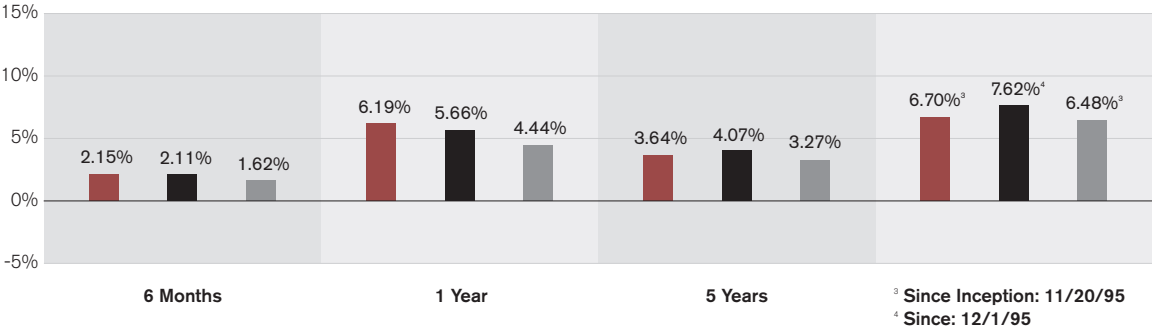
# Schwab MarketTrack Conservative Portfolio™

Performance as of 4/30/05

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

This chart compares performance of the portfolio with a benchmark and the portfolio's Morningstar category.

- **Portfolio** Ticker Symbol: SWCGX
- **Benchmark: Conservative Composite Index**
- **Fund Category: Morningstar Conservative Allocation**

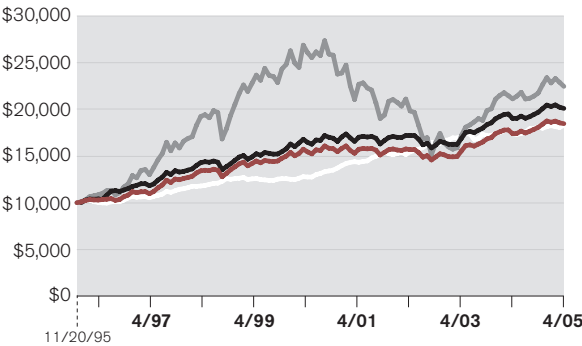


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## Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the portfolio, compared with a similar investment in a benchmark and two additional indices.

- \$18,467 **Portfolio**
- \$20,103 **Conservative Composite Index**
- \$22,461 **S&P 500® Index**
- \$18,300 **Lehman Brothers U.S. Aggregate 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> Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or the redemption of portfolio shares.

<sup>2</sup> The Conservative Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 20% large-cap stocks, 10% small-cap stocks, 10% foreign stocks, 55% bonds and 5% cash. Source: Morningstar, Inc.

Fund Facts as of 4/30/05

Top Holdings<sup>1</sup>

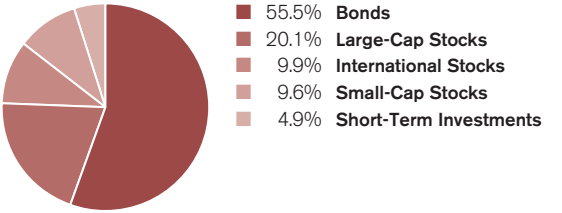
| Security  | % of<br>Net Assets |
|---|--------------------|
| 1 Schwab Total Bond Market Fund™                              | 55.5%              |
| 2 Schwab S&P 500 Index Fund, Select Shares                    | 14.5%              |
| 3 Schwab International Index Fund®,<br>Select Shares          | 9.9%               |
| 4 Schwab Small-Cap Index Fund®, Select Shares                 | 9.6%               |
| 5 Schwab Value Advantage Money Fund®,<br>Institutional Shares | 4.3%               |
| 6 General Electric Co.  | 0.2%               |
| 7 Exxon Mobil Corp.   | 0.2%               |
| 8 Microsoft Corp.   | 0.1%               |
| 9 Citigroup, Inc.   | 0.1%               |
| 10 Pfizer, Inc.   | 0.1%               |
| Total   | 94.5%              |

Statistics

|   |         |
|---|---------|
| Number of Holdings  | 513     |
| Portfolio Turnover Rate <sup>2</sup>  | 4%      |
| Minimum Initial Investment <sup>3</sup><br>(\$500 for retirement, education and custodial accounts) | \$1,000 |

Asset Class Weightings % of Investments

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.  
<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

# Fund Expenses

## 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 November 1, 2004 and held through April 30, 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 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 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><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period <sup>2</sup><br>11/1/04–4/30/05 |
|---|--|--|--|--|
| <b>Schwab MarketTrack All Equity Portfolio™</b>   |  |  |  |  |
| Actual Return                                     | 0.50%                                      | \$1,000                                  | \$1,037.80   | \$2.53   |
| Hypothetical 5% Return                            | 0.50%                                      | \$1,000                                  | \$1,022.32   | \$2.51   |
| <b>Schwab MarketTrack Growth Portfolio™</b>       |  |  |  |  |
| Actual Return                                     | 0.50%                                      | \$1,000                                  | \$1,031.60   | \$2.52   |
| Hypothetical 5% Return                            | 0.50%                                      | \$1,000                                  | \$1,022.32   | \$2.51   |
| <b>Schwab MarketTrack Balanced Portfolio™</b>     |  |  |  |  |
| Actual Return                                     | 0.50%                                      | \$1,000                                  | \$1,026.90   | \$2.51   |
| Hypothetical 5% Return                            | 0.50%                                      | \$1,000                                  | \$1,022.32   | \$2.51   |
| <b>Schwab MarketTrack Conservative Portfolio™</b> |  |  |  |  |
| Actual Return                                     | 0.50%                                      | \$1,000                                  | \$1,021.50   | \$2.51   |
| Hypothetical 5% Return                            | 0.50%                                      | \$1,000                                  | \$1,022.32   | \$2.51   |

<sup>1</sup> Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights; does not include expenses of underlying funds in which the portfolios invest.

<sup>2</sup> Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

# Schwab MarketTrack All Equity Portfolio<sup>TM</sup>

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 10.44                | 9.43                 | 7.60                 | 9.06                 | 12.06                | 11.48                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.15                 | 0.08                 | 0.09                 | 0.05                 | 0.22                 | 0.04                 |
| Net realized and unrealized gains or losses     | 0.25                 | 1.02                 | 1.85                 | (1.32)               | (2.99)               | 0.69                 |
| Total income or loss from investment operations | 0.40                 | 1.10                 | 1.94                 | (1.27)               | (2.77)               | 0.73                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.12)               | (0.09)               | (0.09)               | (0.05)               | (0.22)               | (0.05)               |
| Distributions from net realized gains           | –                    | –                    | (0.02)               | (0.14)               | (0.01)               | (0.10)               |
| Total distributions                             | (0.12)               | (0.09)               | (0.11)               | (0.19)               | (0.23)               | (0.15)               |
| Net asset value at end of period                | 10.72                | 10.44                | 9.43                 | 7.60                 | 9.06                 | 12.06                |
| Total return (%)                                | 3.78 <sup>1</sup>    | 11.75                | 25.77                | (14.40)              | (23.27)              | 6.37                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses <sup>2</sup>             | 0.50 <sup>3</sup>    | 0.50                 | 0.50                 | 0.50                 | 0.50                 | 0.57 <sup>4</sup>    |
| Gross operating expenses <sup>2</sup>           | 0.75 <sup>3</sup>    | 0.76                 | 0.76                 | 0.77                 | 0.77                 | 0.84                 |
| Net investment income                           | 1.31 <sup>1</sup>    | 0.83                 | 1.10                 | 0.58                 | 1.93                 | 0.05                 |
| Portfolio turnover rate                         | 48 <sup>1</sup>      | 7                    | 10                   | 15                   | 5                    | 3                    |
| Net assets, end of period (\$ x 1,000,000)      | 453                  | 450                  | 427                  | 353                  | 405                  | 441                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

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 Form 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 the 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. With the top holdings, the number in the circle is the security's rank among the top ten.

① Top holding

▲ All or a portion of this security is held as collateral for open futures contracts

■ Issuer is affiliated with the fund's adviser

| Holdings by Category |  | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|--|--------------------|---------------------|
| 98.8%                | <b>Other Investment Companies</b>        | 444,883            | 447,575             |
| 1.1%                 | <b>Short-Term Investment</b>             | 4,856              | 4,856               |
| 0.1%                 | <b>U.S. Treasury Obligation</b>          | 598                | 598                 |
| 100.0%               | <b>Total Investments</b>                 | <b>450,337</b>     | <b>453,029</b>      |
| 0.0%                 | <b>Other Assets and Liabilities, Net</b> |                    | 157                 |
| 100.0%               | <b>Total Net Assets</b>                  |                    | <b>453,186</b>      |

**Security and Number of Shares** **Value**  
(\$ x 1,000)

**Other Investment Companies**

98.8% of net assets

|   |            |                |
|---|------------|----------------|
| ▲① Schwab Institutional Select S&P 500 Fund       | 21,937,621 | 199,632        |
| ■② Schwab International Index Fund, Select Shares | 8,658,828  | 136,203        |
| ■③ Schwab Small-Cap Index Fund, Select Shares     | 5,603,788  | 111,740        |
|   |            | <b>447,575</b> |

**Security** **Face Amount**  
(\$ x 1,000)

Rate, Maturity Date

**Short-Term Investment**

1.1% of net assets

|                                      |       |              |
|--------------------------------------|-------|--------------|
| Bank of America, London Time Deposit |       |              |
| 2.36%, 05/02/05                      | 4,856 | <b>4,856</b> |

**U.S. Treasury Obligation**

0.1% of net assets

|                      |     |            |
|----------------------|-----|------------|
| ▲ U.S. Treasury Bill |     |            |
| 2.73%, 06/16/05      | 600 | <b>598</b> |

**End of investments.**

*In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.*

**Futures Contracts**

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|---|------------------------|-------------------|----------------------|
| S&P 500 Index, Long<br>Expires 06/17/05 | 23                     | 6,661             | <b>(205)</b>         |

Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                              |                |
|------------------------------|----------------|
| Investments, at value        | \$453,029      |
| Receivables:                 |                |
| Fund shares sold             | 533            |
| Interest                     | 1              |
| Due from brokers for futures | 89             |
| Prepaid expenses             | + 20           |
| <b>Total assets</b>          | <b>453,672</b> |

**Liabilities**

|   |            |
|---|------------|
| Payables:                                   |            |
| Fund shares redeemed                        | 388        |
| Investment adviser and administrator fees   | 7          |
| Transfer agent and shareholder service fees | 9          |
| Accrued expenses                            | + 82       |
| <b>Total liabilities</b>                    | <b>486</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 453,672          |
| <b>Total liabilities</b> | - 486            |
| <b>Net assets</b>        | <b>\$453,186</b> |

**Net Assets by Source**

|  |          |
|--|----------|
| Capital received from investors                  | 480,682  |
| Distributions in excess of net investment income | (748)    |
| Net realized capital losses                      | (29,235) |
| Net unrealized capital gains                     | 2,487    |

**Net Asset Value (NAV)**

| <b>Net Assets</b> | <b>+</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
|-------------------|----------|---------------------------|----------|------------|
| \$453,186         |          | 42,259                    |          | \$10.72    |

Unless stated, all numbers x 1,000.

The fund paid \$450,337 for these securities.

Not counting short-term obligations and government securities and securities related to in-kind transactions, the fund's investment transactions during the period were:

|                  |           |
|------------------|-----------|
| Purchases        | \$222,594 |
| Sales/maturities | \$236,098 |

The fund's total security transactions (including the in-kind redemptions) with other Schwab Funds® during the period were \$413,846.

Percent of fund shares of other Schwab Funds owned at the end of the report period:

**Schwab Equity Index Funds**

|                          |       |
|--------------------------|-------|
| Small-Cap Index Fund     | 7.2%  |
| International Index Fund | 10.2% |

**Schwab Institutional Select Funds**

|                      |       |
|----------------------|-------|
| Institutional Select |       |
| S&P 500 Fund         | 21.4% |

These derive from investments and futures.

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio Cost</b>                   | \$453,951      |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$23,586       |
| Losses                                  | + (24,508)     |
|   | <b>(\$922)</b> |

**As of December 31, 2004:****Net undistributed earnings:**

|                         |     |
|-------------------------|-----|
| Ordinary income         | \$— |
| Long-term capital gains | \$— |

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 12/31 of: | Loss amount:    |
| 2010              | \$11,058        |
| 2011              | 13,010          |
| 2012              | + 6,944         |
|                   | <b>\$31,012</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$7,347      |
| Interest                       | + 35         |
| <b>Total investment income</b> | <b>7,382</b> |

**Net Realized Gains and Losses**

|  |              |
|--|--------------|
| Net realized gains on investments        | 8,831        |
| Net realized losses on futures contracts | + (23)       |
| <b>Net realized gains</b>                | <b>8,808</b> |

Includes losses of \$2,512 associated with redemption-in-kind from the Schwab S&P 500 Index Fund.

**Net Unrealized Gains and Losses**

|  |              |
|--|--------------|
| Net unrealized gains on investments        | 3,018        |
| Net unrealized losses on futures contracts | + (211)      |
| <b>Net unrealized gains</b>                | <b>2,807</b> |

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

**Expenses**

|   |              |
|---|--------------|
| Investment adviser and administrator fees   | 1,032        |
| Transfer agent and shareholder service fees | 586          |
| Trustees' fees                              | 5            |
| Custodian fees                              | 20           |
| Portfolio accounting fees                   | 31           |
| Professional fees                           | 14           |
| Registration fees                           | 10           |
| Shareholder reports                         | 51           |
| Other expenses                              | + 12         |
| Total expenses                              | 1,761        |
| Expense reduction                           | - 588        |
| <b>Net expenses</b>                         | <b>1,173</b> |

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.

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | <b>7,382</b>    |
| <b>Net expenses</b>                           | <b>- 1,173</b>  |
| <b>Net investment income</b>                  | <b>6,209</b>    |
| <b>Net realized gains</b>                     | <b>8,808</b>    |
| <b>Net unrealized gains</b>                   | <b>+ 2,807</b>  |
| <b>Increase in net assets from operations</b> | <b>\$17,824</b> |

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 operating expenses of this fund through February 27, 2006, to 0.50% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$11,615.

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$6,209         | \$3,780          |
| Net realized gains or losses                  | 8,808           | (5,316)          |
| Net unrealized gains                          | + 2,807         | 50,766           |
| <b>Increase in net assets from operations</b> | <b>17,824</b>   | <b>49,230</b>    |

**Distributions Paid**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | <b>\$5,060</b> | <b>\$4,156</b> |
|--------------------------------------|----------------|----------------|

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                   |
|--|-----------------|------------------|------------------|-------------------|
|  | SHARES          | VALUE            | SHARES           | VALUE             |
| Shares sold                            | 3,910           | \$43,150         | 6,823            | \$68,910          |
| Shares reinvested                      | 437             | 4,835            | 409              | 4,002             |
| Shares redeemed                        | + (5,227)       | (57,761)         | (9,423)          | (95,049)          |
| <b>Net transactions in fund shares</b> | <b>(880)</b>    | <b>(\$9,776)</b> | <b>(2,191)</b>   | <b>(\$22,137)</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                  |
|----------------------------|-----------------|------------------|------------------|------------------|
|                            | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period        | 43,139          | \$450,198        | 45,330           | \$427,261        |
| Total increase or decrease | + (880)         | 2,988            | (2,191)          | 22,937           |
| <b>End of period</b>       | <b>42,259</b>   | <b>\$453,186</b> | <b>43,139</b>    | <b>\$450,198</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the current period are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$5,060 |
| Long-term capital gains | \$–     |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributions in excess of net investment income in the amount of \$748 and \$1,897 at the end of the current period and the prior period, respectively.

# Schwab MarketTrack Growth Portfolio™

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 15.57                | 14.36                | 12.05                | 13.88                | 17.22                | 16.37                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.22                 | 0.21                 | 0.18                 | 0.19                 | 0.41                 | 0.22                 |
| Net realized and unrealized gains or losses     | 0.28                 | 1.21                 | 2.33                 | (1.62)               | (3.22)               | 0.94                 |
| Total income or loss from investment operations | 0.50                 | 1.42                 | 2.51                 | (1.43)               | (2.81)               | 1.16                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.23)               | (0.21)               | (0.20)               | (0.24)               | (0.44)               | (0.18)               |
| Distributions from net realized gains           | —                    | —                    | —                    | (0.16)               | (0.09)               | (0.13)               |
| Total distributions                             | (0.23)               | (0.21)               | (0.20)               | (0.40)               | (0.53)               | (0.31)               |
| Net asset value at end of period                | 15.84                | 15.57                | 14.36                | 12.05                | 13.88                | 17.22                |
| Total return (%)                                | 3.16 <sup>1</sup>    | 9.94                 | 21.18                | (10.78)              | (16.71)              | 7.08                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses <sup>2</sup>             | 0.50 <sup>3</sup>    | 0.50                 | 0.50                 | 0.50                 | 0.50                 | 0.57 <sup>4</sup>    |
| Gross operating expenses <sup>2</sup>           | 0.72 <sup>3</sup>    | 0.73                 | 0.74                 | 0.75                 | 0.74                 | 0.82                 |
| Net investment income                           | 1.30 <sup>1</sup>    | 1.35                 | 1.48                 | 1.35                 | 2.58                 | 1.32                 |
| Portfolio turnover rate                         | 29 <sup>1</sup>      | 9                    | 9                    | 21                   | 10                   | 12                   |
| Net assets, end of period (\$ x 1,000,000)      | 644                  | 614                  | 578                  | 510                  | 511                  | 566                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
  - Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser

| Holdings by Category                          | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|---|--------------------|---------------------|
| <b>16.2% Common Stock</b>                     | 70,061             | 104,089             |
| <b>81.7% Other Investment Companies</b>       | 482,636            | 526,056             |
| <b>2.0% Short-Term Investment</b>             | 12,980             | 12,980              |
| <b>0.1% U.S. Treasury Obligation</b>          | 812                | 812                 |
| <b>100.0% Total Investments</b>               | <b>566,489</b>     | <b>643,937</b>      |
| <b>0.0% Other Assets and Liabilities, Net</b> |                    | 110                 |
| <b>100.0% Total Net Assets</b>                |                    | <b>644,047</b>      |

|                               |                       |
|-------------------------------|-----------------------|
| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|

**Common Stock** 16.2% of net assets

**Automobiles & Components 0.1%**

|                          |       |    |
|--------------------------|-------|----|
| Cooper Tire & Rubber Co. | 700   | 12 |
| Dana Corp.               | 1,578 | 18 |

**Security and Number of Shares**

**Value**  
(\$ x 1,000)

|                              |        |            |
|------------------------------|--------|------------|
| Delphi Corp.                 | 5,743  | 19         |
| Ford Motor Co.               | 18,103 | 165        |
| General Motors Corp.         | 5,425  | 145        |
| • Goodyear Tire & Rubber Co. | 1,600  | 19         |
| Harley-Davidson, Inc.        | 3,000  | 141        |
| Johnson Controls, Inc.       | 1,800  | 99         |
| Visteon Corp.                | 1,558  | 5          |
|                              |        | <b>623</b> |

**Banks 1.2%**

|                                    |        |              |
|------------------------------------|--------|--------------|
| AmSouth Bancorp.                   | 3,300  | 87           |
| Bank of America Corp.              | 39,824 | 1,794        |
| BB&T Corp.                         | 5,300  | 208          |
| Comerica, Inc.                     | 1,700  | 97           |
| Compass Bancshares, Inc.           | 1,200  | 51           |
| Countrywide Financial Corp.        | 5,298  | 192          |
| Fannie Mae                         | 9,400  | 507          |
| Fifth Third Bancorp                | 5,369  | 233          |
| First Horizon National Corp.       | 1,200  | 50           |
| Freddie Mac                        | 6,600  | 406          |
| Golden West Financial Corp.        | 2,800  | 174          |
| Huntington Bancshares, Inc.        | 2,262  | 53           |
| KeyCorp, Inc.                      | 4,400  | 146          |
| M&T Bank Corp.                     | 998    | 103          |
| Marshall & Ilsley Corp.            | 2,056  | 88           |
| MGIC Investment Corp.              | 900    | 53           |
| National City Corp.                | 6,100  | 207          |
| North Fork Bancorp., Inc.          | 4,500  | 127          |
| PNC Financial Services Group, Inc. | 2,800  | 149          |
| Regions Financial Corp.            | 4,542  | 152          |
| Sovereign Bancorp, Inc.            | 3,700  | 76           |
| SunTrust Banks, Inc.               | 3,500  | 255          |
| Synovus Financial Corp.            | 2,750  | 77           |
| U.S. Bancorp                       | 18,662 | 521          |
| Wachovia Corp.                     | 15,610 | 799          |
| Washington Mutual, Inc.            | 8,682  | 359          |
| Wells Fargo & Co.                  | 16,615 | 996          |
| Zions Bancorp.                     | 900    | 63           |
|                                    |        | <b>8,023</b> |

**Capital Goods 1.5%**

|                                 |       |     |
|---------------------------------|-------|-----|
| 3M Co.                          | 7,600 | 581 |
| American Power Conversion Corp. | 1,725 | 42  |

## Portfolio Holdings continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares               | Value<br>(\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| American Standard Cos., Inc. 2,100             | 94                    | Cintas Corp. 1,638                          | 63                    |
| The Boeing Co. 8,078                           | 481                   | Deluxe Corp. 700                            | 28                    |
| Caterpillar, Inc. 3,300                        | 290                   | Equifax, Inc. 1,200                         | 40                    |
| Cooper Industries Ltd., Class A 900            | 57                    | H&R Block, Inc. 1,700                       | 85                    |
| Crane Co. 300                                  | 8                     | •Monster Worldwide, Inc. 954                | 22                    |
| Cummins, Inc. 400                              | 27                    | •PHH Corp. 476                              | 11                    |
| Danaher Corp. 2,800                            | 142                   | Pitney Bowes, Inc. 2,300                    | 103                   |
| Deere & Co. 2,300                              | 144                   | R.R. Donnelley & Sons Co. 2,100             | 69                    |
| Dover Corp. 2,000                              | 73                    | Robert Half International, Inc. 1,700       | 42                    |
| Eaton Corp. 1,400                              | 82                    | Waste Management, Inc. 5,517                | 157                   |
| Emerson Electric Co. 4,000                     | 251                   |   | <b>1,036</b>          |
| Fluor Corp. 800                                | 41                    |   |                       |
| General Dynamics Corp. 2,000                   | 210                   | <b>Consumer Durables &amp; Apparel 0.2%</b> |                       |
| ▲⑥ General Electric Co. 104,100                | 3,768                 | Black & Decker Corp. 900                    | 75                    |
| Goodrich Corp. 1,100                           | 44                    | Brunswick Corp. 900                         | 38                    |
| Honeywell International, Inc. 8,437            | 302                   | Centex Corp. 1,200                          | 69                    |
| Illinois Tool Works, Inc. 2,700                | 226                   | •Coach, Inc. 3,600                          | 96                    |
| Ingersoll-Rand Co., Class A 1,650              | 127                   | Eastman Kodak Co. 3,100                     | 77                    |
| ITT Industries, Inc. 900                       | 81                    | Fortune Brands, Inc. 1,400                  | 118                   |
| L-3 Communications Holdings, Inc. 1,100        | 78                    | Hasbro, Inc. 1,650                          | 31                    |
| Lockheed Martin Corp. 3,900                    | 238                   | Jones Apparel Group, Inc. 1,200             | 37                    |
| Masco Corp. 4,500                              | 142                   | KB Home 800                                 | 46                    |
| •Navistar International Corp. 700              | 21                    | Leggett & Platt, Inc. 2,000                 | 54                    |
| Northrop Grumman Corp. 3,592                   | 197                   | Liz Claiborne, Inc. 1,200                   | 42                    |
| Paccar, Inc. 1,575                             | 107                   | Mattel, Inc. 4,150                          | 75                    |
| Pall Corp. 1,000                               | 27                    | Maytag Corp. 900                            | 9                     |
| Parker Hannifin Corp. 1,150                    | 69                    | Newell Rubbermaid, Inc. 2,745               | 60                    |
| •Power-One, Inc. 400                           | 2                     | Nike, Inc., Class B 2,300                   | 177                   |
| Raytheon Co. 4,500                             | 169                   | Pulte Homes, Inc. 1,200                     | 86                    |
| Rockwell Automation, Inc. 1,900                | 88                    | Reebok International Ltd. 500               | 20                    |
| Rockwell Collins, Inc. 1,900                   | 87                    | Snap-On, Inc. 600                           | 20                    |
| Textron, Inc. 1,500                            | 113                   | The Stanley Works 600                       | 26                    |
| •Thomas & Betts Corp. 281                      | 9                     | VF Corp. 1,200                              | 68                    |
| Tyco International Ltd. 19,803                 | 620                   | Whirlpool Corp. 800                         | 50                    |
| United Technologies Corp. 5,000                | 508                   |   | <b>1,274</b>          |
| W.W. Grainger, Inc. 900                        | 50                    |   |                       |
|  | <b>9,596</b>          | <b>Diversified Financials 1.3%</b>          |                       |
| <b>Commercial Services &amp; Supplies 0.2%</b> |                       | American Express Co. 11,500                 | 606                   |
| •Allied Waste Industries, Inc. 3,100           | 25                    | The Bank of New York Co., Inc. 7,300        | 204                   |
| •Apollo Group, Inc., Class A 1,700             | 122                   | The Bear Stearns Cos., Inc. 1,082           | 102                   |
| Avery Dennison Corp. 1,200                     | 63                    | Capital One Financial Corp. 2,400           | 170                   |
| Cendant Corp. 10,332                           | 206                   | ■The Charles Schwab Corp. 11,242            | 116                   |
|  |                       | CIT Group, Inc. 2,000                       | 81                    |

| Security and Number of Shares            | Value<br>(\$ x 1,000) |
|--|-----------------------|
| 9 Citigroup, Inc. 51,292                 | 2,409                 |
| • E*TRADE Financial Corp. 3,500          | 39                    |
| Federated Investors, Inc., Class B 1,100 | 31                    |
| Franklin Resources, Inc. 1,900           | 130                   |
| Goldman Sachs Group, Inc. 4,379          | 468                   |
| Janus Capital Group, Inc. 2,200          | 29                    |
| JPMorgan Chase & Co. 34,915              | 1,239                 |
| Lehman Brothers Holdings, Inc. 2,600     | 238                   |
| MBNA Corp. 12,550                        | 248                   |
| Mellon Financial Corp. 4,100             | 114                   |
| Merrill Lynch & Co., Inc. 9,400          | 507                   |
| Moody's Corp. 1,500                      | 123                   |
| Morgan Stanley 10,900                    | 574                   |
| Northern Trust Corp. 2,200               | 99                    |
| Principal Financial Group, Inc. 3,065    | 120                   |
| • Provident Financial Corp. 2,900        | 48                    |
| SLM Corp. 4,500                          | 214                   |
| State Street Corp. 3,300                 | 153                   |
| T. Rowe Price Group, Inc. 1,200          | 66                    |
|  | <b>8,128</b>          |

**Energy 1.4%**

|                                      |       |
|--------------------------------------|-------|
| Amerada Hess Corp. 1,000             | 94    |
| Anadarko Petroleum Corp. 2,418       | 177   |
| Apache Corp. 3,308                   | 186   |
| Ashland, Inc. 800                    | 54    |
| Baker Hughes, Inc. 3,360             | 148   |
| BJ Services Co. 1,500                | 73    |
| Burlington Resources, Inc. 3,810     | 185   |
| ChevronTexaco Corp. 20,654           | 1,074 |
| ConocoPhillips 6,846                 | 718   |
| Devon Energy Corp. 4,600             | 208   |
| El Paso Corp. 6,306                  | 63    |
| EOG Resources, Inc. 2,256            | 107   |
| 7 Exxon Mobil Corp. 62,758           | 3,579 |
| Halliburton Co. 4,958                | 206   |
| Kerr-McGee Corp. 1,569               | 122   |
| Kinder Morgan, Inc. 1,107            | 85    |
| Marathon Oil Corp. 3,400             | 158   |
| • Nabors Industries Ltd. 1,400       | 75    |
| • National-Oilwell Varco, Inc. 1,600 | 64    |
| Noble Corp. 1,300                    | 66    |
| Occidental Petroleum Corp. 3,900     | 269   |
| Rowan Cos., Inc. 1,100               | 29    |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Schlumberger Ltd. 5,700       | 390                   |
| Sunoco, Inc. 700              | 70                    |
| • Transocean, Inc. 2,945      | 137                   |
| Unocal Corp. 2,700            | 147                   |
| Valero Energy Corp. 2,400     | 164                   |
| Williams Cos., Inc. 5,000     | 85                    |
| XTO Energy, Inc. 3,333        | 101                   |
|                               | <b>8,834</b>          |

**Food & Staples Retailing 0.5%**

|                                 |              |
|---------------------------------|--------------|
| Albertson's, Inc. 3,538         | 70           |
| Costco Wholesale Corp. 4,400    | 179          |
| CVS Corp. 3,900                 | 201          |
| • Kroger Co. 7,200              | 114          |
| • Safeway, Inc. 4,200           | 89           |
| Supervalu, Inc. 1,400           | 44           |
| Sysco Corp. 6,200               | 214          |
| Wal-Mart Stores, Inc. 33,300    | 1,570        |
| Walmart Co. 9,900               | 426          |
| • Winn-Dixie Stores, Inc. 1,500 | 2            |
|                                 | <b>2,909</b> |

**Food Beverage & Tobacco 0.8%**

|                                       |              |
|---------------------------------------|--------------|
| Altria Group, Inc. 20,300             | 1,319        |
| Anheuser-Busch Cos., Inc. 7,800       | 366          |
| Archer-Daniels-Midland Co. 6,532      | 118          |
| Brown-Forman Corp., Class B 904       | 50           |
| Campbell Soup Co. 3,200               | 95           |
| The Coca-Cola Co. 22,300              | 969          |
| Coca-Cola Enterprises, Inc. 4,000     | 81           |
| ConAgra Foods, Inc. 4,900             | 131          |
| General Mills, Inc. 3,576             | 177          |
| H.J. Heinz Co. 3,400                  | 125          |
| Hershey Foods Corp. 2,400             | 153          |
| Kellogg Co. 3,400                     | 153          |
| McCormick & Co., Inc. 1,400           | 49           |
| Molson Coors Brewing Co., Class B 800 | 49           |
| The Pepsi Bottling Group, Inc. 1,932  | 55           |
| PepsiCo, Inc. 16,460                  | 916          |
| Reynolds American, Inc. 1,142         | 89           |
| Sara Lee Corp. 7,600                  | 163          |
| UST, Inc. 1,600                       | 73           |
| Wm. Wrigley Jr. Co. 1,900             | 131          |
|                                       | <b>5,262</b> |

## Portfolio Holdings continued

| Security and Number of Shares                     | Value<br>(\$ x 1,000) | Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|---|-----------------------|
| <b>Health Care Equipment &amp; Services 0.8%</b>  |                       | <b>Hotels Restaurants &amp; Leisure 0.2%</b>    |                       |
| Aetna, Inc. 2,848                                 | 209                   | Carnival Corp. 5,200                            | 254                   |
| AmerisourceBergen Corp. 1,000                     | 61                    | Darden Restaurants, Inc. 1,800                  | 54                    |
| Bausch & Lomb, Inc. 600                           | 45                    | Harrah's Entertainment, Inc. 1,200              | 79                    |
| Baxter International, Inc. 6,100                  | 226                   | Hilton Hotels Corp. 3,600                       | 79                    |
| Becton Dickinson & Co. 2,600                      | 152                   | International Game Technology 3,400             | 91                    |
| Biomet, Inc. 2,475                                | 96                    | Marriott International, Inc., Class A 2,200     | 138                   |
| • Boston Scientific Corp. 7,448                   | 220                   | McDonald's Corp. 12,400                         | 363                   |
| C.R. Bard, Inc. 1,000                             | 71                    | • Starbucks Corp. 3,960                         | 196                   |
| Cardinal Health, Inc. 4,100                       | 228                   | Starwood Hotels & Resorts Worldwide, Inc. 1,900 | 103                   |
| • Caremark Rx, Inc. 4,470                         | 179                   | Wendy's International, Inc. 1,000               | 43                    |
| CIGNA Corp. 1,400                                 | 129                   | Yum! Brands, Inc. 3,120                         | 147                   |
| • Express Scripts, Inc. 800                       | 72                    |   | <b>1,547</b>          |
| • Fisher Scientific International, Inc. 1,115     | 66                    | <b>Household &amp; Personal Products 0.4%</b>   |                       |
| Guidant Corp. 3,000                               | 222                   | Alberto-Culver Co., Class B 900                 | 40                    |
| HCA, Inc. 4,000                                   | 223                   | Avon Products, Inc. 4,800                       | 192                   |
| Health Management Associates, Inc., Class A 2,400 | 59                    | Clorox Co. 1,500                                | 95                    |
| • Hospira, Inc. 1,530                             | 51                    | Colgate-Palmolive Co. 5,300                     | 264                   |
| • Humana, Inc. 1,400                              | 49                    | The Gillette Co. 9,700                          | 501                   |
| IMS Health, Inc. 2,300                            | 55                    | Kimberly-Clark Corp. 4,960                      | 310                   |
| • Laboratory Corp. of America Holdings 1,300      | 64                    | Procter & Gamble Co. 25,000                     | 1,354                 |
| Manor Care, Inc. 1,100                            | 37                    |   | <b>2,756</b>          |
| McKesson Corp. 2,654                              | 98                    | <b>Insurance 0.7%</b>                           |                       |
| • Medco Health Solutions, Inc. 2,641              | 135                   | ACE Ltd. 2,500                                  | 107                   |
| Medtronic, Inc. 11,800                            | 622                   | AFLAC, Inc. 5,200                               | 211                   |
| • Millipore Corp. 400                             | 19                    | The Allstate Corp. 6,700                        | 376                   |
| PerkinElmer, Inc. 1,000                           | 19                    | AMBAC Financial Group, Inc. 1,015               | 68                    |
| Quest Diagnostics 901                             | 95                    | American International Group, Inc. 25,551       | 1,299                 |
| • St. Jude Medical, Inc. 3,500                    | 137                   | AON Corp. 2,625                                 | 55                    |
| Stryker Corp. 3,784                               | 184                   | Chubb Corp. 1,900                               | 155                   |
| • Tenet Healthcare Corp. 4,650                    | 56                    | Cincinnati Financial Corp. 1,984                | 80                    |
| • Thermo Electron Corp. 1,300                     | 33                    | Hartford Financial Services Group, Inc. 2,900   | 210                   |
| UnitedHealth Group, Inc. 6,300                    | 595                   | Jefferson-Pilot Corp. 1,412                     | 71                    |
| • Waters Corp. 1,300                              | 52                    | Lincoln National Corp. 1,900                    | 86                    |
| • WellPoint, Inc. 2,951                           | 377                   | Loews Corp. 1,600                               | 114                   |
| • Zimmer Holdings, Inc. 2,300                     | 187                   | Marsh & McLennan Cos., Inc. 5,200               | 146                   |
|   | <b>5,123</b>          | MBIA, Inc. 1,350                                | 71                    |
|   |                       | Metlife, Inc. 7,310                             | 284                   |

| Security and Number of Shares           | Value<br>(\$ x 1,000) |
|---|-----------------------|
| The Progressive Corp. 2,100             | 192                   |
| Prudential Financial, Inc. 5,200        | 297                   |
| Safeco Corp. 1,100                      | 58                    |
| The St. Paul Travelers Cos., Inc. 6,453 | 231                   |
| Torchmark Corp. 1,100                   | 59                    |
| UnumProvident Corp. 2,349               | 39                    |
| XL Capital Ltd., Class A 1,300          | 91                    |
|   | <b>4,300</b>          |

**Materials 0.5%**

|   |     |
|---|-----|
| Air Products & Chemicals, Inc. 2,300                | 135 |
| Alcoa, Inc. 8,472                                   | 246 |
| Allegheny Technologies, Inc. 735                    | 16  |
| Ball Corp. 800                                      | 32  |
| Bemis Co. 1,000                                     | 28  |
| The Dow Chemical Co. 9,394                          | 431 |
| E.I. du Pont de Nemours & Co. 9,592                 | 452 |
| Eastman Chemical Co. 800                            | 43  |
| Ecolab, Inc. 2,200                                  | 72  |
| Engelhard Corp. 1,300                               | 40  |
| Freeport-McMoran Copper & Gold, Inc., Class B 1,700 | 59  |
| Georgia-Pacific Corp. 2,228                         | 76  |
| Great Lakes Chemical Corp. 600                      | 19  |
| • Hercules, Inc. 900                                | 12  |
| International Flavors & Fragrances, Inc. 1,100      | 42  |
| International Paper Co. 4,846                       | 166 |
| Louisiana-Pacific Corp. 600                         | 15  |
| MeadWestvaco Corp. 1,970                            | 58  |
| Monsanto Co. 2,493                                  | 146 |
| Neenah Paper, Inc. 150                              | 5   |
| Newmont Mining Corp. 4,201                          | 159 |
| Nucor Corp. 1,800                                   | 92  |
| • Pactiv Corp. 1,500                                | 32  |
| Phelps Dodge Corp. 910                              | 78  |
| PPG Industries, Inc. 1,700                          | 115 |
| Praxair, Inc. 3,200                                 | 150 |
| Rohm & Haas Co. 2,205                               | 96  |
| • Sealed Air Corp. 882                              | 43  |
| Sigma-Aldrich Corp. 600                             | 35  |
| Temple-Inland, Inc. 1,200                           | 40  |
| United States Steel Corp. 900                       | 38  |

| Security and Number of Shares    | Value<br>(\$ x 1,000) |
|----------------------------------|-----------------------|
| Vulcan Materials Co. 800         | 42                    |
| Weyerhaeuser Co. 2,300           | 158                   |
| Worthington Industries, Inc. 900 | 15                    |
|                                  | <b>3,186</b>          |

**Media 0.6%**

|   |              |
|---|--------------|
| Clear Channel Communications, Inc. 5,217        | 167          |
| • Comcast Corp., Class A 21,843                 | 701          |
| Dow Jones & Co., Inc. 800                       | 27           |
| Gannett Co., Inc. 2,500                         | 192          |
| • Interpublic Group of Cos., Inc. 3,700         | 48           |
| Knight-Ridder, Inc. 900                         | 58           |
| The McGraw-Hill Cos., Inc. 1,900                | 165          |
| Meredith Corp. 500                              | 24           |
| New York Times Co., Class A 1,400               | 47           |
| • News Corp, Inc., Class A 28,300               | 432          |
| Omnicom Group, Inc. 1,800                       | 149          |
| • Time Warner, Inc. 45,150                      | 759          |
| Tribune Co. 3,100                               | 120          |
| • Univision Communications, Inc., Class A 3,104 | 82           |
| Viacom, Inc., Class B 16,981                    | 588          |
| The Walt Disney Co. 20,119                      | 531          |
|   | <b>4,090</b> |

**Pharmaceuticals & Biotechnology 1.4%**

|  |       |
|--|-------|
| Abbott Laboratories 15,300                     | 752   |
| Allergan, Inc. 1,300                           | 92    |
| • Amgen, Inc. 12,488                           | 727   |
| Applied Biosystems Group – Applera Corp. 2,000 | 42    |
| • Biogen Idec, Inc. 3,125                      | 113   |
| Bristol-Myers Squibb Co. 19,000                | 494   |
| • Chiron Corp. 1,800                           | 62    |
| Eli Lilly & Co. 10,900                         | 637   |
| • Forest Laboratories, Inc. 3,400              | 121   |
| • Genzyme Corp. 2,400                          | 141   |
| • Gilead Sciences, Inc. 4,300                  | 160   |
| ⑩ Johnson & Johnson 29,254                     | 2,008 |
| • King Pharmaceuticals, Inc. 2,133             | 17    |
| • Medimmune, Inc. 2,400                        | 61    |
| Merck & Co., Inc. 21,600                       | 732   |
| Mylan Laboratories, Inc. 2,600                 | 43    |

**Portfolio Holdings** continued

| Security and Number of Shares        | Value<br>(\$ x 1,000) |
|--------------------------------------|-----------------------|
| Pfizer, Inc. 73,476                  | 1,996                 |
| Schering-Plough Corp. 14,100         | 294                   |
| • Watson Pharmaceuticals, Inc. 1,000 | 30                    |
| Wyeth 13,100                         | 589                   |
|                                      | <b>9,111</b>          |

**Real Estate 0.1%**

|  |            |
|--|------------|
| Apartment Investment & Management Co., Class A 900 | 34         |
| Archstone-Smith Trust 1,900                        | 68         |
| Equity Office Properties Trust 3,900               | 123        |
| Equity Residential 2,600                           | 89         |
| Plum Creek Timber Co., Inc. 1,700                  | 59         |
| ProLogis 1,700                                     | 67         |
| Simon Property Group, Inc. 2,200                   | 146        |
|  | <b>586</b> |

**Retailing 0.6%**

|   |     |
|---|-----|
| • Autonation, Inc. 3,000                | 55  |
| • AutoZone, Inc. 800                    | 66  |
| • Bed, Bath & Beyond, Inc. 2,800        | 104 |
| Best Buy Co., Inc. 3,150                | 159 |
| • Big Lots, Inc. 1,100                  | 11  |
| Circuit City Stores, Inc. 2,000         | 32  |
| Dillards, Inc., Class A 500             | 12  |
| Dollar General Corp. 3,303              | 67  |
| • eBay, Inc. 11,936                     | 379 |
| Family Dollar Stores, Inc. 1,700        | 46  |
| Federated Department Stores, Inc. 1,700 | 98  |
| The Gap, Inc. 7,200                     | 154 |
| Genuine Parts Co. 1,800                 | 77  |
| Home Depot, Inc. 21,700                 | 768 |
| J.C. Penney Co., Inc. Holding Co. 2,800 | 133 |
| • Kohl's Corp. 3,200                    | 152 |
| Limitedbrands 3,738                     | 81  |
| Lowe's Cos., Inc. 7,600                 | 396 |
| The May Department Stores Co. 2,800     | 98  |
| Nordstrom, Inc. 1,300                   | 66  |
| • Office Depot, Inc. 3,300              | 65  |
| OfficeMax, Inc. 700                     | 23  |
| RadioShack Corp. 1,900                  | 47  |
| • Sears Holdings Corp. 660              | 89  |
| The Sherwin-Williams Co. 1,200          | 53  |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Staples, Inc. 7,125           | 136                   |
| Target Corp. 8,800            | 408                   |
| Tiffany & Co. 1,400           | 42                    |
| TJX Cos., Inc. 5,200          | 118                   |
| • Toys 'R' Us, Inc. 2,600     | 66                    |
|                               | <b>4,001</b>          |

**Semiconductors & Semiconductor Equipment 0.5%**

|  |              |
|--|--------------|
| • Advanced Micro Devices, Inc. 3,840           | 55           |
| • Altera Corp. 3,680                           | 76           |
| Analog Devices, Inc. 3,400                     | 116          |
| • Applied Materials, Inc. 16,200               | 241          |
| • Applied Micro Circuits Corp. 2,862           | 8            |
| • Broadcom Corp., Class A 2,900                | 87           |
| • Freescale Semiconductor, Inc., Class B 3,898 | 74           |
| Intel Corp. 61,200                             | 1,439        |
| • KLA-Tencor Corp. 1,800                       | 70           |
| Linear Technology Corp. 3,000                  | 107          |
| • LSI Logic Corp. 3,000                        | 16           |
| Maxim Integrated Products, Inc. 3,100          | 116          |
| • Micron Technology, Inc. 5,400                | 52           |
| National Semiconductor Corp. 3,400             | 65           |
| • Novellus Systems, Inc. 1,325                 | 31           |
| • Nvidia Corp. 1,400                           | 31           |
| • PMC — Sierra, Inc. 1,600                     | 13           |
| • Teradyne, Inc. 1,700                         | 19           |
| Texas Instruments, Inc. 16,800                 | 419          |
| Xilinx, Inc. 3,200                             | 86           |
|  | <b>3,121</b> |

**Software & Services 0.9%**

|   |     |
|---|-----|
| Adobe Systems, Inc. 2,400                           | 143 |
| • Affiliated Computer Services, Inc., Class A 1,271 | 61  |
| Autodesk, Inc. 2,400                                | 76  |
| Automatic Data Processing, Inc. 5,700               | 248 |
| • BMC Software, Inc. 2,400                          | 39  |
| • Citrix Systems, Inc. 1,800                        | 41  |
| Computer Associates International, Inc. 5,625       | 151 |
| • Computer Sciences Corp. 1,680                     | 73  |
| • Compuware Corp. 3,600                             | 21  |

| Security and Number of Shares         | Value<br>(\$ x 1,000) |
|---------------------------------------|-----------------------|
| • Convergys Corp. 1,354               | 18                    |
| • Electronic Arts, Inc. 2,866         | 153                   |
| • Electronic Data Systems Corp. 4,600 | 89                    |
| • First Data Corp. 7,888              | 300                   |
| • Fiserv, Inc. 1,800                  | 76                    |
| • Intuit, Inc. 1,972                  | 79                    |
| • Mercury Interactive Corp. 800       | 33                    |
| • Microsoft Corp. 99,400              | 2,515                 |
| • Novell, Inc. 3,200                  | 19                    |
| • Oracle Corp. 44,148                 | 510                   |
| • Parametric Technology Corp. 2,700   | 14                    |
| • Paychex, Inc. 3,600                 | 110                   |
| • Sabre Holdings Corp., Class A 1,283 | 25                    |
| • Siebel Systems, Inc. 4,300          | 39                    |
| • SunGard Data Systems, Inc. 2,725    | 91                    |
| • Symantec Corp. 7,000                | 131                   |
| • Unisys Corp. 3,100                  | 20                    |
| • Veritas Software Corp. 4,200        | 87                    |
| • Yahoo! Inc. 12,600                  | 435                   |
|                                       | <b>5,597</b>          |

#### Technology Hardware & Equipment 1.0%

|  |       |
|--|-------|
| • ADC Telecommunications, Inc. 6,000           | 14    |
| • Agilent Technologies, Inc. 4,437             | 92    |
| • Andrew Corp. 1,550                           | 19    |
| • Apple Computer, Inc. 8,000                   | 288   |
| • Avaya, Inc. 4,132                            | 36    |
| • CIENA Corp. 3,200                            | 7     |
| • Cisco Systems, Inc. 63,500                   | 1,097 |
| • Comverse Technology, Inc. 1,900              | 43    |
| • Corning, Inc. 13,900                         | 191   |
| • Dell, Inc. 24,200                            | 843   |
| • EMC Corp. 23,186                             | 304   |
| • Gateway, Inc. 3,100                          | 11    |
| • Hewlett-Packard Co. 28,403                   | 581   |
| • International Business Machines Corp. 16,200 | 1,237 |
| • Jabil Circuit, Inc. 1,998                    | 55    |
| • JDS Uniphase Corp. 12,589                    | 19    |
| • Lexmark International, Inc., Class A 1,300   | 90    |
| • Lucent Technologies, Inc. 40,092             | 97    |
| • Molex, Inc. 1,875                            | 48    |

| Security and Number of Shares     | Value<br>(\$ x 1,000) |
|-----------------------------------|-----------------------|
| • Motorola, Inc. 24,131           | 370                   |
| • NCR Corp. 2,000                 | 66                    |
| • Network Appliance, Inc. 3,400   | 91                    |
| • QLogic Corp. 869                | 29                    |
| • Qualcomm, Inc. 16,200           | 565                   |
| • Sanmina — SCI Corp. 5,000       | 20                    |
| • Scientific-Atlanta, Inc. 1,600  | 49                    |
| • Soletron Corp. 7,900            | 26                    |
| • Sun Microsystems, Inc. 30,800   | 112                   |
| • Symbol Technologies, Inc. 1,908 | 26                    |
| • Tektronix, Inc. 900             | 20                    |
| • Tellabs, Inc. 4,000             | 31                    |
| • Xerox Corp. 9,400               | 125                   |
|                                   | <b>6,602</b>          |

#### Telecommunication Services 0.5%

|   |              |
|---|--------------|
| • Alltel Corp. 3,100                              | 176          |
| • AT&T Corp. 7,358                                | 141          |
| • BellSouth Corp. 17,800                          | 471          |
| • CenturyTel, Inc. 1,350                          | 41           |
| • Citizens Communications Co. 2,576               | 33           |
| • Nextel Communications, Inc., Class A 11,100     | 311          |
| • Qwest Communications International, Inc. 15,773 | 54           |
| • SBC Communications, Inc. 32,336                 | 770          |
| • Sprint Corp. (FON Group) 14,500                 | 323          |
| • Verizon Communications, Inc. 27,258             | 976          |
|   | <b>3,296</b> |

#### Transportation 0.3%

|   |              |
|---|--------------|
| • Burlington Northern Santa Fe Corp. 3,800    | 183          |
| • CSX Corp. 2,200                             | 88           |
| • Delta Air Lines, Inc. 1,300                 | 4            |
| • FedEx Corp. 2,920                           | 248          |
| • Norfolk Southern Corp. 3,600                | 113          |
| • Ryder Systems, Inc. 400                     | 15           |
| • Southwest Airlines Co. 7,480                | 111          |
| • Union Pacific Corp. 2,500                   | 160          |
| • United Parcel Service, Inc., Class B 10,818 | 772          |
|   | <b>1,694</b> |

## Portfolio Holdings continued

| Security and Number of Shares               | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Utilities 0.5%</b>                       |                       |
| • The AES Corp. 6,000                       | 96                    |
| • Allegheny Energy, Inc. 1,070              | 26                    |
| Ameren Corp. 1,800                          | 93                    |
| American Electric Power Co., Inc. 3,860     | 136                   |
| • Calpine Corp. 2,700                       | 5                     |
| Centerpoint Energy, Inc. 2,949              | 35                    |
| Cinergy Corp. 1,600                         | 63                    |
| • CMS Energy Corp. 1,000                    | 13                    |
| Consolidated Edison, Inc. 2,100             | 91                    |
| Constellation Energy Group, Inc. 1,700      | 89                    |
| Dominion Resources, Inc. 3,378              | 255                   |
| DTE Energy Co. 1,700                        | 78                    |
| Duke Energy Corp. 8,852                     | 258                   |
| • Dynegy, Inc., Class A 3,100               | 10                    |
| Edison International 3,200                  | 116                   |
| Entergy Corp. 2,100                         | 154                   |
| Exelon Corp. 6,524                          | 323                   |
| FirstEnergy Corp. 3,195                     | 139                   |
| FPL Group, Inc. 3,800                       | 155                   |
| KeySpan Corp. 1,300                         | 49                    |
| Nicor, Inc. 500                             | 18                    |
| NiSource, Inc. 2,646                        | 62                    |
| Peoples Energy Corp. 200                    | 8                     |
| • PG&E Corp. 4,000                          | 139                   |
| Pinnacle West Capital Corp. 800             | 34                    |
| PPL Corp. 1,800                             | 98                    |
| Progress Energy, Inc. 2,475                 | 104                   |
| Public Service Enterprise Group, Inc. 2,300 | 134                   |
| Sempra Energy 2,103                         | 85                    |
| The Southern Co. 7,200                      | 237                   |
| TECO Energy, Inc. 1,300                     | 22                    |
| TXU Corp. 2,367                             | 203                   |
| Xcel Energy, Inc. 3,850                     | 66                    |
|   | <b>3,394</b>          |

| Security and Number of Shares  | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Other Investment Companies</b><br>81.7% of net assets               |                       |
| ▲ 1 Schwab Institutional Select S&P 500 Fund 15,554,348                | 141,544               |
| ■ 2 Schwab International Index Fund, Select Shares 8,175,320           | 128,598               |
| ■ 3 Schwab Small-Cap Index Fund, Select Shares 6,265,637               | 124,937               |
| ■ 4 Schwab Total Bond Market Fund 10,012,983                           | 100,530               |
| ■ 5 Schwab Value Advantage Money Fund, Institutional Shares 30,446,772 | 30,447                |
|  | <b>526,056</b>        |

| Security<br>Rate, Maturity Date                    | Face Amount<br>(\$ x 1,000) |               |
|--|-----------------------------|---------------|
| <b>Short-Term Investment</b><br>2.0% of net assets |                             |               |
| Bank of America, London Time Deposit               |                             |               |
| 2.36%, 05/02/05                                    | 12,980                      | <b>12,980</b> |

|   |     |            |
|---|-----|------------|
| <b>U.S. Treasury Obligation</b><br>0.1% of net assets |     |            |
| ▲ U.S. Treasury Bill                                  |     |            |
| 2.73%, 06/16/05                                       | 815 | <b>812</b> |

**End of investments.**

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

| <b>Futures Contracts</b> 2.0% of net assets |                        |                   |                      |
|---|------------------------|-------------------|----------------------|
|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
| S&P 500 Index, Long<br>Expires 06/17/05     | 44                     | 12,744            | <b>(393)</b>         |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                              |                |
|------------------------------|----------------|
| Investments, at value        | \$643,937      |
| Cash                         | 13             |
| Receivables:                 |                |
| Fund shares sold             | 385            |
| Interest                     | 2              |
| Dividends                    | 476            |
| Due from brokers for futures | 169            |
| Prepaid expenses             | + 17           |
| <b>Total assets</b>          | <b>644,999</b> |

**Liabilities**

|   |            |
|---|------------|
| Payables:                                   |            |
| Fund shares redeemed                        | 529        |
| Investments bought                          | 325        |
| Investment adviser and administrator fees   | 11         |
| Transfer agent and shareholder service fees | 13         |
| Accrued expenses                            | + 74       |
| <b>Total liabilities</b>                    | <b>952</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 644,999          |
| <b>Total liabilities</b> | - 952            |
| <b>Net assets</b>        | <b>\$644,047</b> |

**Net Assets by Source**

|   |         |
|---|---------|
| Capital received from investors           | 575,960 |
| Net investment income not yet distributed | 982     |
| Net realized capital losses               | (9,950) |
| Net unrealized capital gains              | 77,055  |

**Net Asset Value (NAV)**

|                   |          |                           |          |            |
|-------------------|----------|---------------------------|----------|------------|
| <b>Net Assets</b> | <b>÷</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
| \$644,047         |          | 40,656                    |          | \$15.84    |

Unless stated, all numbers x 1,000.

The fund paid \$566,489 for these securities.

Not counting short-term obligations and government securities and securities related to in-kind transactions, the fund's investment transactions during the period were:

|                  |           |
|------------------|-----------|
| Purchases        | \$183,492 |
| Sales/maturities | \$178,458 |

The fund's total security transactions (including the in-kind redemptions) with other Schwab Funds® during the period were \$294,215.

Percent of fund shares of other Schwab Funds owned at the end of the report period:

**Schwab Equity Index Funds**

|                          |      |
|--------------------------|------|
| Small-Cap Index Fund     | 8.1% |
| International Index Fund | 9.7% |

**Schwab Bond Funds**

|                        |      |
|------------------------|------|
| Total Bond Market Fund | 8.8% |
|------------------------|------|

**Schwab Institutional Select Funds**

|                      |       |
|----------------------|-------|
| Institutional Select |       |
| S&P 500 Fund         | 15.2% |

**Schwab Money Funds**

|                 |      |
|-----------------|------|
| Value Advantage |      |
| Money Fund      | 0.1% |

These derive from investments and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio Cost</b>                   | \$568,510       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$96,670        |
| Losses                                  | + (21,243)      |
|   | <b>\$75,427</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$1,494 |
| Long-term capital gains | \$-     |

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2010              | \$1,799         |
| 2011              | 16,068          |
| 2012              | + 2,014         |
|                   | <b>\$19,881</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |               |
|--------------------------------|---------------|
| Dividends                      | \$10,081      |
| Interest                       | + 72          |
| <b>Total investment income</b> | <b>10,153</b> |

**Net Realized Gains and Losses**

|   |               |
|---|---------------|
| Net realized gains on investments                 | 14,371        |
| Net realized gains received from underlying funds | 491           |
| Net realized losses on futures contracts          | + (145)       |
| <b>Net realized gains</b>                         | <b>14,717</b> |

Includes gains of \$9,333 associated with redemption-in-kind from the Schwab S&P 500 Index Fund.

**Net Unrealized Gains and Losses**

|  |                |
|--|----------------|
| Net unrealized losses on investments       | (3,718)        |
| Net unrealized losses on futures contracts | + (393)        |
| <b>Net unrealized losses</b>               | <b>(4,111)</b> |

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

**Expenses**

|   |              |
|---|--------------|
| Investment adviser and administrator fees   | 1,394        |
| Transfer agent and shareholder service fees | 814          |
| Trustees' fees                              | 5            |
| Custodian fees                              | 24           |
| Portfolio accounting fees                   | 42           |
| Professional fees                           | 14           |
| Registration fees                           | 8            |
| Shareholder reports                         | 41           |
| Other expenses                              | + 15         |
| Total expenses                              | 2,357        |
| Expense reduction                           | - 729        |
| <b>Net expenses</b>                         | <b>1,628</b> |

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.

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | 10,153          |
| <b>Net expenses</b>                           | - 1,628         |
| <b>Net investment income</b>                  | <b>8,525</b>    |
| <b>Net realized gains</b>                     | 14,717          |
| <b>Net unrealized losses</b>                  | + (4,111)       |
| <b>Increase in net assets from operations</b> | <b>\$19,131</b> |

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 operating expenses of this fund through February 27, 2006, to 0.50% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$10,606

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$8,525         | \$8,245          |
| Net realized gains or losses                  | 14,717          | (711)            |
| Net unrealized gains or losses                | + (4,111)       | 48,907           |
| <b>Increase in net assets from operations</b> | <b>19,131</b>   | <b>56,441</b>    |

**Distributions Paid**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | <b>\$9,037</b> | <b>\$8,251</b> |
|--------------------------------------|----------------|----------------|

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                 | 11/1/03–10/31/04 |                   |
|--|-----------------|-----------------|------------------|-------------------|
|  | SHARES          | VALUE           | SHARES           | VALUE             |
| Shares sold                            | 4,684           | \$76,106        | 6,342            | \$95,944          |
| Shares reinvested                      | 541             | 8,785           | 547              | 8,044             |
| Shares redeemed                        | + (3,990)       | (64,766)        | (7,686)          | (116,063)         |
| <b>Net transactions in fund shares</b> | <b>1,235</b>    | <b>\$20,125</b> | <b>(797)</b>     | <b>(\$12,075)</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                  |
|----------------------------|-----------------|------------------|------------------|------------------|
|                            | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period        | 39,421          | \$613,828        | 40,218           | \$577,713        |
| Total increase or decrease | + 1,235         | 30,219           | (797)            | 36,115           |
| <b>End of period</b>       | <b>40,656</b>   | <b>\$644,047</b> | <b>39,421</b>    | <b>\$613,828</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$8,251 |
| Long-term capital gains | \$–     |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$982 and \$1,494 at the end of the current period and prior period, respectively.

# Schwab MarketTrack Balanced Portfolio<sup>TM</sup>

## Financial Statements

### Financial Highlights

|   | 11/1/04<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                     |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 14.66               | 13.78                | 12.05                | 13.47                | 15.53                | 14.85                |
| Income or loss from investment operations:      |                     |                      |                      |                      |                      |                      |
| Net investment income                           | 0.23                | 0.29                 | 0.25                 | 0.32                 | 0.45                 | 0.36                 |
| Net realized and unrealized gains or losses     | 0.17                | 0.88                 | 1.77                 | (1.22)               | (1.92)               | 0.69                 |
| Total income or loss from investment operations | 0.40                | 1.17                 | 2.02                 | (0.90)               | (1.47)               | 1.05                 |
| Less distributions:                             |                     |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.28)              | (0.29)               | (0.29)               | (0.40)               | (0.49)               | (0.28)               |
| Distributions from net realized gains           | —                   | —                    | —                    | (0.12)               | (0.10)               | (0.09)               |
| Total distributions                             | (0.28)              | (0.29)               | (0.29)               | (0.52)               | (0.59)               | (0.37)               |
| Net asset value at end of period                | 14.78               | 14.66                | 13.78                | 12.05                | 13.47                | 15.53                |
| Total return (%)                                | 2.69 <sup>1</sup>   | 8.61                 | 17.12                | (7.08)               | (9.72)               | 7.11                 |
| <b>Ratios/Supplemental Data (%)</b>             |                     |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                     |                      |                      |                      |                      |                      |
| Net operating expenses <sup>2</sup>             | 0.50 <sup>3</sup>   | 0.50                 | 0.50                 | 0.50                 | 0.50                 | 0.57 <sup>4</sup>    |
| Gross operating expenses <sup>2</sup>           | 0.73 <sup>3</sup>   | 0.74                 | 0.74                 | 0.74                 | 0.74                 | 0.82                 |
| Net investment income                           | 1.52 <sup>1</sup>   | 2.03                 | 1.98                 | 2.35                 | 3.31                 | 2.46                 |
| Portfolio turnover rate                         | 21 <sup>1</sup>     | 11                   | 17                   | 31                   | 21                   | 18                   |
| Net assets, end of period (\$ x 1,000,000)      | 525                 | 541                  | 516                  | 462                  | 497                  | 510                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**①** Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser

| <b>Holdings by Category</b>                     | <b>Cost</b><br>(\$x1,000) | <b>Value</b><br>(\$x1,000) |
|---|---------------------------|----------------------------|
| <b>13.3% Common Stock</b>                       | 47,810                    | 69,950                     |
| <b>84.5% Other Investment Companies</b>         | 408,386                   | 443,814                    |
| <b>2.1% Short-Term Investment</b>               | 11,221                    | 11,221                     |
| <b>0.1% U.S. Treasury Obligation</b>            | 648                       | 648                        |
| <b>100.0% Total Investments</b>                 | <b>468,065</b>            | <b>525,633</b>             |
| <b>(0.0)% Other Assets and Liabilities, Net</b> |                           | (152)                      |
| <b>100.0% Total Net Assets</b>                  |                           | <b>525,481</b>             |

**Security and Number of Shares** **Value**  
(\$ x 1,000)

**Common Stock** 13.3% of net assets

**Automobiles & Components 0.1%**

|                          |       |    |
|--------------------------|-------|----|
| Cooper Tire & Rubber Co. | 400   | 7  |
| Dana Corp.               | 1,085 | 12 |

**Security and Number of Shares**

**Value**  
(\$ x 1,000)

|                              |        |            |
|------------------------------|--------|------------|
| Delphi Corp.                 | 3,884  | 13         |
| Ford Motor Co.               | 12,185 | 111        |
| General Motors Corp.         | 3,650  | 97         |
| • Goodyear Tire & Rubber Co. | 1,000  | 12         |
| Harley-Davidson, Inc.        | 2,000  | 94         |
| Johnson Controls, Inc.       | 1,200  | 66         |
| Visteon Corp.                | 1,047  | 4          |
|                              |        | <b>416</b> |

**Banks 1.0%**

|                                    |        |              |
|------------------------------------|--------|--------------|
| AmSouth Bancorp.                   | 2,600  | 68           |
| Bank of America Corp.              | 26,286 | 1,184        |
| BB&T Corp.                         | 3,600  | 141          |
| Comerica, Inc.                     | 1,100  | 63           |
| Compass Bancshares, Inc.           | 800    | 34           |
| Countrywide Financial Corp.        | 3,498  | 127          |
| Fannie Mae                         | 6,300  | 340          |
| Fifth Third Bancorp                | 3,658  | 159          |
| First Horizon National Corp.       | 800    | 33           |
| Freddie Mac                        | 4,500  | 277          |
| Golden West Financial Corp.        | 2,000  | 125          |
| Huntington Bancshares, Inc.        | 1,597  | 38           |
| KeyCorp, Inc.                      | 2,600  | 86           |
| M&T Bank Corp.                     | 800    | 83           |
| Marshall & Ilsley Corp.            | 1,344  | 57           |
| MGIC Investment Corp.              | 700    | 41           |
| National City Corp.                | 4,100  | 139          |
| North Fork Bancorp., Inc.          | 3,000  | 85           |
| PNC Financial Services Group, Inc. | 1,900  | 101          |
| Regions Financial Corp.            | 3,078  | 103          |
| Sovereign Bancorp, Inc.            | 1,800  | 37           |
| SunTrust Banks, Inc.               | 2,300  | 168          |
| Synovus Financial Corp.            | 1,900  | 53           |
| U.S. Bancorp                       | 12,554 | 350          |
| Wachovia Corp.                     | 10,494 | 537          |
| Washington Mutual, Inc.            | 5,874  | 243          |
| Wells Fargo & Co.                  | 10,835 | 650          |
| Zions Bancorp.                     | 600    | 42           |
|                                    |        | <b>5,364</b> |

**Capital Goods 1.2%**

|                                 |       |     |
|---------------------------------|-------|-----|
| 3M Co.                          | 5,000 | 382 |
| American Power Conversion Corp. | 1,175 | 29  |

## Portfolio Holdings continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares               | Value<br>(\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| American Standard Cos., Inc. 1,500             | 67                    | Cintas Corp. 1,102                          | 42                    |
| The Boeing Co. 5,484                           | 326                   | Deluxe Corp. 500                            | 20                    |
| Caterpillar, Inc. 2,300                        | 203                   | Equifax, Inc. 900                           | 30                    |
| Cooper Industries Ltd., Class A 600            | 38                    | H&R Block, Inc. 1,200                       | 60                    |
| Crane Co. 200                                  | 5                     | • Monster Worldwide, Inc. 666               | 15                    |
| Cummins, Inc. 300                              | 20                    | • PHH Corp. 320                             | 7                     |
| Danaher Corp. 2,000                            | 101                   | Pitney Bowes, Inc. 1,600                    | 72                    |
| Deere & Co. 1,500                              | 94                    | R.R. Donnelley & Sons Co. 1,400             | 46                    |
| Dover Corp. 1,400                              | 51                    | Robert Half International, Inc. 1,200       | 30                    |
| Eaton Corp. 1,000                              | 59                    | Waste Management, Inc. 3,712                | 106                   |
| Emerson Electric Co. 2,800                     | 176                   |   | <b>689</b>            |
| Fluor Corp. 500                                | 26                    |   |                       |
| General Dynamics Corp. 1,300                   | 137                   | <b>Consumer Durables &amp; Apparel 0.2%</b> |                       |
| ▲ 6 General Electric Co. 68,100                | 2,465                 | Black & Decker Corp. 600                    | 50                    |
| Goodrich Corp. 700                             | 28                    | Brunswick Corp. 600                         | 25                    |
| Honeywell International, Inc. 5,700            | 204                   | Centex Corp. 800                            | 46                    |
| Illinois Tool Works, Inc. 2,000                | 168                   | • Coach, Inc. 2,400                         | 64                    |
| Ingersoll-Rand Co., Class A 1,100              | 85                    | Eastman Kodak Co. 2,000                     | 50                    |
| ITT Industries, Inc. 600                       | 54                    | Fortune Brands, Inc. 1,000                  | 85                    |
| L-3 Communications Holdings, Inc. 700          | 50                    | Hasbro, Inc. 1,275                          | 24                    |
| Lockheed Martin Corp. 2,900                    | 177                   | Jones Apparel Group, Inc. 800               | 25                    |
| Masco Corp. 3,000                              | 94                    | KB Home 600                                 | 34                    |
| • Navistar International Corp. 400             | 12                    | Leggett & Platt, Inc. 1,300                 | 35                    |
| Northrop Grumman Corp. 2,256                   | 124                   | Liz Claiborne, Inc. 800                     | 28                    |
| Paccar, Inc. 1,050                             | 71                    | Mattel, Inc. 2,825                          | 51                    |
| Pall Corp. 800                                 | 21                    | Maytag Corp. 600                            | 6                     |
| Parker Hannifin Corp. 700                      | 42                    | Newell Rubbermaid, Inc. 1,872               | 41                    |
| • Power-One, Inc. 240                          | 1                     | Nike, Inc., Class B 1,700                   | 131                   |
| Raytheon Co. 2,600                             | 98                    | Pulte Homes, Inc. 800                       | 57                    |
| Rockwell Automation, Inc. 1,200                | 55                    | Reebok International Ltd. 300               | 12                    |
| Rockwell Collins, Inc. 1,200                   | 55                    | Snap-On, Inc. 350                           | 12                    |
| Textron, Inc. 1,000                            | 75                    | The Stanley Works 600                       | 26                    |
| • Thomas & Betts Corp. 231                     | 7                     | VF Corp. 800                                | 45                    |
| Tyco International Ltd. 12,949                 | 405                   | Whirlpool Corp. 500                         | 31                    |
| United Technologies Corp. 3,300                | 336                   |   | <b>878</b>            |
| W.W. Grainger, Inc. 600                        | 33                    |   |                       |
|  | <b>6,374</b>          | <b>Diversified Financials 1.0%</b>          |                       |
| <b>Commercial Services &amp; Supplies 0.1%</b> |                       | American Express Co. 8,300                  | 437                   |
| • Allied Waste Industries, Inc. 2,100          | 17                    | The Bank of New York Co., Inc. 4,900        | 137                   |
| • Apollo Group, Inc., Class A 1,100            | 79                    | The Bear Stearns Cos., Inc. 602             | 57                    |
| Avery Dennison Corp. 700                       | 37                    | Capital One Financial Corp. 1,500           | 106                   |
| Cendant Corp. 6,415                            | 128                   | ■ The Charles Schwab Corp. 8,783            | 91                    |
|  |                       | CIT Group, Inc. 1,300                       | 52                    |

| Security and Number of Shares          | Value<br>(\$ x 1,000) |
|--|-----------------------|
| ⑤ Citigroup, Inc. 33,476               | 1,572                 |
| • E*TRADE Financial Corp. 2,400        | 27                    |
| Federated Investors, Inc., Class B 700 | 20                    |
| Franklin Resources, Inc. 1,700         | 117                   |
| Goldman Sachs Group, Inc. 3,079        | 329                   |
| Janus Capital Group, Inc. 1,400        | 18                    |
| JPMorgan Chase & Co. 22,713            | 806                   |
| Lehman Brothers Holdings, Inc. 1,800   | 165                   |
| MBNA Corp. 8,268                       | 163                   |
| Mellon Financial Corp. 2,800           | 77                    |
| Merrill Lynch & Co., Inc. 6,300        | 340                   |
| Moody's Corp. 1,000                    | 82                    |
| Morgan Stanley 7,010                   | 369                   |
| Northern Trust Corp. 1,400             | 63                    |
| Principal Financial Group, Inc. 2,329  | 91                    |
| • Provident Financial Corp. 1,900      | 32                    |
| SLM Corp. 3,000                        | 143                   |
| State Street Corp. 2,200               | 102                   |
| T. Rowe Price Group, Inc. 800          | 44                    |
|  | <b>5,440</b>          |

**Energy 1.1%**

|                                  |       |
|----------------------------------|-------|
| Amerada Hess Corp. 600           | 56    |
| Anadarko Petroleum Corp. 1,510   | 110   |
| Apache Corp. 2,048               | 115   |
| Ashland, Inc. 500                | 34    |
| Baker Hughes, Inc. 2,250         | 99    |
| BJ Services Co. 1,000            | 49    |
| Burlington Resources, Inc. 2,820 | 137   |
| ChevronTexaco Corp. 13,790       | 717   |
| ConocoPhillips 4,324             | 453   |
| Devon Energy Corp. 3,000         | 136   |
| El Paso Corp. 3,222              | 32    |
| EOG Resources, Inc. 1,518        | 72    |
| ⑦ Exxon Mobil Corp. 42,420       | 2,419 |
| Halliburton Co. 2,974            | 124   |
| Kerr-McGee Corp. 771             | 60    |
| Kinder Morgan, Inc. 745          | 57    |
| Marathon Oil Corp. 2,100         | 98    |
| • Nabors Industries Ltd. 1,000   | 54    |
| Noble Corp. 900                  | 46    |
| Occidental Petroleum Corp. 2,400 | 166   |
| Rowan Cos., Inc. 600             | 16    |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Schlumberger Ltd. 3,900       | 267                   |
| Sunoco, Inc. 600              | 60                    |
| • Transocean, Inc. 2,016      | 93                    |
| Unocal Corp. 1,600            | 87                    |
| Valero Energy Corp. 1,600     | 110                   |
| Williams Cos., Inc. 3,000     | 51                    |
| XTO Energy, Inc. 2,266        | 68                    |
|                               | <b>5,786</b>          |

**Food & Staples Retailing 0.4%**

|                                 |              |
|---------------------------------|--------------|
| Albertson's, Inc. 2,671         | 53           |
| Costco Wholesale Corp. 3,000    | 122          |
| CVS Corp. 2,600                 | 134          |
| • Kroger Co. 5,300              | 84           |
| • Safeway, Inc. 2,800           | 60           |
| Supervalu, Inc. 900             | 28           |
| Sysco Corp. 4,400               | 152          |
| Wal-Mart Stores, Inc. 27,400    | 1,292        |
| Walmart Co. 6,600               | 284          |
| • Winn-Dixie Stores, Inc. 1,200 | 1            |
|                                 | <b>2,210</b> |

**Food Beverage & Tobacco 0.7%**

|                                       |              |
|---------------------------------------|--------------|
| Altria Group, Inc. 13,200             | 858          |
| Anheuser-Busch Cos., Inc. 5,200       | 244          |
| Archer-Daniels-Midland Co. 4,446      | 80           |
| Brown-Forman Corp., Class B 804       | 45           |
| Campbell Soup Co. 2,800               | 83           |
| The Coca-Cola Co. 15,800              | 686          |
| Coca-Cola Enterprises, Inc. 2,700     | 55           |
| ConAgra Foods, Inc. 3,300             | 88           |
| General Mills, Inc. 2,392             | 118          |
| H.J. Heinz Co. 2,300                  | 85           |
| Hershey Foods Corp. 1,600             | 102          |
| Kellogg Co. 2,700                     | 121          |
| McCormick & Co., Inc. 900             | 31           |
| Molson Coors Brewing Co., Class B 200 | 12           |
| The Pepsi Bottling Group, Inc. 1,826  | 52           |
| PepsiCo, Inc. 11,070                  | 616          |
| Reynolds American, Inc. 914           | 71           |
| Sara Lee Corp. 5,100                  | 109          |
| UST, Inc. 1,100                       | 51           |
| Wm. Wrigley Jr. Co. 1,600             | 111          |
|                                       | <b>3,618</b> |

## Portfolio Holdings continued

| Security and Number of Shares                     | Value<br>(\$ x 1,000) | Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|---|-----------------------|
| <b>Health Care Equipment &amp; Services 0.7%</b>  |                       |   |                       |
| Aetna, Inc. 2,068                                 | 152                   | Harrah's Entertainment, Inc. 700                | 46                    |
| AmerisourceBergen Corp. 700                       | 43                    | Hilton Hotels Corp. 2,500                       | 55                    |
| Bausch & Lomb, Inc. 400                           | 30                    | International Game Technology 2,100             | 57                    |
| Baxter International, Inc. 3,800                  | 141                   | Marriott International, Inc., Class A 1,500     | 94                    |
| Becton Dickinson & Co. 1,800                      | 105                   | McDonald's Corp. 8,100                          | 237                   |
| Biomet, Inc. 1,575                                | 61                    | • Starbucks Corp. 2,440                         | 121                   |
| • Boston Scientific Corp. 5,248                   | 155                   | Starwood Hotels & Resorts Worldwide, Inc. 1,200 | 65                    |
| C.R. Bard, Inc. 600                               | 43                    | Wendy's International, Inc. 800                 | 34                    |
| Cardinal Health, Inc. 2,775                       | 154                   | Yum! Brands, Inc. 2,060                         | 97                    |
| • Caremark Rx, Inc. 2,408                         | 96                    |   | <b>1,047</b>          |
| CIGNA Corp. 1,000                                 | 92                    | <b>Household &amp; Personal Products 0.4%</b>   |                       |
| • Express Scripts, Inc. 500                       | 45                    | Alberto-Culver Co., Class B 600                 | 27                    |
| • Fisher Scientific International, Inc. 720       | 43                    | Avon Products, Inc. 3,000                       | 120                   |
| Guidant Corp. 2,000                               | 148                   | Clorox Co. 1,300                                | 82                    |
| HCA, Inc. 3,400                                   | 190                   | Colgate-Palmolive Co. 3,600                     | 179                   |
| Health Management Associates, Inc., Class A 1,600 | 39                    | The Gillette Co. 6,700                          | 346                   |
| • Hospira, Inc. 1,020                             | 34                    | Kimberly-Clark Corp. 3,380                      | 211                   |
| • Humana, Inc. 800                                | 28                    | Procter & Gamble Co. 16,800                     | 910                   |
| IMS Health, Inc. 1,500                            | 36                    |   | <b>1,875</b>          |
| • Laboratory Corp. of America Holdings 900        | 44                    | <b>Insurance 0.6%</b>                           |                       |
| Manor Care, Inc. 500                              | 17                    | ACE Ltd. 1,700                                  | 73                    |
| McKesson Corp. 1,773                              | 65                    | AFLAC, Inc. 3,300                               | 134                   |
| • Medco Health Solutions, Inc. 1,784              | 91                    | The Allstate Corp. 4,700                        | 264                   |
| Medtronic, Inc. 7,800                             | 411                   | AMBAC Financial Group, Inc. 684                 | 46                    |
| • Millipore Corp. 200                             | 10                    | American International Group, Inc. 16,942       | 862                   |
| PerkinElmer, Inc. 600                             | 11                    | AON Corp. 2,025                                 | 42                    |
| Quest Diagnostics 735                             | 78                    | Chubb Corp. 1,200                               | 98                    |
| • St. Jude Medical, Inc. 2,120                    | 83                    | Cincinnati Financial Corp. 1,323                | 53                    |
| Stryker Corp. 2,546                               | 124                   | Hartford Financial Services Group, Inc. 1,800   | 130                   |
| • Tenet Healthcare Corp. 3,150                    | 38                    | Jefferson-Pilot Corp. 1,050                     | 53                    |
| • Thermo Electron Corp. 900                       | 22                    | Lincoln National Corp. 1,300                    | 58                    |
| UnitedHealth Group, Inc. 4,200                    | 397                   | Loews Corp. 1,200                               | 85                    |
| • Waters Corp. 900                                | 36                    | Marsh & McLennan Cos., Inc. 3,600               | 101                   |
| • WellPoint, Inc. 1,926                           | 246                   | MBIA, Inc. 1,050                                | 55                    |
| • Zimmer Holdings, Inc. 1,500                     | 122                   | Metlife, Inc. 4,986                             | 194                   |
|   | <b>3,430</b>          | The Progressive Corp. 1,500                     | 137                   |
| <b>Hotels Restaurants &amp; Leisure 0.2%</b>      |                       | Prudential Financial, Inc. 3,500                | 200                   |
| Carnival Corp. 4,100                              | 200                   | Safeco Corp. 800                                | 42                    |
| Darden Restaurants, Inc. 1,350                    | 41                    | The St. Paul Travelers Cos., Inc. 4,241         | 152                   |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Torchmark Corp. 800           | 43                    |
| UnumProvident Corp. 1,657     | 28                    |
| XL Capital Ltd., Class A 800  | 56                    |
|                               | <hr/> <b>2,906</b>    |

**Materials 0.4%**

|   |                    |
|---|--------------------|
| Air Products & Chemicals, Inc. 1,500                | 88                 |
| Alcoa, Inc. 5,648                                   | 164                |
| Allegheny Technologies, Inc. 492                    | 11                 |
| Ball Corp. 800                                      | 32                 |
| Bemis Co. 600                                       | 17                 |
| The Dow Chemical Co. 6,049                          | 278                |
| E.I. du Pont de Nemours & Co. 6,484                 | 306                |
| Eastman Chemical Co. 600                            | 32                 |
| Ecolab, Inc. 2,000                                  | 65                 |
| Engelhard Corp. 800                                 | 25                 |
| Freeport-McMoran Copper & Gold, Inc., Class B 1,100 | 38                 |
| Georgia-Pacific Corp. 1,496                         | 51                 |
| Great Lakes Chemical Corp. 400                      | 12                 |
| •Hercules, Inc. 700                                 | 9                  |
| International Flavors & Fragrances, Inc. 800        | 30                 |
| International Paper Co. 3,166                       | 109                |
| Louisiana-Pacific Corp. 700                         | 17                 |
| MeadWestvaco Corp. 1,279                            | 38                 |
| Monsanto Co. 1,727                                  | 101                |
| Neenah Paper, Inc. 102                              | 3                  |
| Newmont Mining Corp. 2,754                          | 105                |
| Nucor Corp. 1,200                                   | 61                 |
| •Pactiv Corp. 1,000                                 | 22                 |
| Phelps Dodge Corp. 540                              | 46                 |
| PPG Industries, Inc. 1,200                          | 81                 |
| Praxair, Inc. 2,000                                 | 94                 |
| Rohm & Haas Co. 1,421                               | 62                 |
| •Sealed Air Corp. 621                               | 30                 |
| Sigma-Aldrich Corp. 500                             | 29                 |
| Temple-Inland, Inc. 800                             | 27                 |
| United States Steel Corp. 700                       | 30                 |
| Vulcan Materials Co. 700                            | 37                 |
| Weyerhaeuser Co. 1,400                              | 96                 |
| Worthington Industries, Inc. 300                    | 5                  |
|   | <hr/> <b>2,151</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Media 0.5%**

|  |                    |
|--|--------------------|
| Clear Channel Communications, Inc. 4,080       | 130                |
| •Comcast Corp., Class A 14,661                 | 471                |
| Dow Jones & Co., Inc. 600                      | 20                 |
| Gannett Co., Inc. 1,700                        | 131                |
| •Interpublic Group of Cos., Inc. 2,500         | 32                 |
| Knight-Ridder, Inc. 600                        | 39                 |
| The McGraw-Hill Cos., Inc. 1,200               | 105                |
| Meredith Corp. 300                             | 14                 |
| New York Times Co., Class A 1,100              | 37                 |
| •News Corp, Inc., Class A 16,800               | 257                |
| Omnicom Group, Inc. 1,200                      | 99                 |
| •Time Warner, Inc. 29,650                      | 498                |
| Tribune Co. 2,100                              | 81                 |
| •Univision Communications, Inc., Class A 2,048 | 54                 |
| Viacom, Inc., Class B 11,418                   | 395                |
| The Walt Disney Co. 13,217                     | 349                |
|  | <hr/> <b>2,712</b> |

**Pharmaceuticals & Biotechnology 1.2%**

|  |                    |
|--|--------------------|
| Abbott Laboratories 10,200                     | 501                |
| Allergan, Inc. 900                             | 63                 |
| •Amgen, Inc. 8,340                             | 485                |
| Applied Biosystems Group – Applera Corp. 1,400 | 30                 |
| •Biogen Idec, Inc. 2,150                       | 78                 |
| Bristol-Myers Squibb Co. 12,800                | 333                |
| •Chiron Corp. 1,200                            | 41                 |
| Eli Lilly & Co. 7,400                          | 433                |
| •Forest Laboratories, Inc. 2,400               | 86                 |
| •Genzyme Corp. 1,400                           | 82                 |
| •Gilead Sciences, Inc. 2,400                   | 89                 |
| Johnson & Johnson 19,272                       | 1,323              |
| •King Pharmaceuticals, Inc. 1,388              | 11                 |
| •Medimmune, Inc. 1,400                         | 35                 |
| Merck & Co., Inc. 14,500                       | 492                |
| Mylan Laboratories, Inc. 1,700                 | 28                 |
| ⑩Pfizer, Inc. 49,386                           | 1,342              |
| Schering-Plough Corp. 9,500                    | 198                |
| •Watson Pharmaceuticals, Inc. 600              | 18                 |
| Wyeth 8,800                                    | 395                |
|  | <hr/> <b>6,063</b> |

**Portfolio Holdings** continued

| Security and Number of Shares                      | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Real Estate 0.1%</b>                            |                       |
| Apartment Investment & Management Co., Class A 600 | 23                    |
| Archstone-Smith Trust 1,300                        | 47                    |
| Equity Office Properties Trust 2,600               | 82                    |
| Equity Residential 1,700                           | 58                    |
| Plum Creek Timber Co., Inc. 1,200                  | 41                    |
| ProLogis 1,200                                     | 47                    |
| Simon Property Group, Inc. 1,100                   | 73                    |
|  | <b>371</b>            |
| <b>Retailing 0.5%</b>                              |                       |
| •Autonation, Inc. 2,000                            | 37                    |
| •AutoZone, Inc. 500                                | 41                    |
| •Bed, Bath & Beyond, Inc. 1,800                    | 67                    |
| Best Buy Co., Inc. 2,100                           | 106                   |
| •Big Lots, Inc. 700                                | 7                     |
| Circuit City Stores, Inc. 1,400                    | 22                    |
| Dillards, Inc., Class A 700                        | 16                    |
| Dollar General Corp. 2,202                         | 45                    |
| •eBay, Inc. 8,416                                  | 267                   |
| Family Dollar Stores, Inc. 1,100                   | 30                    |
| Federated Department Stores, Inc. 1,100            | 63                    |
| The Gap, Inc. 5,662                                | 121                   |
| Genuine Parts Co. 1,150                            | 49                    |
| Home Depot, Inc. 14,600                            | 516                   |
| J.C. Penney Co., Inc. Holding Co. 1,700            | 81                    |
| •Kohl's Corp. 2,200                                | 105                   |
| Limitedbrands 2,991                                | 65                    |
| Lowe's Cos., Inc. 5,000                            | 261                   |
| The May Department Stores Co. 2,100                | 74                    |
| Nordstrom, Inc. 900                                | 46                    |
| •Office Depot, Inc. 2,500                          | 49                    |
| OfficeMax, Inc. 600                                | 19                    |
| RadioShack Corp. 1,300                             | 32                    |
| •Sears Holdings Corp. 503                          | 68                    |
| The Sherwin-Williams Co. 1,100                     | 49                    |
| Staples, Inc. 4,575                                | 87                    |
| Target Corp. 5,800                                 | 269                   |
| Tiffany & Co. 950                                  | 29                    |
| TJX Cos., Inc. 3,600                               | 82                    |
| •Toys 'R' Us, Inc. 1,200                           | 30                    |
|  | <b>2,733</b>          |

| Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Semiconductors &amp; Semiconductor Equipment 0.4%</b> |                       |
| •Advanced Micro Devices, Inc. 2,040                      | 29                    |
| •Altera Corp. 2,546                                      | 53                    |
| Analog Devices, Inc. 2,300                               | 78                    |
| •Applied Materials, Inc. 10,900                          | 162                   |
| •Applied Micro Circuits Corp. 1,928                      | 5                     |
| •Broadcom Corp., Class A 2,000                           | 60                    |
| •Freescale Semiconductor, Inc., Class B 1,630            | 31                    |
| Intel Corp. 42,100                                       | 990                   |
| •KLA-Tencor Corp. 1,200                                  | 47                    |
| Linear Technology Corp. 2,000                            | 71                    |
| •LSI Logic Corp. 2,000                                   | 11                    |
| Maxim Integrated Products, Inc. 2,100                    | 78                    |
| •Micron Technology, Inc. 3,600                           | 35                    |
| National Semiconductor Corp. 2,200                       | 42                    |
| •Novellus Systems, Inc. 900                              | 21                    |
| •Nvidia Corp. 900  | 20                    |
| •PMC — Sierra, Inc. 1,100                                | 9                     |
| •Teradyne, Inc. 1,100                                    | 12                    |
| Texas Instruments, Inc. 11,300                           | 282                   |
| Xilinx, Inc. 2,100                                       | 57                    |
|  | <b>2,093</b>          |
| <b>Software &amp; Services 0.7%</b>                      |                       |
| Adobe Systems, Inc. 1,600                                | 95                    |
| •Affiliated Computer Services, Inc., Class A 465         | 22                    |
| Autodesk, Inc. 1,600                                     | 51                    |
| Automatic Data Processing, Inc. 3,900                    | 169                   |
| •BMC Software, Inc. 1,600                                | 26                    |
| •Citrix Systems, Inc. 1,200                              | 27                    |
| Computer Associates International, Inc. 3,825            | 103                   |
| •Computer Sciences Corp. 1,090                           | 47                    |
| •Compuware Corp. 2,400                                   | 14                    |
| •Convergys Corp. 869                                     | 11                    |
| •Electronic Arts, Inc. 1,792                             | 96                    |
| Electronic Data Systems Corp. 3,100                      | 60                    |
| First Data Corp. 5,704                                   | 217                   |
| •Fiserv, Inc. 1,200                                      | 51                    |
| •Intuit, Inc. 1,327                                      | 53                    |
| •Mercury Interactive Corp. 500                           | 21                    |

| Security and Number of Shares       | Value<br>(\$ x 1,000) |
|-------------------------------------|-----------------------|
| ⑧ Microsoft Corp. 69,800            | 1,766                 |
| • Novell, Inc. 2,200                | 13                    |
| • Oracle Corp. 34,000               | 393                   |
| • Parametric Technology Corp. 1,800 | 10                    |
| Paychex, Inc. 2,475                 | 76                    |
| Sabre Holdings Corp., Class A 922   | 18                    |
| • Siebel Systems, Inc. 3,000        | 27                    |
| • SunGard Data Systems, Inc. 1,832  | 61                    |
| • Symantec Corp. 3,996              | 75                    |
| • Unisys Corp. 2,100                | 14                    |
| • Veritas Software Corp. 2,600      | 53                    |
| • Yahoo! Inc. 8,400                 | 290                   |
|                                     | <b>3,859</b>          |

#### Technology Hardware & Equipment 0.8%

|  |     |
|--|-----|
| • ADC Telecommunications, Inc. 5,000         | 11  |
| • Agilent Technologies, Inc. 2,917           | 60  |
| • Andrew Corp. 1,025                         | 13  |
| • Apple Computer, Inc. 4,400                 | 159 |
| • Avaya, Inc. 2,775                          | 24  |
| • CIENA Corp. 2,100                          | 5   |
| • Cisco Systems, Inc. 44,500                 | 769 |
| • Converse Technology, Inc. 1,000            | 23  |
| • Corning, Inc. 8,300                        | 114 |
| • Dell, Inc. 16,500                          | 575 |
| • EMC Corp. 15,562                           | 204 |
| • Gateway, Inc. 2,100                        | 7   |
| Hewlett-Packard Co. 19,724                   | 404 |
| International Business Machines Corp. 10,800 | 825 |
| • Jabil Circuit, Inc. 1,341                  | 37  |
| • JDS Uniphase Corp. 8,464                   | 12  |
| • Lexmark International, Inc., Class A 800   | 56  |
| • Lucent Technologies, Inc. 26,905           | 65  |
| Molex, Inc. 1,250                            | 32  |
| Motorola, Inc. 14,770                        | 227 |
| • NCR Corp. 1,200                            | 40  |
| • Network Appliance, Inc. 2,000              | 53  |
| • QLogic Corp. 585                           | 19  |
| Qualcomm, Inc. 10,200                        | 356 |
| • Sanmina — SCI Corp. 3,400                  | 14  |
| Scientific-Atlanta, Inc. 1,000               | 31  |
| • Solectron Corp. 5,300                      | 17  |

| Security and Number of Shares   | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------|
| • Sun Microsystems, Inc. 20,800 | 75                    |
| Symbol Technologies, Inc. 1,284 | 17                    |
| Tektronix, Inc. 500             | 11                    |
| • Tellabs, Inc. 2,700           | 21                    |
| • Xerox Corp. 5,200             | 69                    |
|                                 | <b>4,345</b>          |

#### Telecommunication Services 0.4%

|   |              |
|---|--------------|
| Alltel Corp. 2,100                                | 120          |
| AT&T Corp. 4,941                                  | 94           |
| BellSouth Corp. 11,900                            | 315          |
| CenturyTel, Inc. 900                              | 28           |
| Citizens Communications Co. 1,732                 | 22           |
| • Nextel Communications, Inc., Class A 7,200      | 201          |
| • Qwest Communications International, Inc. 10,622 | 36           |
| SBC Communications, Inc. 21,788                   | 519          |
| Sprint Corp. (FON Group) 8,750                    | 195          |
| Verizon Communications, Inc. 17,836               | 639          |
|   | <b>2,169</b> |

#### Transportation 0.2%

|  |              |
|--|--------------|
| Burlington Northern Santa Fe Corp. 2,500   | 121          |
| CSX Corp. 1,500                            | 60           |
| • Delta Air Lines, Inc. 900                | 3            |
| FedEx Corp. 1,960                          | 166          |
| Norfolk Southern Corp. 2,500               | 78           |
| Ryder Systems, Inc. 400                    | 15           |
| Southwest Airlines Co. 5,137               | 76           |
| Union Pacific Corp. 1,700                  | 109          |
| United Parcel Service, Inc., Class B 7,385 | 527          |
|  | <b>1,155</b> |

#### Utilities 0.4%

|   |    |
|---|----|
| • The AES Corp. 3,200                   | 52 |
| • Allegheny Energy, Inc. 720            | 18 |
| Ameren Corp. 1,200                      | 62 |
| American Electric Power Co., Inc. 2,580 | 91 |
| • Calpine Corp. 1,800                   | 3  |
| Centerpoint Energy, Inc. 1,924          | 23 |
| Cinergy Corp. 1,000                     | 40 |

## Portfolio Holdings continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares   | Value<br>(\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| •CMS Energy Corp. 700                          | 9                     | <b>Other Investment Companies</b><br>84.5% of net assets                    |                       |
| Consolidated Edison, Inc. 1,500                | 65                    | ■▲③ Schwab Institutional Select<br>S&P 500 Fund 8,597,293                   | 78,235                |
| Constellation Energy Group, Inc. 1,000         | 53                    | ■② Schwab International Index Fund,<br>Select Shares 5,004,580              | 78,722                |
| Dominion Resources, Inc. 2,167                 | 163                   | ■④ Schwab Small-Cap Index Fund,<br>Select Shares 3,823,663                  | 76,244                |
| DTE Energy Co. 1,000                           | 46                    | ■① Schwab Total Bond<br>Market Fund 18,695,845                              | 187,706               |
| Duke Energy Corp. 5,952                        | 174                   | ■⑤ Schwab Value Advantage<br>Money Fund, Institutional<br>Shares 22,906,710 | 22,907                |
| •Dynegy, Inc., Class A 2,100                   | 7                     |   | <b>443,814</b>        |
| Edison International 2,200                     | 80                    |   |                       |
| Entergy Corp. 1,500                            | 110                   | <b>Security</b>   | <b>Face Amount</b>    |
| Exelon Corp. 4,324                             | 214                   | <b>Rate, Maturity Date</b>  | <b>(\$ x 1,000)</b>   |
| FirstEnergy Corp. 2,030                        | 88                    | <b>Short-Term Investment</b><br>2.1% of net assets                          |                       |
| FPL Group, Inc. 2,600                          | 106                   | Bank of America, London<br>Time Deposit                                     |                       |
| KeySpan Corp. 900                              | 34                    | 2.36%, 05/02/05   | 11,221                |
| Nicor, Inc. 300                                | 11                    |   | <b>11,221</b>         |
| NiSource, Inc. 1,651                           | 38                    | <b>U.S. Treasury Obligation</b><br>0.1% of net assets                       |                       |
| Peoples Energy Corp. 200                       | 8                     | ▲ U.S. Treasury Bill  |                       |
| •PG&E Corp. 2,700                              | 94                    | 2.73%, 06/16/05   | 650                   |
| Pinnacle West Capital Corp. 600                | 25                    |   | <b>648</b>            |
| PPL Corp. 1,000                                | 54                    |   |                       |
| Progress Energy, Inc. 1,593                    | 67                    |   |                       |
| Public Service Enterprise<br>Group, Inc. 1,500 | 87                    |   |                       |
| Sempra Energy 1,360                            | 55                    |   |                       |
| The Southern Co. 4,500                         | 148                   |   |                       |
| TECO Energy, Inc. 900                          | 15                    |   |                       |
| TXU Corp. 2,122                                | 182                   |   |                       |
| Xcel Energy, Inc. 2,585                        | 44                    |   |                       |
|  | <b>2,266</b>          |   |                       |

End of investments.

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

## Futures Contracts

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|---|------------------------|-------------------|----------------------|
| S&P 500 Index, Long<br>Expires 06/17/05 | 35                     | 10,137            | <b>(312)</b>         |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                              |                |
|------------------------------|----------------|
| Investments, at value        | \$525,633      |
| Cash                         | 8              |
| Receivables:                 |                |
| Fund shares sold             | 204            |
| Interest                     | 2              |
| Dividends                    | 715            |
| Due from brokers for futures | 135            |
| Prepaid expenses             | + 15           |
| <b>Total assets</b>          | <b>526,712</b> |

**Liabilities**

|   |              |
|---|--------------|
| Payables:                                   |              |
| Fund shares redeemed                        | 544          |
| Investments bought                          | 611          |
| Investment adviser and administrator fees   | 9            |
| Transfer agent and shareholder service fees | 11           |
| Accrued expenses                            | + 56         |
| <b>Total liabilities</b>                    | <b>1,231</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 526,712          |
| <b>Total liabilities</b> | – 1,231          |
| <b>Net assets</b>        | <b>\$525,481</b> |

**Net Assets by Source**

|   |         |
|---|---------|
| Capital received from investors           | 470,623 |
| Net investment income not yet distributed | 1,951   |
| Net realized capital losses               | (4,349) |
| Net unrealized capital gains              | 57,256  |

**Net Asset Value (NAV)**

|                   |          |                           |          |            |
|-------------------|----------|---------------------------|----------|------------|
| <b>Net Assets</b> | <b>÷</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
| \$525,481         |          | 35,556                    |          | \$14.78    |

Unless stated, all numbers x 1,000.

The fund paid \$468,065 for these securities.

Not counting short-term obligations and government securities and securities related to in-kind transactions, the fund's investment transactions during the period were:

|                  |           |
|------------------|-----------|
| Purchases        | \$109,340 |
| Sales/maturities | \$139,784 |

The fund's total security transactions (including the in-kind redemptions) with other Schwab Funds® during the period were \$153,109.

Percent of fund shares of other Schwab Funds owned at the end of the report period:

**Schwab Equity Index Funds**

|                          |      |
|--------------------------|------|
| Small-Cap Index Fund     | 4.9% |
| International Index Fund | 5.9% |

**Schwab Bond Funds**

|                        |       |
|------------------------|-------|
| Total Bond Market Fund | 16.5% |
|------------------------|-------|

**Schwab Institutional Select Funds**

|                      |      |
|----------------------|------|
| Institutional Select |      |
| S&P 500 Fund         | 8.4% |

**Schwab Money Funds**

|                 |      |
|-----------------|------|
| Value Advantage |      |
| Money Fund      | 0.1% |

These derive from investments and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio Cost</b>                   | \$470,738       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$67,162        |
| Losses                                  | + (12,267)      |
|   | <b>\$54,895</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$3,853 |
| Long-term capital gains | \$–     |

**Capital losses utilized** \$680

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2011              | <b>\$11,313</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$9,542      |
| Interest                       | + 60         |
| <b>Total investment income</b> | <b>9,602</b> |

**Net Realized Gains and Losses**

|   |               |
|---|---------------|
| Net realized gains on investments                 | 13,192        |
| Net realized gains received from underlying funds | 979           |
| Net realized losses on futures contracts          | + (116)       |
| <b>Net realized gains</b>                         | <b>14,055</b> |

**Net Unrealized Gains and Losses**

|  |                |
|--|----------------|
| Net unrealized losses on investments       | (6,877)        |
| Net unrealized losses on futures contracts | + (312)        |
| <b>Net unrealized losses</b>               | <b>(7,189)</b> |

**Expenses**

|   |              |
|---|--------------|
| Investment adviser and administrator fees   | 1,171        |
| Transfer agent and shareholder service fees | 671          |
| Trustees' fees                              | 5            |
| Custodian fees                              | 22           |
| Portfolio accounting fees                   | 35           |
| Professional fees                           | 14           |
| Registration fees                           | 9            |
| Shareholder reports                         | 25           |
| Other expenses                              | + 14         |
| Total expenses                              | 1,966        |
| Expense reduction                           | - 624        |
| <b>Net expenses</b>                         | <b>1,342</b> |

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | 9,602           |
| <b>Net expenses</b>                           | - 1,342         |
| <b>Net investment income</b>                  | <b>8,260</b>    |
| <b>Net realized gains</b>                     | 14,055          |
| <b>Net unrealized losses</b>                  | + (7,189)       |
| <b>Increase in net assets from operations</b> | <b>\$15,126</b> |

Includes gains of \$8,121 associated with redemption-in-kind from the Schwab S&P 500 Index Fund.

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% 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 operating expenses of this fund through February 27, 2006, to 0.50% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$6,866

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000  
 Figures for current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$8,260         | \$10,785         |
| Net realized gains                            | 14,055          | 3,467            |
| Net unrealized gains or losses                | + (7,189)       | 29,584           |
| <b>Increase in net assets from operations</b> | <b>\$15,126</b> | <b>43,836</b>    |

**Distributions Paid**

|                                      |                  |                 |
|--------------------------------------|------------------|-----------------|
| Dividends from net investment income | <b>\$ 10,162</b> | <b>\$10,771</b> |
|--------------------------------------|------------------|-----------------|

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                   | 11/1/03–10/31/04 |                  |
|--|-----------------|-------------------|------------------|------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE            |
| Shares sold                            | 3,408           | \$51,200          | 7,160            | \$101,953        |
| Shares reinvested                      | 651             | 9,764             | 746              | 10,391           |
| Shares redeemed                        | + (5,413)       | (81,637)          | (8,474)          | (120,586)        |
| <b>Net transactions in fund shares</b> | <b>(1,354)</b>  | <b>(\$20,673)</b> | <b>(568)</b>     | <b>(\$8,242)</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                  |
|----------------------------|-----------------|------------------|------------------|------------------|
|                            | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period        | 36,910          | \$541,190        | 37,478           | \$516,367        |
| Total increase or decrease | + (1,354)       | (15,709)         | (568)            | 24,823           |
| <b>End of period</b>       | <b>35,556</b>   | <b>\$525,481</b> | <b>36,910</b>    | <b>\$541,190</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$10,771 |
| Long-term capital gains | \$–      |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$1,951 and \$3,583 at the end of the current period and prior period, respectively.

# Schwab MarketTrack Conservative Portfolio<sup>TM</sup>

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 13.09                | 12.53                | 11.37                | 12.22                | 13.12                | 12.73                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.23                 | 0.34                 | 0.29                 | 0.40                 | 0.49                 | 0.47                 |
| Net realized and unrealized gains or losses     | 0.05                 | 0.57                 | 1.16                 | (0.78)               | (0.80)               | 0.41                 |
| Total income or loss from investment operations | 0.28                 | 0.91                 | 1.45                 | (0.38)               | (0.31)               | 0.88                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.22)               | (0.35)               | (0.29)               | (0.41)               | (0.50)               | (0.46)               |
| Distributions from net realized gains           | —                    | —                    | —                    | (0.06)               | (0.09)               | (0.03)               |
| Total distributions                             | (0.22)               | (0.35)               | (0.29)               | (0.47)               | (0.59)               | (0.49)               |
| Net asset value at end of period                | 13.15                | 13.09                | 12.53                | 11.37                | 12.22                | 13.12                |
| Total return (%)                                | 2.15 <sup>1</sup>    | 7.38                 | 12.98                | (3.29)               | (2.39)               | 6.92                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses <sup>2</sup>             | 0.50 <sup>3</sup>    | 0.50                 | 0.50                 | 0.50                 | 0.50                 | 0.57 <sup>4</sup>    |
| Gross operating expenses <sup>2</sup>           | 0.74 <sup>3</sup>    | 0.75                 | 0.75                 | 0.76                 | 0.77                 | 0.84                 |
| Net investment income                           | 1.68 <sup>1</sup>    | 2.70                 | 2.44                 | 3.17                 | 3.85                 | 3.58                 |
| Portfolio turnover rate                         | 4 <sup>1</sup>       | 10                   | 17                   | 32                   | 15                   | 16                   |
| Net assets, end of period (\$ x 1,000,000)      | 297                  | 290                  | 289                  | 263                  | 211                  | 194                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**①** Top ten holding

- Non-income producing security
- Issuer is affiliated with the fund's adviser

| Holdings by Category |  | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|--|--------------------|---------------------|
| <b>5.5%</b>          | <b>Common Stock</b>                      | 12,753             | 16,499              |
| <b>93.8%</b>         | <b>Other Investment Companies</b>        | 256,315            | 279,097             |
| <b>0.7%</b>          | <b>Short-Term Investment</b>             | 1,952              | 1,952               |
| <b>100.0%</b>        | <b>Total Investments</b>                 | <b>271,020</b>     | <b>297,548</b>      |
| <b>(0.0)%</b>        | <b>Other Assets and Liabilities, Net</b> |                    | (135)               |
| <b>100.0%</b>        | <b>Total Net Assets</b>                  |                    | <b>297,413</b>      |

Security and Number of Shares

Value  
(\$ x 1,000)

**Common Stock** 5.5% of net assets

**Automobiles & Components 0.0%**

|                          |       |    |
|--------------------------|-------|----|
| Cooper Tire & Rubber Co. | 100   | 2  |
| Dana Corp.               | 292   | 3  |
| Delphi Corp.             | 868   | 3  |
| Ford Motor Co.           | 2,921 | 27 |
| General Motors Corp.     | 825   | 22 |

**Security and Number of Shares**

Value  
(\$ x 1,000)

|                              |     |            |
|------------------------------|-----|------------|
| • Goodyear Tire & Rubber Co. | 300 | 4          |
| Harley-Davidson, Inc.        | 500 | 23         |
| Johnson Controls, Inc.       | 300 | 16         |
| Visteon Corp.                | 248 | 1          |
|                              |     | <b>101</b> |

**Banks 0.4%**

|                                    |       |              |
|------------------------------------|-------|--------------|
| AmSouth Bancorp.                   | 600   | 16           |
| Bank of America Corp.              | 6,162 | 278          |
| BB&T Corp.                         | 850   | 33           |
| Comerica, Inc.                     | 300   | 17           |
| Compass Bancshares, Inc.           | 2,000 | 86           |
| Countrywide Financial Corp.        | 798   | 29           |
| Fannie Mae                         | 1,475 | 80           |
| Fifth Third Bancorp.               | 867   | 38           |
| First Horizon National Corp.       | 200   | 8            |
| Freddie Mac                        | 1,000 | 62           |
| Golden West Financial Corp.        | 500   | 31           |
| Huntington Bancshares, Inc.        | 423   | 10           |
| KeyCorp, Inc.                      | 700   | 23           |
| M&T Bank Corp.                     | 199   | 21           |
| Marshall & Ilsley Corp.            | 322   | 14           |
| MGIC Investment Corp.              | 150   | 9            |
| National City Corp.                | 950   | 32           |
| North Fork Bancorp., Inc.          | 750   | 21           |
| PNC Financial Services Group, Inc. | 400   | 21           |
| Regions Financial Corp.            | 670   | 22           |
| Sovereign Bancorp, Inc.            | 400   | 8            |
| SunTrust Banks, Inc.               | 500   | 36           |
| Synovus Financial Corp.            | 400   | 11           |
| U.S. Bancorp.                      | 2,922 | 82           |
| Wachovia Corp.                     | 2,445 | 125          |
| Washington Mutual, Inc.            | 1,331 | 55           |
| Wells Fargo & Co.                  | 2,560 | 154          |
| Zions Bancorp.                     | 100   | 7            |
|                                    |       | <b>1,329</b> |

**Capital Goods 0.5%**

|                                 |       |    |
|---------------------------------|-------|----|
| 3M Co.                          | 1,200 | 92 |
| American Power Conversion Corp. | 225   | 5  |
| American Standard Cos., Inc.    | 300   | 13 |
| The Boeing Co.                  | 1,246 | 74 |
| Caterpillar, Inc.               | 550   | 48 |

## Portfolio holdings continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares               | Value<br>(\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| Cooper Industries Ltd., Class A 150            | 10                    | Equifax, Inc. 200                           | 7                     |
| Crane Co. 150                                  | 4                     | H&R Block, Inc. 300                         | 15                    |
| Cummins, Inc. 100                              | 7                     | • Monster Worldwide, Inc. 191               | 4                     |
| Danaher Corp. 500                              | 25                    | • PHH Corp. 72                              | 2                     |
| Deere & Co. 400                                | 25                    | Pitney Bowes, Inc. 400                      | 18                    |
| Dover Corp. 300                                | 11                    | R.R. Donnelley & Sons Co. 300               | 10                    |
| Eaton Corp. 200                                | 12                    | Robert Half International, Inc. 300         | 7                     |
| Emerson Electric Co. 650                       | 41                    | Waste Management, Inc. 907                  | 26                    |
| Fluor Corp. 100                                | 5                     |   | <b>164</b>            |
| General Dynamics Corp. 300                     | 32                    |   |                       |
| ⑥ General Electric Co. 15,950                  | 577                   | <b>Consumer Durables &amp; Apparel 0.1%</b> |                       |
| Goodrich Corp. 200                             | 8                     | Black & Decker Corp. 100                    | 8                     |
| Honeywell International, Inc. 1,275            | 46                    | Brunswick Corp. 100                         | 4                     |
| Illinois Tool Works, Inc. 450                  | 38                    | Centex Corp. 200                            | 12                    |
| Ingersoll-Rand Co., Class A 250                | 19                    | • Coach, Inc. 600                           | 16                    |
| ITT Industries, Inc. 150                       | 14                    | Eastman Kodak Co. 500                       | 13                    |
| L-3 Communications Holdings, Inc. 200          | 14                    | Fortune Brands, Inc. 200                    | 17                    |
| Lockheed Martin Corp. 700                      | 43                    | Hasbro, Inc. 325                            | 6                     |
| Masco Corp. 700                                | 22                    | Jones Apparel Group, Inc. 200               | 6                     |
| • Navistar International Corp. 100             | 3                     | KB Home 200                                 | 12                    |
| Northrop Grumman Corp. 514                     | 28                    | Leggett & Platt, Inc. 300                   | 8                     |
| Paccar, Inc. 300                               | 20                    | Liz Claiborne, Inc. 200                     | 7                     |
| Pall Corp. 200                                 | 5                     | Mattel, Inc. 650                            | 12                    |
| Parker Hannifin Corp. 150                      | 9                     | Maytag Corp. 100                            | 1                     |
| • Power-One, Inc. 57                           | —                     | Newell Rubbermaid, Inc. 436                 | 10                    |
| Raytheon Co. 600                               | 23                    | Nike, Inc., Class B 400                     | 31                    |
| Rockwell Automation, Inc. 300                  | 14                    | Pulte Homes, Inc. 200                       | 14                    |
| Rockwell Collins, Inc. 300                     | 14                    | Reebok International Ltd. 100               | 4                     |
| Textron, Inc. 200                              | 15                    | Snap-On, Inc. 100                           | 3                     |
| • Thomas & Betts Corp. 100                     | 3                     | The Stanley Works 100                       | 4                     |
| Tyco International Ltd. 3,013                  | 94                    | VF Corp. 200                                | 11                    |
| United Technologies Corp. 800                  | 81                    | Whirlpool Corp. 100                         | 6                     |
| W.W. Grainger, Inc. 100                        | 6                     |   | <b>205</b>            |
|  | <b>1,500</b>          |   |                       |
| <b>Commercial Services &amp; Supplies 0.1%</b> |                       | <b>Diversified Financials 0.4%</b>          |                       |
| • Allied Waste Industries, Inc. 500            | 4                     | American Express Co. 2,000                  | 105                   |
| • Apollo Group, Inc., Class A 250              | 18                    | The Bank of New York Co., Inc. 1,200        | 34                    |
| Avery Dennison Corp. 200                       | 10                    | The Bear Stearns Cos., Inc. 145             | 14                    |
| Cendant Corp. 1,459                            | 29                    | Capital One Financial Corp. 350             | 25                    |
| Cintas Corp. 260                               | 10                    | ■ The Charles Schwab Corp. 2,125            | 22                    |
| Deluxe Corp. 100                               | 4                     | CIT Group, Inc. 300                         | 12                    |
|  |                       | ⑨ Citigroup, Inc. 7,782                     | 365                   |

| Security and Number of Shares          | Value<br>(\$ x 1,000) |
|--|-----------------------|
| • E*TRADE Financial Corp. 600          | 7                     |
| Federated Investors, Inc., Class B 200 | 6                     |
| Franklin Resources, Inc. 400           | 27                    |
| Goldman Sachs Group, Inc. 728          | 78                    |
| Janus Capital Group, Inc. 400          | 5                     |
| JPMorgan Chase & Co. 5,352             | 190                   |
| Lehman Brothers Holdings, Inc. 400     | 37                    |
| MBNA Corp. 1,957                       | 39                    |
| Mellon Financial Corp. 700             | 19                    |
| Merrill Lynch & Co., Inc. 1,500        | 81                    |
| Moody's Corp. 200                      | 16                    |
| Morgan Stanley 1,630                   | 86                    |
| Northern Trust Corp. 300               | 13                    |
| Principal Financial Group, Inc. 550    | 21                    |
| • Provident Financial Corp. 400        | 7                     |
| SLM Corp. 650                          | 31                    |
| State Street Corp. 500                 | 23                    |
| T. Rowe Price Group, Inc. 200          | 11                    |
|  | <b>1,274</b>          |

### Energy 0.4%

|                                |     |
|--------------------------------|-----|
| Amerada Hess Corp. 100         | 9   |
| Anadarko Petroleum Corp. 367   | 27  |
| Apache Corp. 462               | 26  |
| Ashland, Inc. 100              | 7   |
| Baker Hughes, Inc. 470         | 21  |
| BJ Services Co. 200            | 10  |
| Burlington Resources, Inc. 600 | 29  |
| ChevronTexaco Corp. 3,286      | 171 |
| ConocoPhillips 1,027           | 108 |
| Devon Energy Corp. 700         | 32  |
| El Paso Corp. 769              | 8   |
| EOG Resources, Inc. 360        | 17  |
| 7 Exxon Mobil Corp. 9,918      | 566 |
| Halliburton Co. 714            | 30  |
| Kerr-McGee Corp. 186           | 14  |
| Kinder Morgan, Inc. 176        | 13  |
| Marathon Oil Corp. 500         | 23  |
| • Nabors Industries Ltd. 200   | 11  |
| Noble Corp. 200                | 10  |
| Occidental Petroleum Corp. 600 | 41  |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Rowan Cos., Inc. 100          | 3                     |
| Schlumberger Ltd. 900         | 61                    |
| Sunoco, Inc. 100              | 10                    |
| • Transocean, Inc. 474        | 22                    |
| Unocal Corp. 400              | 22                    |
| Valero Energy Corp. 400       | 27                    |
| Williams Cos., Inc. 700       | 12                    |
| XTO Energy, Inc. 533          | 16                    |
|                               | <b>1,346</b>          |

### Food & Staples Retailing 0.2%

|                               |            |
|-------------------------------|------------|
| Albertson's, Inc. 652         | 13         |
| Costco Wholesale Corp. 700    | 28         |
| CVS Corp. 600                 | 31         |
| • Kroger Co. 1,200            | 19         |
| • Safeway, Inc. 650           | 14         |
| Supervalu, Inc. 200           | 6          |
| Sysco Corp. 1,000             | 35         |
| Wal-Mart Stores, Inc. 6,450   | 304        |
| Walgreen Co. 1,600            | 69         |
| • Winn-Dixie Stores, Inc. 300 | —          |
|                               | <b>519</b> |

### Food Beverage & Tobacco 0.3%

|                                      |     |
|--------------------------------------|-----|
| Altria Group, Inc. 3,100             | 201 |
| Anheuser-Busch Cos., Inc. 1,200      | 56  |
| Archer-Daniels-Midland Co. 1,014     | 18  |
| Brown-Forman Corp., Class B 150      | 8   |
| Campbell Soup Co. 700                | 21  |
| The Coca-Cola Co. 3,700              | 161 |
| Coca-Cola Enterprises, Inc. 700      | 14  |
| ConAgra Foods, Inc. 800              | 21  |
| General Mills, Inc. 582              | 29  |
| H.J. Heinz Co. 600                   | 22  |
| Hershey Foods Corp. 400              | 26  |
| Kellogg Co. 600                      | 27  |
| McCormick & Co., Inc. 200            | 7   |
| Molson Coors Brewing Co., Class B 50 | 3   |
| The Pepsi Bottling Group, Inc. 350   | 10  |
| PepsiCo, Inc. 2,560                  | 142 |
| Reynolds American, Inc. 237          | 19  |
| Sara Lee Corp. 1,200                 | 26  |

## Portfolio Holdings continued

| Security and Number of Shares                      | Value<br>(\$ x 1,000) | Security and Number of Shares                  | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| UST, Inc. 300                                      | 14                    |  |                       |
| Wm. Wrigley Jr. Co. 300                            | 21                    |  |                       |
|  | <b>846</b>            |  |                       |
| <b>Health Care Equipment &amp; Services 0.3%</b>   |                       | <b>Hotels Restaurants &amp; Leisure 0.1%</b>   |                       |
| Aetna, Inc. 444                                    | 33                    | Carnival Corp. 1,000                           | 49                    |
| AmerisourceBergen Corp. 200                        | 12                    | Darden Restaurants, Inc. 300                   | 9                     |
| Bausch & Lomb, Inc. 100                            | 7                     | Harrah's Entertainment, Inc. 200               | 13                    |
| Baxter International, Inc. 900                     | 33                    | Hilton Hotels Corp. 600                        | 13                    |
| Becton Dickinson & Co. 400                         | 23                    | International Game Technology 556              | 15                    |
| Biomet, Inc. 450                                   | 17                    | Marriott International, Inc., Class A 400      | 25                    |
| • Boston Scientific Corp. 1,268                    | 38                    | McDonald's Corp. 2,000                         | 59                    |
| C.R. Bard, Inc. 200                                | 14                    | • Starbucks Corp. 560                          | 28                    |
| Cardinal Health, Inc. 650                          | 36                    | Starwood Hotels & Resorts                      |                       |
| • Caremark Rx, Inc. 581                            | 23                    | Worldwide, Inc. 300                            | 16                    |
| CIGNA Corp. 200                                    | 18                    | Wendy's International, Inc. 200                | 9                     |
| • Express Scripts, Inc. 100                        | 9                     | Yum! Brands, Inc. 480                          | 22                    |
| • Fisher Scientific International, Inc. 163        | 10                    |  | <b>258</b>            |
| Guidant Corp. 500                                  | 37                    |  |                       |
| HCA, Inc. 800                                      | 45                    | <b>Household &amp; Personal Products 0.1%</b>  |                       |
| Health Management Associates, Inc.,<br>Class A 400 | 10                    | Alberto-Culver Co., Class B 150                | 7                     |
| • Hospira, Inc. 240                                | 8                     | Avon Products, Inc. 700                        | 28                    |
| • Humana, Inc. 200                                 | 7                     | Clorox Co. 300                                 | 19                    |
| IMS Health, Inc. 350                               | 8                     | Colgate-Palmolive Co. 800                      | 40                    |
| • Laboratory Corp. of America<br>Holdings 200      | 10                    | The Gillette Co. 1,500                         | 77                    |
| Manor Care, Inc. 100                               | 3                     | Kimberly-Clark Corp. 756                       | 47                    |
| McKesson Corp. 422                                 | 16                    | Procter & Gamble Co. 3,900                     | 211                   |
| • Medco Health Solutions, Inc. 422                 | 22                    |  | <b>429</b>            |
| Medtronic, Inc. 1,800                              | 95                    |  |                       |
| • Millipore Corp. 100                              | 5                     | <b>Insurance 0.2%</b>                          |                       |
| PerkinElmer, Inc. 200                              | 4                     | ACE Ltd. 400                                   | 17                    |
| Quest Diagnostics 139                              | 15                    | AFLAC, Inc. 800                                | 33                    |
| • St. Jude Medical, Inc. 500                       | 20                    | The Allstate Corp. 1,100                       | 62                    |
| Stryker Corp. 602                                  | 29                    | AMBAC Financial Group, Inc. 162                | 11                    |
| • Tenet Healthcare Corp. 750                       | 9                     | American International Group, Inc. 3,979       | 202                   |
| • Thermo Electron Corp. 200                        | 5                     | AON Corp. 475                                  | 10                    |
| UnitedHealth Group, Inc. 1,000                     | 95                    | Chubb Corp. 300                                | 25                    |
| • Waters Corp. 200                                 | 8                     | Cincinnati Financial Corp. 330                 | 13                    |
| • WellPoint, Inc. 450                              | 57                    | Hartford Financial Services<br>Group, Inc. 425 | 31                    |
| • Zimmer Holdings, Inc. 350                        | 28                    | Jefferson-Pilot Corp. 225                      | 11                    |
|  | <b>809</b>            | Lincoln National Corp. 300                     | 13                    |
|  |                       | Loews Corp. 300                                | 21                    |
|  |                       | Marsh & McLennan Cos., Inc. 800                | 22                    |
|  |                       | MBIA, Inc. 200                                 | 10                    |
|  |                       | Metlife, Inc. 1,178                            | 46                    |
|  |                       | The Progressive Corp. 350                      | 32                    |

| Security and Number of Shares           | Value<br>(\$ x 1,000) |
|---|-----------------------|
| Prudential Financial, Inc. 800          | 46                    |
| Safeco Corp. 200                        | 11                    |
| The St. Paul Travelers Cos., Inc. 1,006 | 36                    |
| Torchmark Corp. 200                     | 11                    |
| UnumProvident Corp. 346                 | 6                     |
| XL Capital Ltd., Class A 200            | 14                    |
|   | <b>683</b>            |

**Materials 0.2%**

|   |    |
|---|----|
| Air Products & Chemicals, Inc. 300                | 18 |
| Alcoa, Inc. 1,312                                 | 38 |
| Allegheny Technologies, Inc. 146                  | 3  |
| Ball Corp. 200                                    | 8  |
| Bemis Co. 200                                     | 6  |
| The Dow Chemical Co. 1,372                        | 63 |
| E.I. du Pont de Nemours & Co. 1,525               | 72 |
| Eastman Chemical Co. 100                          | 5  |
| Ecolab, Inc. 400                                  | 13 |
| Engelhard Corp. 200                               | 6  |
| Freeport-McMoran Copper & Gold, Inc., Class B 300 | 10 |
| Georgia-Pacific Corp. 379                         | 13 |
| Great Lakes Chemical Corp. 100                    | 3  |
| •Hercules, Inc. 200                               | 3  |
| International Flavors & Fragrances, Inc. 200      | 8  |
| International Paper Co. 739                       | 25 |
| Louisiana-Pacific Corp. 100                       | 2  |
| MeadWestvaco Corp. 294                            | 9  |
| Monsanto Co. 332                                  | 20 |
| Neenah Paper, Inc. 22                             | 1  |
| Newmont Mining Corp. 643                          | 24 |
| Nucor Corp. 200                                   | 10 |
| •Pactiv Corp. 300                                 | 6  |
| Phelps Dodge Corp. 135                            | 12 |
| PPG Industries, Inc. 250                          | 17 |
| Praxair, Inc. 500                                 | 23 |
| Rohm & Haas Co. 373                               | 16 |
| •Sealed Air Corp. 153                             | 7  |
| Sigma-Aldrich Corp. 100                           | 6  |
| Temple-Inland, Inc. 200                           | 7  |
| United States Steel Corp. 100                     | 4  |
| Vulcan Materials Co. 200                          | 11 |

| Security and Number of Shares    | Value<br>(\$ x 1,000) |
|----------------------------------|-----------------------|
| Weyerhaeuser Co. 350             | 24                    |
| Worthington Industries, Inc. 100 | 2                     |
|                                  | <b>495</b>            |

**Media 0.2%**

|  |            |
|--|------------|
| Clear Channel Communications, Inc. 967       | 31         |
| •Comcast Corp., Class A 3,463                | 111        |
| Dow Jones & Co., Inc. 100                    | 3          |
| Gannett Co., Inc. 400                        | 31         |
| •Interpublic Group of Cos., Inc. 600         | 8          |
| Knight-Ridder, Inc. 100                      | 6          |
| The McGraw-Hill Cos., Inc. 300               | 26         |
| Meredith Corp. 100                           | 5          |
| New York Times Co., Class A 200              | 7          |
| •News Corp, Inc., Class A 4,000              | 61         |
| Omnicom Group, Inc. 300                      | 25         |
| •Time Warner, Inc. 6,850                     | 115        |
| Tribune Co. 500                              | 19         |
| •Univision Communications, Inc., Class A 519 | 14         |
| Viacom, Inc., Class B 2,660                  | 92         |
| The Walt Disney Co. 3,077                    | 81         |
|  | <b>635</b> |

**Pharmaceuticals & Biotechnology 0.5%**

|  |     |
|--|-----|
| Abbott Laboratories 2,400                    | 118 |
| Allergan, Inc. 200                           | 14  |
| •Amgen, Inc. 1,952                           | 114 |
| Applied Biosystems Group – Applera Corp. 300 | 6   |
| •Biogen Idec, Inc. 480                       | 18  |
| Bristol-Myers Squibb Co. 3,000               | 78  |
| •Chiron Corp. 300                            | 10  |
| Eli Lilly & Co. 1,725                        | 101 |
| •Forest Laboratories, Inc. 550               | 20  |
| •Genzyme Corp. 325                           | 19  |
| •Gilead Sciences, Inc. 650                   | 24  |
| Johnson & Johnson 4,492                      | 308 |
| •King Pharmaceuticals, Inc. 366              | 3   |
| •Medimmune, Inc. 400                         | 10  |
| Merck & Co., Inc. 3,400                      | 115 |
| Mylan Laboratories, Inc. 400                 | 7   |
| ⑩ Pfizer, Inc. 11,557                        | 314 |

**Portfolio Holdings** continued

| Security and Number of Shares                      | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| Schering-Plough Corp. 2,300                        | 48                    | Target Corp. 1,400                                       | 65                    |
| • Watson Pharmaceuticals, Inc. 200                 | 6                     | Tiffany & Co. 250  | 8                     |
| Wyeth 2,000  | 90                    | TJX Cos., Inc. 800                                       | 18                    |
|  | <b>1,423</b>          | • Toys 'R' Us, Inc. 300                                  | 8                     |
|  |                       |  | <b>645</b>            |
| <b>Real Estate 0.0%</b>                            |                       | <b>Semiconductors &amp; Semiconductor Equipment 0.2%</b> |                       |
| Apartment Investment & Management Co., Class A 100 | 4                     | • Advanced Micro Devices, Inc. 560                       | 8                     |
| Archstone-Smith Trust 300                          | 11                    | • Altera Corp. 510                                       | 11                    |
| Equity Office Properties Trust 600                 | 19                    | Analog Devices, Inc. 600                                 | 20                    |
| Equity Residential 400                             | 13                    | • Applied Materials, Inc. 2,600                          | 39                    |
| Plum Creek Timber Co., Inc. 300                    | 10                    | • Applied Micro Circuits Corp. 455                       | 1                     |
| ProLogis 300                                       | 12                    | • Broadcom Corp., Class A 492                            | 15                    |
| Simon Property Group, Inc. 300                     | 20                    | • Freescale Semiconductor, Inc., Class B 404             | 8                     |
|  | <b>89</b>             | Intel Corp. 9,800  | 231                   |
|  |                       | • KLA-Tencor Corp. 300                                   | 12                    |
| <b>Retailing 0.2%</b>                              |                       | Linear Technology Corp. 500                              | 18                    |
| • Autonation, Inc. 500                             | 9                     | • LSI Logic Corp. 500                                    | 3                     |
| • AutoZone, Inc. 150                               | 12                    | Maxim Integrated Products, Inc. 500                      | 19                    |
| • Bed, Bath & Beyond, Inc. 400                     | 15                    | • Micron Technology, Inc. 900                            | 9                     |
| Best Buy Co., Inc. 450                             | 23                    | National Semiconductor Corp. 600                         | 11                    |
| • Big Lots, Inc. 200                               | 2                     | • Novellus Systems, Inc. 250                             | 6                     |
| Circuit City Stores, Inc. 300                      | 5                     | • Nvidia Corp. 200                                       | 4                     |
| Dillards, Inc., Class A 200                        | 5                     | • PMC — Sierra, Inc. 300                                 | 2                     |
| Dollar General Corp. 515                           | 10                    | • Teradyne, Inc. 300                                     | 3                     |
| • eBay, Inc. 2,008                                 | 64                    | Texas Instruments, Inc. 2,700                            | 67                    |
| Family Dollar Stores, Inc. 300                     | 8                     | Xilinx, Inc. 500   | 13                    |
| Federated Department Stores, Inc. 300              | 17                    |  | <b>500</b>            |
| The Gap, Inc. 1,362                                | 29                    |  |                       |
| Genuine Parts Co. 250                              | 11                    | <b>Software &amp; Services 0.3%</b>                      |                       |
| Home Depot, Inc. 3,450                             | 122                   | Adobe Systems, Inc. 400                                  | 24                    |
| J.C. Penney Co., Inc. Holding Co. 400              | 19                    | • Affiliated Computer Services, Inc., Class A 203        | 10                    |
| • Kohl's Corp. 500                                 | 24                    | Autodesk, Inc. 400                                       | 13                    |
| Limitedbrands 739                                  | 16                    | Automatic Data Processing, Inc. 900                      | 39                    |
| Lowe's Cos., Inc. 1,200                            | 62                    | • BMC Software, Inc. 400                                 | 6                     |
| The May Department Stores Co. 500                  | 18                    | • Citrix Systems, Inc. 300                               | 7                     |
| Nordstrom, Inc. 200                                | 10                    | Computer Associates International, Inc. 850              | 23                    |
| • Office Depot, Inc. 600                           | 12                    | • Computer Sciences Corp. 258                            | 11                    |
| OfficeMax, Inc. 100                                | 3                     | • Compuware Corp. 600                                    | 4                     |
| RadioShack Corp. 300                               | 7                     | • Convergys Corp. 174                                    | 2                     |
| • Sears Holdings Corp. 94                          | 13                    |  |                       |
| The Sherwin-Williams Co. 200                       | 9                     |  |                       |
| Staples, Inc. 1,125                                | 21                    |  |                       |

| Security and Number of Shares     | Value<br>(\$ x 1,000) |
|-----------------------------------|-----------------------|
| •Electronic Arts, Inc. 424        | 23                    |
| Electronic Data Systems Corp. 700 | 13                    |
| First Data Corp. 1,392            | 53                    |
| •Fiserv, Inc. 300                 | 13                    |
| •Intuit, Inc. 313                 | 13                    |
| •Mercury Interactive Corp. 100    | 4                     |
| 8 Microsoft Corp. 16,400          | 415                   |
| •Novell, Inc. 500                 | 3                     |
| •Oracle Corp. 7,900               | 91                    |
| •Parametric Technology Corp. 500  | 3                     |
| Paychex, Inc. 525                 | 16                    |
| Sabre Holdings Corp., Class A 244 | 5                     |
| •Siebel Systems, Inc. 600         | 5                     |
| •SunGard Data Systems, Inc. 433   | 14                    |
| •Symantec Corp. 1,004             | 19                    |
| •Unisys Corp. 500                 | 3                     |
| •Veritas Software Corp. 600       | 12                    |
| •Yahoo! Inc. 2,000                | 69                    |

**913****Technology Hardware & Equipment 0.3%**

|   |     |
|---|-----|
| •ADC Telecommunications, Inc. 1,000         | 2   |
| •Agilent Technologies, Inc. 710             | 15  |
| •Andrew Corp. 100                           | 1   |
| •Apple Computer, Inc. 1,200                 | 43  |
| •Avaya, Inc. 618                            | 6   |
| •CIENA Corp. 500                            | 1   |
| •Cisco Systems, Inc. 10,450                 | 181 |
| •Comverse Technology, Inc. 300              | 7   |
| •Corning, Inc. 1,900                        | 26  |
| •Dell, Inc. 3,850                           | 134 |
| •EMC Corp. 3,650                            | 48  |
| •Gateway, Inc. 500                          | 2   |
| Hewlett-Packard Co. 4,703                   | 96  |
| International Business Machines Corp. 2,500 | 191 |
| •Jabil Circuit, Inc. 322                    | 9   |
| •JDS Uniphase Corp. 2,010                   | 3   |
| •Lexmark International, Inc., Class A 200   | 14  |
| •Lucent Technologies, Inc. 7,019            | 17  |
| Molex, Inc. 250                             | 6   |
| Motorola, Inc. 3,666                        | 56  |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| •NCR Corp. 400                | 13                    |
| •Network Appliance, Inc. 500  | 13                    |
| •QLogic Corp. 138             | 5                     |
| Qualcomm, Inc. 2,400          | 84                    |
| •Sanmina — SCI Corp. 800      | 3                     |
| Scientific-Atlanta, Inc. 200  | 6                     |
| •Soletron Corp. 1,000         | 3                     |
| •Sun Microsystems, Inc. 5,000 | 18                    |
| Symbol Technologies, Inc. 303 | 4                     |
| Tektronix, Inc. 200           | 4                     |
| •Tellabs, Inc. 600            | 5                     |
| •Xerox Corp. 1,200            | 16                    |

**1,032****Telecommunication Services 0.2%**

|   |     |
|---|-----|
| Alltel Corp. 500                                | 28  |
| AT&T Corp. 1,181                                | 23  |
| BellSouth Corp. 2,750                           | 73  |
| CenturyTel, Inc. 250                            | 8   |
| Citizens Communications Co. 410                 | 5   |
| •Nextel Communications, Inc Class A 1,700       | 47  |
| •Qwest Communications International, Inc. 2,524 | 9   |
| SBC Communications, Inc. 5,025                  | 120 |
| Sprint Corp. (FON Group) 2,000                  | 44  |
| Verizon Communications, Inc. 4,188              | 150 |

**507****Transportation 0.1%**

|  |     |
|--|-----|
| Burlington Northern Santa Fe Corp. 600     | 29  |
| CSX Corp. 300                              | 12  |
| •Delta Air Lines, Inc. 200                 | 1   |
| FedEx Corp. 460                            | 39  |
| Norfolk Southern Corp. 600                 | 19  |
| Ryder Systems, Inc. 100                    | 4   |
| Southwest Airlines Co. 1,218               | 18  |
| Union Pacific Corp. 400                    | 25  |
| United Parcel Service, Inc., Class B 1,712 | 122 |

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## Portfolio Holdings continued

| Security and Number of Shares             | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Utilities 0.2%</b>                     |                       |
| • The AES Corp. 800                       | 13                    |
| • Allegheny Energy, Inc. 170              | 4                     |
| Ameren Corp. 300                          | 15                    |
| American Electric Power Co., Inc. 580     | 20                    |
| • Calpine Corp. 400                       | 1                     |
| Centerpoint Energy, Inc. 474              | 6                     |
| Cinergy Corp. 300                         | 12                    |
| • CMS Energy Corp. 200                    | 3                     |
| Consolidated Edison, Inc. 300             | 13                    |
| Constellation Energy Group, Inc. 200      | 10                    |
| Dominion Resources, Inc. 515              | 39                    |
| DTE Energy Co. 200                        | 9                     |
| Duke Energy Corp. 1,408                   | 41                    |
| • Dynegy, Inc., Class A 500               | 2                     |
| Edison International 500                  | 18                    |
| Entergy Corp. 350                         | 26                    |
| Exelon Corp. 1,024                        | 51                    |
| FirstEnergy Corp. 533                     | 23                    |
| FPL Group, Inc. 600                       | 24                    |
| KeySpan Corp. 200                         | 8                     |
| Nicor, Inc. 100                           | 4                     |
| NiSource, Inc. 376                        | 9                     |
| Peoples Energy Corp. 100                  | 4                     |
| • PG&E Corp. 600                          | 21                    |
| Pinnacle West Capital Corp. 100           | 4                     |
| PPL Corp. 300                             | 16                    |
| Progress Energy, Inc. 354                 | 15                    |
| Public Service Enterprise Group, Inc. 400 | 23                    |
| Sempra Energy 297                         | 12                    |
| The Southern Co. 1,100                    | 36                    |
| TECO Energy, Inc. 200                     | 3                     |
| TXU Corp. 400                             | 34                    |
| Xcel Energy, Inc. 510                     | 9                     |
|   | <b>528</b>            |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Other Investment Companies**

93.8% of net assets

|  |                |
|--|----------------|
| ■ 3 Schwab International Index Fund,<br>Select Shares 1,869,216              | 29,403         |
| ■ 2 Schwab S&P 500 Index Fund,<br>Select Shares 2,404,694                    | 43,140         |
| ■ 4 Schwab Small-Cap Index Fund,<br>Select Shares 1,426,012                  | 28,435         |
| ■ 1 Schwab Total Bond<br>Market Fund 16,479,989                              | 165,459        |
| ■ 5 Schwab Value Advantage<br>Money Fund, Institutional<br>Shares 12,659,818 | 12,660         |
|  | <b>279,097</b> |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short-Term Investment**

0.7% of net assets

|  |       |              |
|--|-------|--------------|
| Bank of America, London<br>Time Deposit<br>2.36%, 05/02/05 | 1,952 | <b>1,952</b> |
|--|-------|--------------|

**End of investments.**

Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                       |                |
|-----------------------|----------------|
| Investments, at value | \$297,548      |
| Cash                  | 2              |
| Receivables:          |                |
| Fund shares sold      | 189            |
| Dividends             | 573            |
| Prepaid expenses      | + 11           |
| <b>Total assets</b>   | <b>298,323</b> |

**Liabilities**

|   |            |
|---|------------|
| Payables:                                   |            |
| Fund shares redeemed                        | 324        |
| Investments bought                          | 541        |
| Investment adviser and administrator fees   | 5          |
| Transfer agent and shareholder service fees | 6          |
| Trustees' fees                              | 1          |
| Accrued expenses                            | + 33       |
| <b>Total liabilities</b>                    | <b>910</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 298,323          |
| <b>Total liabilities</b> | - 910            |
| <b>Net assets</b>        | <b>\$297,413</b> |

**Net Assets by Source**

|   |         |
|---|---------|
| Capital received from investors           | 272,114 |
| Net investment income not yet distributed | 498     |
| Net realized capital losses               | (1,727) |
| Net unrealized capital gains              | 26,528  |

**Net Asset Value (NAV)**

|                   |          |                           |          |            |
|-------------------|----------|---------------------------|----------|------------|
| <b>Net Assets</b> | <b>÷</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
| \$297,413         |          | 22,622                    |          | \$13.15    |

Unless stated, all numbers x 1,000.

The fund paid \$271,020 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$18,078 |
| Sales/maturities | \$12,397 |

Percent of fund shares of other Schwab funds owned at the end of the report period:

**Schwab Equity Index Funds**

|                          |      |
|--------------------------|------|
| S&P 500 Fund             | 0.6% |
| Small-Cap Index Fund     | 1.8% |
| International Index Fund | 2.2% |

**Schwab Bond Funds**

|                        |       |
|------------------------|-------|
| Total Bond Market Fund | 14.5% |
|------------------------|-------|

**Schwab Money Funds**

|                 |                |
|-----------------|----------------|
| Value Advantage |                |
| Money Fund      | Less than 0.1% |

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio Cost</b>                   | \$272,163       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$27,827        |
| Losses                                  | + (2,442)       |
|   | <b>\$25,385</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |       |
|-------------------------|-------|
| Ordinary income         | \$372 |
| Long-term capital gains | \$—   |

**Capital losses utilized** \$2,752

**Unused capital losses:**

|                   |                |
|-------------------|----------------|
| Expires 10/31 of: | Loss amount    |
| 2011              | <b>\$2,055</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$5,816      |
| Interest                       | + 21         |
| <b>Total investment income</b> | <b>5,837</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments                 | 673          |
| Net realized gains received from underlying funds | + 826        |
| <b>Net realized gains</b>                         | <b>1,499</b> |

**Net Unrealized Gains and Losses**

|                                      |              |
|--------------------------------------|--------------|
| Net unrealized losses on investments | <b>(410)</b> |
|--------------------------------------|--------------|

**Expenses**

|   |            |
|---|------------|
| Investment adviser and administrator fees   | 659        |
| Transfer agent and shareholder service fees | 374        |
| Trustees' fees                              | 4          |
| Custodian fees                              | 12         |
| Portfolio accounting fees                   | 20         |
| Professional fees                           | 14         |
| Registration fees                           | 7          |
| Shareholder reports                         | 10         |
| Other expenses                              | + 12       |
| Total expenses                              | 1,112      |
| Expense reduction                           | - 363      |
| <b>Net expenses</b>                         | <b>749</b> |

**Increase in Net Assets from Operations**

|   |                |
|---|----------------|
| <b>Total investment income</b>                | 5,837          |
| <b>Net expenses</b>                           | - 749          |
| <b>Net investment income</b>                  | <b>5,088</b>   |
| <b>Net realized gains</b>                     | 1,499          |
| <b>Net unrealized losses</b>                  | + (410)        |
| <b>Increase in net assets from operations</b> | <b>\$6,177</b> |

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% 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 operating expenses of this fund through February 27, 2006, to 0.50% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$1,089.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000  
 Figures for current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$5,088         | \$7,916          |
| Net realized gains                            | 1,499           | 3,273            |
| Net unrealized gains or losses                | + (410)         | 9,568            |
| <b>Increase in net assets from operations</b> | <b>6,177</b>    | <b>20,757</b>    |

**Distributions Paid**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | <b>\$4,962</b> | <b>\$8,047</b> |
|--------------------------------------|----------------|----------------|

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                | 11/1/03–10/31/04 |                   |
|--|-----------------|----------------|------------------|-------------------|
|  | SHARES          | VALUE          | SHARES           | VALUE             |
| Shares sold                            | 2,538           | \$33,800       | 3,721            | \$47,654          |
| Shares reinvested                      | 364             | 4,820          | 602              | 7,647             |
| Shares redeemed                        | + (2,449)       | (32,580)       | (5,185)          | (66,455)          |
| <b>Net transactions in fund shares</b> | <b>453</b>      | <b>\$6,040</b> | <b>(862)</b>     | <b>(\$11,154)</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                  |
|----------------------------|-----------------|------------------|------------------|------------------|
|                            | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period        | 22,169          | \$290,158        | 23,031           | \$288,602        |
| Total increase or decrease | + 453           | 7,255            | (862)            | 1,556            |
| <b>End of period</b>       | <b>22,622</b>   | <b>\$297,413</b> | <b>22,169</b>    | <b>\$290,158</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$8,047 |
| Long-term capital gains | \$—     |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$498 and \$372 at the end of the current period and prior period, respectively.

# Financial Notes unaudited

## Business Structure of the Funds

**Each of the funds discussed in this report is a series of Schwab Capital Trust, 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.

**The funds offer one share class.** Shares are bought and sold at net asset value (NAV), which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other fund operations 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 pay dividends** from net investment income and make distributions from net capital gains once a year, except for the Conservative Portfolio, which makes income distributions quarterly.

**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. The potential for losses associated with futures contracts may exceed amounts recorded in the Statement of Assets and Liabilities.

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 a 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 repurchase agreements.** In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date,

### The Trust and its Funds

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

**Schwab Capital Trust** organized May 7, 1993

Schwab S&P 500 Index Fund  
 Schwab Small-Cap Index Fund  
 Schwab Total Stock Market Index Fund  
 Schwab International Index Fund  
**Schwab MarketTrack All Equity Portfolio**  
**Schwab MarketTrack Growth Portfolio**  
**Schwab MarketTrack Balanced Portfolio**  
**Schwab MarketTrack Conservative Portfolio**  
 Laudus U.S. MarketMasters Fund  
 Laudus Balanced MarketMasters Fund  
 Laudus Small-Cap MarketMasters Fund  
 Laudus International MarketMasters Fund  
 Schwab Premier Equity Fund  
 Schwab Core Equity Fund  
 Schwab Dividend Equity Fund  
 Schwab Small-Cap Equity Fund  
 Schwab Hedged Equity Fund  
 Schwab Financial Services Fund  
 Schwab Health Care Fund  
 Schwab Technology Fund  
 Schwab Institutional Select S&P 500 Fund  
 Schwab Institutional Select Large-Cap Value Index Fund  
 Schwab Institutional Select Small-Cap Value Index Fund

price and other conditions are all specified when the agreement is created.

The funds' repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds' custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

**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 related parties.** For instance, a fund may own shares of The Charles Schwab Corporation if that company is included in its index.

Pursuant to an exemptive order issued by the SEC, the funds may invest in other related funds. The percentages of fund shares of other related funds owned are shown in each fund's Statement of Assets and Liabilities.

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 Schwab Funds 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.

| Fund                                      | Amount Outstanding at 4/30/05 (\$ × 1,000) | Average Borrowing* (\$ × 1,000) | Weighted average Interest Rate* (%) |
|---|--|---------------------------------|-------------------------------------|
| <b>MarketTrack All Equity Portfolio</b>   | —  | 173                             | 2.80                                |
| <b>MarketTrack Growth Portfolio</b>       | —  | 714                             | 2.97                                |
| <b>MarketTrack Balanced Portfolio</b>     | —  | 501                             | 2.87                                |
| <b>MarketTrack Conservative Portfolio</b> | —  | 118                             | 2.83                                |

\*Based on the number of days for which the borrowing is outstanding.

**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 net realized 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. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales.

**Under the funds' organizational documents, its 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:

- **Securities traded on an exchange or over-the-counter:** valued at the closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes. Securities that are primarily traded on foreign exchanges are valued at the closing values of such securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.

- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security's last close and the time that a fund calculates net asset value: 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 and the Pricing Committee. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been de-listed from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.
- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards 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.
- **Underlying funds:** Valued at their respective net asset values as determined by those funds, in accordance with the 1940 Act for a given day.
- **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.

**Dividends and distributions from portfolio securities** are recorded on the date they are effective (the ex-dividend date), although the funds record certain foreign security dividends on the day they learn of the ex-dividend date.

**Income from interest and the accretion of discount** is recorded as it accrues.

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

**Expenses** that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily 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 keeps certain assets in segregated accounts, as may be 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.

# Trustees and Officers of Schwab Capital Trust

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 Schwab Funds (of which there were 53 as of 4/30/05) 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.

| Individuals Who Are Interested Trustees and Officers of the Trust |   |   |
|---|---|---|
| Name and Birthdate  | Trust Position(s);<br>Trustee Since   | Main Occupations and Other Directorships and Affiliations   |
| <b>Charles R. Schwab</b> <sup>2</sup><br>7/29/37                  | Chairman, Trustee:<br>Family of Funds, 1989;<br>Investments, 1991;<br>Capital Trust, 1993;<br>Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co. |

<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.

### Individuals Who Are Interested Trustees but Not Officers of the Trust

| Name and Birthdate                | Trustee Since      | Main Occupations and Other Directorships and Affiliations  |
|-----------------------------------|--------------------|--|
| <b>Randall W. Merk</b><br>7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

### Individuals Who Are Officers of the Trust but Not Trustees

| Name and Birthdate                  | Trust Office(s) Held                                       | Main Occupations and Other Directorships and Affiliations   |
|-------------------------------------|--|---|
| <b>Evelyn Dilsaver</b><br>5/4/55    | President, CEO<br>(all trusts).                            | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust.   |
| <b>Stephen B. Ward</b><br>4/5/55    | SVP, Chief Investment<br>Officer (all trusts).             | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.   |
| <b>Kimon Daifotis</b><br>7/10/59    | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Jeffrey Mortimer</b><br>9/29/63  | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Randall Fillmore</b><br>11/11/60 | Chief Compliance<br>Officer (all trusts).                  | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc. <i>Until 9/04:</i> VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| <b>Koji E. Felton</b><br>3/13/61    | Secretary (all trusts).                                    | SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98:</i> Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.   |
| <b>George Pereira</b><br>6/9/64     | Treasurer, Principal<br>Financial Officer<br>(all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange.  |

## Individuals Who Are Independent Trustees

| Name and Birthdate                   | Trustee Since  | Main Occupations and Other Directorships and Affiliations   |
|--------------------------------------|--|---|
| <b>Mariann Byerwalter</b><br>8/13/60 | 2000 (all trusts).   | Chair, JDN Corp. Advisory LLC; 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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>2001:</i> Stanford University, Special Assistant to the President, <i>from 1996-2001</i> , VP of Business Affairs, CFO. |
| <b>Donald F. Dorward</b><br>9/23/31  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> EVP, Managing Director, Grey Advertising. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising.   |
| <b>William A. Hasler</b><br>11/22/41 | 2000 (all trusts).   | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solecron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals).   |
| <b>Robert G. Holmes</b><br>5/15/31   | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).   |
| <b>Gerald B. Smith</b><br>9/28/50    | 2000 (all trusts).   | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).  |
| <b>Donald R. Stephens</b><br>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> Chair, CEO, North American Trust (real estate investment trust).  |
| <b>Michael W. Wilsey</b><br>8/18/43  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).  |

# Glossary

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

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

**beta** A historical measure of an investment's volatility relative to a market index (usually the S&P 500®). The index is defined as having a beta of 1.00. Investments with a beta higher than 1.00 have been more volatile than the index; those with a beta of less than 1.00 have been less volatile.

**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.

**cap, capitalization** See "market cap."

**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.

**earnings growth rate** For a mutual fund, the average yearly rate at which the earnings of the companies in the fund's portfolio have grown, measured over the past five years.

**earnings per share (EPS)** A company's earnings, or net income, for the past 12 months, divided by the number of shares outstanding.

**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.

**market cap, market capitalization** The value of a company as determined by the total value of all shares of its stock outstanding.

**median market cap** The midpoint of the range of market caps of the stocks held by a fund. There are different ways of calculating median market cap. With a simple median, half of the stocks in the fund's portfolio would be larger than the median, and half would be smaller. With a weighted median (the type that is calculated for these funds), half of the fund's assets are invested in stocks that are larger than the median market cap, and half in stocks that are smaller.

**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.

**price-to-book ratio (P/B)** The market price of a company's stock compared with its "book value." A mutual fund's P/B is the weighted average of the P/B of all stocks in the fund's portfolio.

**price-to-earnings ratio (P/E)** The market price of a company's stock compared with earnings over the past year. A mutual fund's P/E is the weighted average of the P/E of all stocks in the fund's portfolio.

**return on equity (ROE)** The average yearly rate of return for each dollar of investors' money, measured over the past five years.

**stock** A share of ownership, or equity, in the issuing company.

**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.

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

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

## 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 web site at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds), the SEC's web site 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 web site 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 Financial Services Fund™  
Schwab Health Care Fund™  
Schwab Technology Fund™  
Schwab Institutional Select® S&P 500 Fund

### Asset Allocation Funds

Schwab MarketTrack Portfolios®  
Schwab MarketTrack All Equity Portfolio™  
Schwab MarketTrack Growth Portfolio™  
Schwab MarketTrack Balanced Portfolio™  
Schwab MarketTrack Conservative Portfolio™

### 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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# Schwab Institutional Select® Funds

## **Semiannual Report**

April 30, 2005

Schwab Institutional Select®  
S&P 500 Fund

Schwab Institutional Select®  
Large-Cap Value Index Fund

Schwab Institutional Select®  
Small-Cap Value Index Fund

*Three funds designed to capture the performance  
of specific segments of the U.S. stock market.*

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Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM)  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I am a big fan of mutual funds and have been throughout my 40-year career. During this time I've watched the mutual fund market grow, with investors today having nearly 17,000 funds from which to choose.

I also have advocated the need to take a long-term view of investing, as well as the importance of developing and maintaining an asset allocation plan. I continue to believe that mutual funds are excellent vehicles to help you build a diversified portfolio in keeping with your goals.

We have designed Schwab equity funds to deliver a combination of strong performance and good value. While I am proud of Schwab Funds® in general, I am especially pleased with the Schwab Dividend Equity Fund, which performed very well over the report period. The Fund is one of eight powered by Schwab Equity Ratings® and uses the same stock-ranking expertise that helped Schwab's model equity portfolio achieve industry recognition in Barron's 2004 annual stock-selection competition.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them.

In closing, I want to remind you that our commitment to our shareholders will not change. Thank you for investing with us.

Sincerely,

A handwritten signature in black ink that reads "Charles Schwab".

*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.*

# Management's Discussion

for the six months ended April 30, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. and is president 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,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and serving your financial needs.

I am pleased to announce that Schwab Funds has expanded its suite of actively managed funds. The Schwab Premier Equity Fund™ was launched on March 21, 2005. The portfolio management team uses a multi-cap strategy and is free to invest in a variety of investment styles and asset classes, shifting between growth and value according to market conditions. The Fund is diversified across all sectors. With the broad coverage, the Schwab Premier Equity Fund can be an integral part of a balanced, diversified portfolio that can help you reach your long-term investment goals.

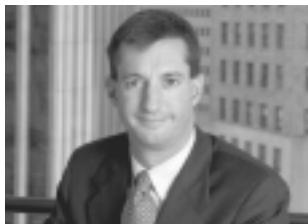
As previously communicated to shareholders, we also have made the decision to liquidate two funds that haven't attracted enough assets to remain viable: the Schwab Institutional Select Large-Cap Value Index Fund and Schwab Institutional Select Small-Cap Value Index Fund.

I continue to look for more ways to offer you relevant choices and provide greater value. Your trust is very important to us, and I will do all I can to maintain that trust. 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 the first name being more prominent.

*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.*



**Jeffrey Mortimer, CFA**, senior vice president and chief investment officer, equities, of the investment adviser is responsible for the overall management of the funds. Prior to joining the firm in October 1997, he worked for more than nine years in asset management.



**Larry Mano**, vice president and senior portfolio manager, is responsible for the day-to-day management of the funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.

## The Investment Environment and the Funds

If the 2004 equity market ended with a bang, the 2005 market started with a whimper, with all the major equity indices down from their year-end highs at the end of April. For the six-month report period, however, the S&P 500® Index<sup>1</sup> was still up 3.28%, due to the end-of-year rally. The broader Dow Jones Wilshire 5000 Composite Index<sup>SM2</sup> was up 3.50% for the report period, again predominantly because of strong equity returns in November and December 2004. Small-cap stocks lost their leading position to their larger-cap cohorts, and value continued to be the favored style. Stocks were volatile and sentiment was fickle in the face of high energy prices, indications of budding inflation, and prospects of the Federal Reserve continuing to raise short-term interest rates, which it did four times during the six-month report period.

Early in the period, investors were heartened when oil prices dipped and the U.S. presidential election results were uncontested. Unfortunately, the brief respite in oil prices was short-lived and strengthening global demand for oil, particularly in the Pacific Rim, and refinery constraints at home drove crude prices to record highs, above \$50 per barrel in mid-February.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive. Consumer sentiment, however, hit a soft patch and started to weaken in 2005. First-quarter GDP came in at 3.1%, slightly below expectations and weaker than the fourth quarter, when it was 3.8%. In this environment, retail sales softened.

Despite the slowdown in the GDP, strong labor market conditions remained positive for domestic consumption. On the earnings front, fourth-quarter earnings were generally better than expected due, in part,

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Standard & Poor's®, S&P®, S&P 500®, Standard & Poor's 500® and 500® are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by the fund. The fund is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

<sup>2</sup> Dow Jones®, "Wilshire", "The DJW 5000<sup>SM</sup>", "The Dow Jones Wilshire 5000<sup>SM</sup>" and "The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>" are service marks of Dow Jones & Company, Inc. and Wilshire Associates Incorporated. The Schwab Total Stock Market Index Fund, based on The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>, is not sponsored, endorsed, sold or promoted by Dow Jones or Wilshire; and, neither Dow Jones nor Wilshire makes any representation regarding the advisability of investing in such a product.



**Tom Brown**, an associate portfolio manager of the investment adviser, is a day-to-day manager of the equity portions of the funds. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

to strong reports from companies in the Energy sector. Expectations for first-quarter earnings remained upbeat, although weaker than recent quarters, due to difficult year-over-year comparisons.

Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, productivity growth and slack in the economy have mostly kept a lid on core inflation. This productivity, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control.

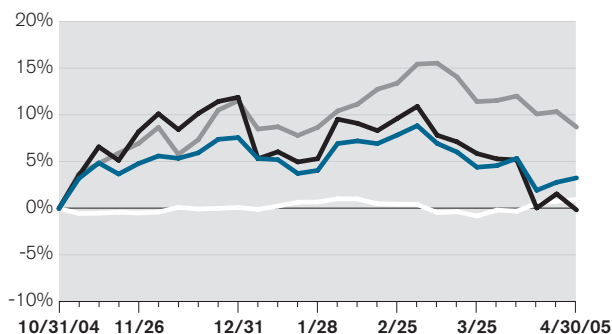
While high energy prices remained a significant headwind for economic performance, they certainly helped boost oil companies' bottom lines. In fact, the strongest sector, according to S&P, was Energy, closely followed by Utilities and then Health Care. On the flip side, Information Technology was the worst performing sector over the report period, while the Consumer Discretionary sector also suffered.

**The Schwab Institutional Select S&P 500 Fund ended the six-month report period up 3.30%, slightly above its benchmark, the S&P 500 Index, which was up 3.28%.** Interestingly, most of this appreciation occurred during the beginning of the report period. Once the calendar turned into 2005, the equity markets became extremely volatile. While the price of a barrel of oil continued to rise, the pace of growth deceler-

#### Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 3.28% **S&P 500® Index:** measures U.S. large-cap stocks
- -0.15% **Russell 2000® Index:** measures U.S. small-cap stocks
- 8.71% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 0.98% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures 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. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

Source of Sector Classification: S&P and MSCI.

## Performance at a Glance

Total return for the six months ended 4/30/05

**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 Institutional Select®  
S&P 500 Fund. . . . . 3.30%**  
Benchmark . . . . . **3.28%**  
*Performance Details . . . . . page 6*

**Schwab Institutional Select®  
Large-Cap Value Index Fund .3.58%**  
Benchmark . . . . . **3.51%**  
*Performance Details . . . . . page 8*

**Schwab Institutional Select®  
Small-Cap Value Index Fund .2.59%**  
Benchmark . . . . . **2.49%**  
*Performance Details . . . . . page 10*

ated during the report period, making energy-related stocks the top performers. The worst performing sector was Information Technology.

**The Schwab Institutional Select Large-Cap Value Index Fund** was up 3.58% for the report period, slightly outperforming its benchmark, the S&P 500 Barra/Value Index, which returned 3.51%. Interestingly, most of this appreciation occurred during the beginning of the report period. Once the calendar turned into 2005, the equity markets became extremely volatile. While the price of a barrel of oil continued to rise, the pace of growth decelerated during the report period, making energy-related stocks the top performers. Conversely, Telecommunications Services was the worst performing sector in the Fund.

**The Schwab Institutional Select Small-Cap Value Index Fund**, up 2.59% for the six-month period, outperformed its benchmark, the S&P Small-Cap 600/Barra Value Index, which increased 2.49%. The best performing sector in the Fund was Health Care. On the downside, Telecommunications Services continued to struggle.

*On May 25, 2005, the Schwab Institutional Select Large-Cap Value Index Fund and the Schwab Institutional Select Small-Cap Value Index Fund stopped accepting purchases, re-investments and exchanges. By July 22, 2005, liquidation of the two funds is expected to be complete.*

Source of Sector Classification: S&P and MSCI. 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 CSIM and Schwab. Without these reductions, the funds' total returns 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.

Small-company stocks are subject to greater volatility than other asset categories.

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.

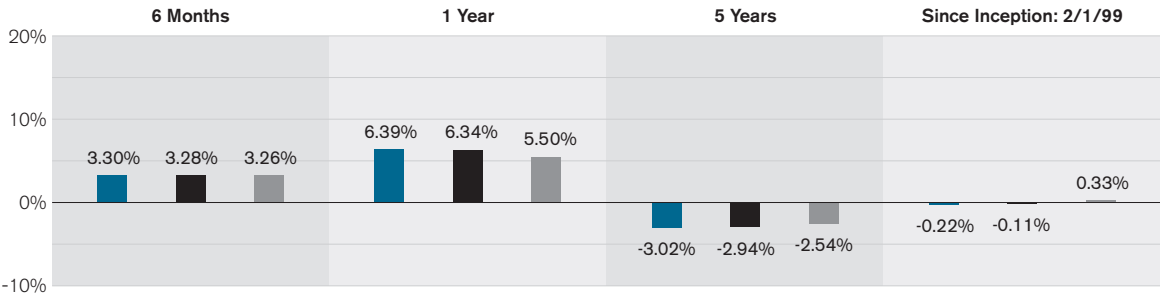
# Schwab Institutional Select® S&P 500 Fund

Performance as of 4/30/05

## Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

■ **Fund** Ticker Symbol: ISLCX  
■ **Benchmark: S&P 500® Index**  
■ **Fund Category: Morningstar Large-Cap Blend**



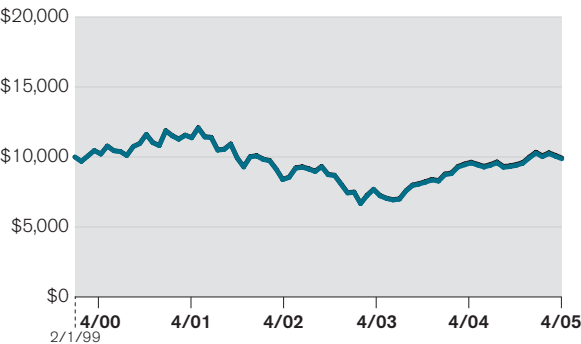
|                                     | 6 Months                          |                                   | 1 Year                            |                                   | 5 Years                           |                                   | Since Inception                   |                                   |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Total Returns After Tax             | <div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div></div> | <div><div></div><div></div></div> |
| Pre-Liquidation (still own shares)  | 3.06%                             | 0.96%                             | 6.14%                             | 3.36%                             | -3.42%                            | -3.39%                            | -0.60%                            | n/a                               |
| Post-Liquidation (shares were sold) | 2.48%                             | 1.00%                             | 4.50%                             | 2.63%                             | -2.74%                            | -2.56%                            | -0.38%                            | n/a                               |

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>2</sup>

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

■ \$9,864 **Fund**  
■ \$9,930 **S&P 500® 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

## Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>

## Statistics

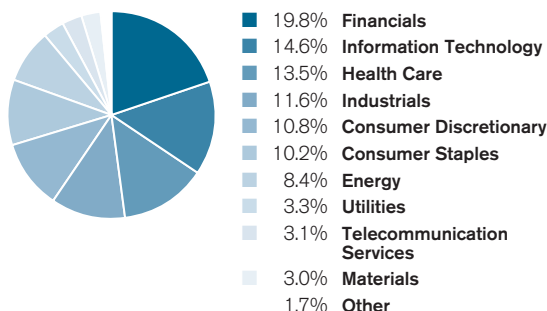
|   |          |
|---|----------|
| <b>Number of Holdings</b>                           | 503      |
| <b>Weighted Average Market Cap</b> (\$ x 1,000,000) | \$91,051 |
| <b>Price/Earnings Ratio</b> (P/E)                   | 19.5     |
| <b>Price/Book Ratio</b> (P/B)                       | 2.8      |
| <b>Portfolio Turnover Rate</b> <sup>2</sup>         | 2%       |
| <b>Minimum Initial Investment</b> <sup>3</sup>      | \$75,000 |

Top Holdings<sup>4</sup>

| Security                           | % of Net Assets |
|------------------------------------|-----------------|
| <b>1 General Electric Co.</b>      | 3.5%            |
| <b>2 Exxon Mobil Corp.</b>         | 3.4%            |
| <b>3 Microsoft Corp.</b>           | 2.4%            |
| <b>4 Citigroup, Inc.</b>           | 2.3%            |
| <b>5 Johnson &amp; Johnson</b>     | 1.9%            |
| <b>6 Pfizer, Inc.</b>              | 1.9%            |
| <b>7 Bank of America Corp.</b>     | 1.7%            |
| <b>8 Wal-Mart Stores, Inc.</b>     | 1.5%            |
| <b>9 Intel Corp.</b>               | 1.4%            |
| <b>10 Procter &amp; Gamble Co.</b> | 1.3%            |
| <b>Total</b>                       | <b>21.3%</b>    |

## Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

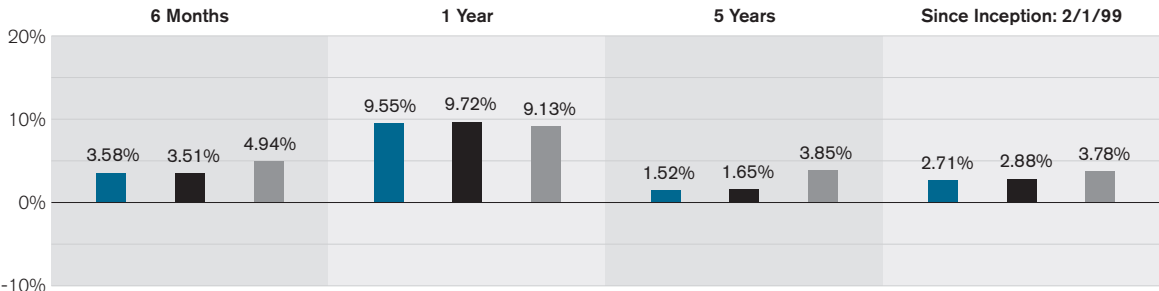
# Schwab Institutional Select® Large-Cap Value Index Fund

Performance as of 4/30/05

## Pre- and Post-Tax Average Annual Total Returns<sup>1,2</sup>

This bar chart compares pre-tax performance of the fund with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

**Fund** Ticker Symbol: ISLVX  
**Benchmark:** S&P 500/Barra Value Index  
**Fund Category:** Morningstar Large-Cap Value



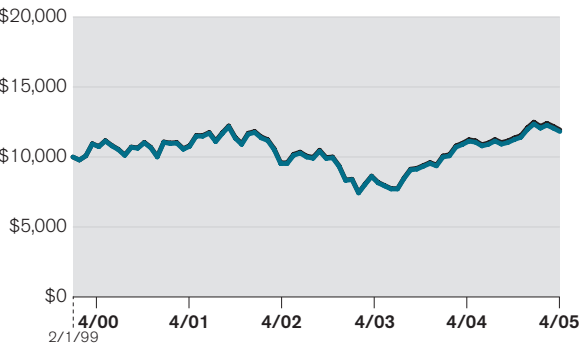
| Total Returns After Tax             | 6 Months | 1 Year | 5 Years | Since Inception |
|-------------------------------------|----------|--------|---------|-----------------|
| Pre-Liquidation (still own shares)  | 3.30%    | 9.26%  | 0.57%   | 1.79%           |
| Post-Liquidation (shares were sold) | 2.63%    | 6.53%  | 0.77%   | 1.80%           |

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>2</sup>

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

■ \$11,815 Fund  
■ \$11,938 S&P 500/Barra Value 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

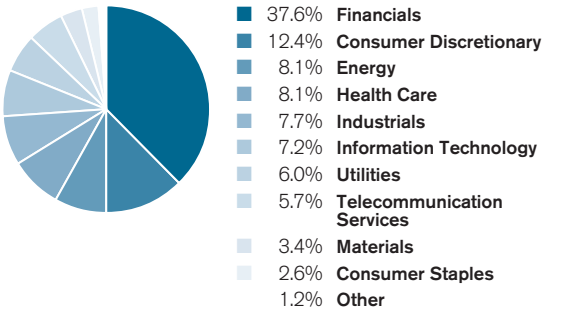
|  |          |
|--|----------|
| Number of Holdings                           | 317      |
| Weighted Average Market Cap (\$ x 1,000,000) | \$59,596 |
| Price/Earnings Ratio (P/E)                   | 17.2     |
| Price/Book Ratio (P/B)                       | 2.0      |
| Portfolio Turnover Rate <sup>2</sup>         | 15%      |

Top Holdings<sup>3</sup>

| Security                             | % of Net Assets |
|--------------------------------------|-----------------|
| 1 Citigroup, Inc.                    | 4.6%            |
| 2 Pfizer, Inc.                       | 3.8%            |
| 3 Bank of America Corp.              | 3.4%            |
| 4 American International Group, Inc. | 2.5%            |
| 5 JPMorgan Chase & Co.               | 2.4%            |
| 6 ChevronTexaco Corp.                | 1.9%            |
| 7 Wells Fargo & Co.                  | 1.9%            |
| 8 Verizon Communications, Inc.       | 1.9%            |
| 9 SBC Communications, Inc.           | 1.5%            |
| 10 Wachovia Corp.                    | 1.4%            |
| Total                                | 25.3%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

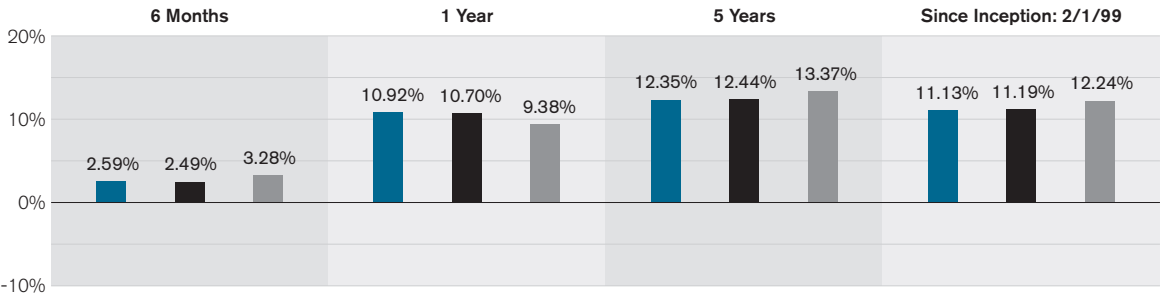
# Schwab Institutional Select® Small-Cap Value Index Fund

Performance as of 4/30/05

## Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

This bar chart compares pre-tax performance of the fund with its benchmark and Morningstar category. The table below the chart shows two types of after-tax returns.

**Fund** Ticker Symbol: ISSVX  
**Benchmark:** S&P SmallCap 600/Barra Value Index  
**Fund Category:** Morningstar Small-Cap Value



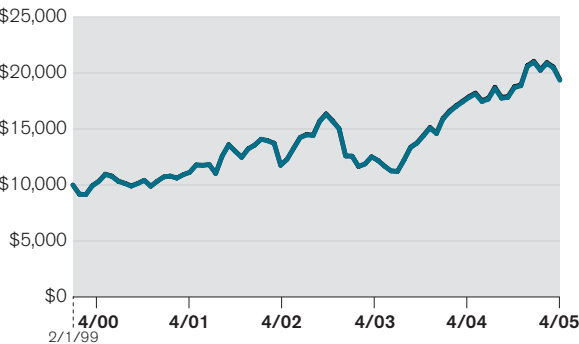
| Total Returns After Tax             | 6 Months | 1 Year | 5 Years | Since Inception |
|-------------------------------------|----------|--------|---------|-----------------|
| Pre-Liquidation (still own shares)  | 0.85%    | 9.03%  | 10.58%  | 9.38%           |
| Post-Liquidation (shares were sold) | 3.39%    | 8.94%  | 9.82%   | 8.73%           |

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>2</sup>

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

**\$19,343 Fund**  
**\$19,412 S&P SmallCap 600/Barra Value 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> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/05 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

## Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>

## Statistics

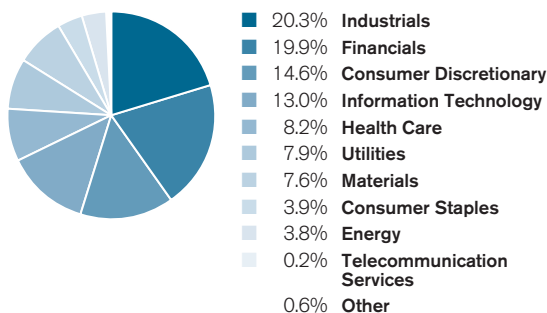
|  |         |
|--|---------|
| Number of Holdings                           | 355     |
| Weighted Average Market Cap (\$ x 1,000,000) | \$1,009 |
| Price/Earnings Ratio (P/E)                   | 19.4    |
| Price/Book Ratio (P/B)                       | 1.6     |
| Portfolio Turnover Rate <sup>2</sup>         | 16%     |

Top Holdings<sup>3</sup>

| Security                                  | % of Net Assets |
|---|-----------------|
| ① UGI Corp.                               | 1.1%            |
| ② MDC Holdings, Inc.                      | 1.1%            |
| ③ Southern Union Co.                      | 1.0%            |
| ④ Standard-Pacific Corp.                  | 1.0%            |
| ⑤ The Timken Co.                          | 1.0%            |
| ⑥ Accredo Health, Inc.                    | 0.9%            |
| ⑦ Atmos Energy Corp.                      | 0.8%            |
| ⑧ Whitney Holding Corp.                   | 0.8%            |
| ⑨ The South Financial Group, Inc.         | 0.8%            |
| ⑩ Shurgard Storage Centers, Inc., Class A | 0.8%            |
| <b>Total</b>                              | <b>9.3%</b>     |

## Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

# Fund Expenses

## 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 November 1, 2004 and held through April 30, 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 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 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><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period <sup>2</sup><br>11/1/04–4/30/05 |
|--|--|--|--|--|
| <b>Schwab Institutional Select®<br/>S&amp;P 500 Fund</b>           |  |  |  |  |
| Actual Return  | 0.10%                                      | \$1,000                                  | \$1,033.00   | \$0.50   |
| Hypothetical 5% Return   | 0.10%                                      | \$1,000                                  | \$1,024.30   | \$0.50   |
| <b>Schwab Institutional Select®<br/>Large-Cap Value Index Fund</b> |  |  |  |  |
| Actual Return  | 0.25%                                      | \$1,000                                  | \$1,035.80   | \$1.26   |
| Hypothetical 5% Return   | 0.25%                                      | \$1,000                                  | \$1,023.55   | \$1.25   |
| <b>Schwab Institutional Select®<br/>Small-Cap Value Index Fund</b> |  |  |  |  |
| Actual Return  | 0.32%                                      | \$1,000                                  | \$1,025.90   | \$1.61   |
| Hypothetical 5% Return   | 0.32%                                      | \$1,000                                  | \$1,023.21   | \$1.61   |

<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 are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

# Schwab Institutional Select<sup>®</sup>

## S&P 500 Fund

### Financial Statements

#### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 8.95                 | 8.30                 | 7.00                 | 8.36                 | 11.26                | 10.74                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.09                 | 0.13                 | 0.12                 | 0.12                 | 0.12                 | 0.11                 |
| Net realized and unrealized gains or losses     | 0.21 <sup>4</sup>    | 0.64                 | 1.30                 | (1.37)               | (2.91)               | 0.52                 |
| Total income or loss from investment operations | 0.30                 | 0.77                 | 1.42                 | (1.25)               | (2.79)               | 0.63                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.15)               | (0.12)               | (0.12)               | (0.11)               | (0.11)               | (0.09)               |
| Distributions from net realized gains           | –                    | –                    | –                    | –                    | –                    | (0.02)               |
| Total distributions                             | (0.15)               | (0.12)               | (0.12)               | (0.11)               | (0.11)               | (0.11)               |
| Net asset value at end of period                | 9.10                 | 8.95                 | 8.30                 | 7.00                 | 8.36                 | 11.26                |
| Total return (%)                                | 3.30 <sup>1</sup>    | 9.36                 | 20.65                | (15.18)              | (24.95)              | 5.86                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.10 <sup>2</sup>    | 0.15                 | 0.15                 | 0.15                 | 0.15                 | 0.16 <sup>3</sup>    |
| Gross operating expenses                        | 0.33 <sup>2</sup>    | 0.35                 | 0.36                 | 0.37                 | 0.37                 | 0.38                 |
| Net investment income                           | 2.06 <sup>2</sup>    | 1.56                 | 1.65                 | 1.38                 | 1.14                 | 1.06                 |
| Portfolio turnover rate                         | 2 <sup>1</sup>       | 3                    | 4                    | 12                   | 13                   | 6                    |
| Net assets, end of period (\$ x 1,000,000)      | 933                  | 348                  | 272                  | 203                  | 261                  | 382                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.15% if certain non-routine expenses (proxy fees) had not been included.

<sup>4</sup> The per share amount does not correspond with the aggregate realized/unrealized losses in the Statement of Operations due to large fund share transactions at the time of market depreciation.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

① Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser
- This security or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>98.0%</b>         | <b>Common Stock</b>                               | 934,538            | 914,638             |
| <b>1.5%</b>          | <b>Short-Term Investment</b>                      | 13,922             | 13,922              |
| <b>0.2%</b>          | <b>U.S. Treasury Obligations</b>                  | 1,580              | 1,580               |
| <b>0.0%</b>          | <b>Warrants</b>                                   | —                  | 5                   |
| <b>99.7%</b>         | <b>Total Investments</b>                          | <b>950,040</b>     | <b>930,145</b>      |
| <b>3.7%</b>          | <b>Collateral Invested for Securities on Loan</b> | 34,400             | 34,400              |
| <b>(3.4)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (31,533)            |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>933,012</b>      |

Security and Number of Shares Value  
(\$ x 1,000)

**Common Stock** 98.0% of net assets

**Automobiles & Components** 0.6%

|                              |         |       |
|------------------------------|---------|-------|
| ■ Cooper Tire & Rubber Co.   | 6,311   | 110   |
| Dana Corp.                   | 11,786  | 135   |
| Delphi Corp.                 | 46,019  | 152   |
| Ford Motor Co.               | 157,947 | 1,439 |
| ■ General Motors Corp.       | 48,016  | 1,281 |
| • Goodyear Tire & Rubber Co. | 14,109  | 167   |
| Harley-Davidson, Inc.        | 24,997  | 1,175 |
| Johnson Controls, Inc.       | 16,213  | 890   |
| ■ Visteon Corp.              | 10,672  | 37    |

**5,386**

**Banks** 7.6%

|                                    |         |        |
|------------------------------------|---------|--------|
| AmSouth Bancorp.                   | 30,672  | 807    |
| ⑦ Bank of America Corp.            | 349,736 | 15,752 |
| BB&T Corp.                         | 46,898  | 1,839  |
| Comerica, Inc.                     | 14,506  | 831    |
| Compass Bancshares, Inc.           | 10,682  | 460    |
| Countrywide Financial Corp.        | 50,104  | 1,813  |
| Fannie Mae                         | 83,574  | 4,509  |
| Fifth Third Bancorp                | 44,908  | 1,953  |
| First Horizon National Corp.       | 10,117  | 420    |
| Freddie Mac                        | 59,352  | 3,651  |
| Golden West Financial Corp.        | 25,109  | 1,565  |
| Huntington Bancshares, Inc.        | 20,021  | 471    |
| KeyCorp, Inc.                      | 34,544  | 1,145  |
| M&T Bank Corp.                     | 8,450   | 874    |
| Marshall & Ilsley Corp.            | 17,993  | 767    |
| MGIC Investment Corp.              | 7,972   | 470    |
| National City Corp.                | 55,559  | 1,887  |
| North Fork Bancorp., Inc.          | 40,027  | 1,127  |
| PNC Financial Services Group, Inc. | 23,980  | 1,276  |
| Regions Financial Corp.            | 39,521  | 1,324  |
| Sovereign Bancorp, Inc.            | 32,409  | 667    |
| SunTrust Banks, Inc.               | 30,405  | 2,214  |
| Synovus Financial Corp.            | 26,894  | 754    |
| U.S. Bancorp                       | 159,913 | 4,462  |
| Wachovia Corp.                     | 136,804 | 7,002  |
| Washington Mutual, Inc.            | 75,404  | 3,116  |

| Security and Number of Shares           | Value<br>(\$ x 1,000) |
|---|-----------------------|
| Wells Fargo & Co. 146,340               | 8,772                 |
| Zions Bancorp. 7,759                    | 543                   |
|   | <b>70,471</b>         |
| <b>Capital Goods 9.0%</b>               |                       |
| 3M Co. 66,647                           | 5,096                 |
| American Power Conversion Corp. 15,750  | 382                   |
| American Standard Cos., Inc. 15,334     | 686                   |
| The Boeing Co. 71,859                   | 4,277                 |
| Caterpillar, Inc. 29,590                | 2,605                 |
| Cooper Industries Ltd., Class A 8,047   | 512                   |
| Cummins, Inc. 3,552                     | 242                   |
| ■ Danaher Corp. 23,313                  | 1,180                 |
| Deere & Co. 21,068                      | 1,318                 |
| Dover Corp. 17,619                      | 641                   |
| Eaton Corp. 12,896                      | 756                   |
| Emerson Electric Co. 36,226             | 2,270                 |
| Fluor Corp. 7,479                       | 386                   |
| General Dynamics Corp. 17,328           | 1,820                 |
| ▲① General Electric Co. 914,366         | 33,100                |
| Goodrich Corp. 10,385                   | 419                   |
| Honeywell International, Inc. 73,145    | 2,616                 |
| Illinois Tool Works, Inc. 24,253        | 2,033                 |
| Ingersoll-Rand Co., Class A 15,029      | 1,155                 |
| ■ ITT Industries, Inc. 7,972            | 721                   |
| L-3 Communications Holdings, Inc. 9,941 | 706                   |
| Lockheed Martin Corp. 34,702            | 2,115                 |
| Masco Corp. 38,042                      | 1,198                 |
| • Navistar International Corp. 5,509    | 163                   |
| Northrop Grumman Corp. 31,299           | 1,716                 |
| Paccar, Inc. 14,753                     | 1,002                 |
| Pall Corp. 10,235                       | 275                   |
| Parker Hannifin Corp. 10,394            | 623                   |
| Raytheon Co. 39,175                     | 1,473                 |
| Rockwell Automation, Inc. 15,107        | 698                   |
| Rockwell Collins, Inc. 15,441           | 708                   |
| Textron, Inc. 11,672                    | 879                   |
| Tyco International Ltd. 173,764         | 5,441                 |
| United Technologies Corp. 44,208        | 4,497                 |
| W.W. Grainger, Inc. 7,416               | 410                   |
|   | <b>84,119</b>         |

| Security and Number of Shares                  | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Commercial Services &amp; Supplies 0.9%</b> |                       |
| • Allied Waste Industries, Inc. 26,179         | 209                   |
| • Apollo Group, Inc., Class A 14,197           | 1,024                 |
| ■ Avery Dennison Corp. 9,096                   | 476                   |
| Cendant Corp. 91,043                           | 1,813                 |
| ■ Cintas Corp. 14,106                          | 544                   |
| Equifax, Inc. 11,682                           | 393                   |
| H&R Block, Inc. 14,315                         | 713                   |
| • Monster Worldwide, Inc. 10,438               | 240                   |
| Pitney Bowes, Inc. 19,636                      | 878                   |
| R.R. Donnelley & Sons Co. 18,006               | 593                   |
| ■ Robert Half International, Inc. 14,162       | 352                   |
| Waste Management, Inc. 48,622                  | 1,385                 |
|  | <b>8,620</b>          |
| <b>Consumer Durables &amp; Apparel 1.2%</b>    |                       |
| Black & Decker Corp. 7,019                     | 587                   |
| ■ Brunswick Corp. 8,137                        | 342                   |
| ■ Centex Corp. 10,918                          | 630                   |
| ■ Coach, Inc. 33,020                           | 885                   |
| ■ Eastman Kodak Co. 24,806                     | 620                   |
| Fortune Brands, Inc. 12,529                    | 1,060                 |
| Hasbro, Inc. 13,634                            | 258                   |
| ■ Jones Apparel Group, Inc. 10,584             | 322                   |
| KB Home 7,286                                  | 415                   |
| Leggett & Platt, Inc. 15,683                   | 423                   |
| Liz Claiborne, Inc. 9,440                      | 335                   |
| Mattel, Inc. 36,032                            | 650                   |
| ■ Maytag Corp. 5,914                           | 57                    |
| ■ Newell Rubbermaid, Inc. 23,715               | 515                   |
| ■ Nike, Inc., Class B 19,823                   | 1,523                 |
| Pulte Homes, Inc. 10,464                       | 748                   |
| Reebok International Ltd. 4,732                | 192                   |
| Snap-On, Inc. 5,085                            | 169                   |
| The Stanley Works 6,436                        | 277                   |
| VF Corp. 9,141                                 | 517                   |
| Whirlpool Corp. 5,853                          | 363                   |
|  | <b>10,888</b>         |

**Portfolio Holdings** continued

| Security and Number of Shares            | Value<br>(\$ x 1,000) | Security and Number of Shares            | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <b>Diversified Financials 7.6%</b>       |                       |  |                       |
| American Express Co. 101,234             | 5,335                 | El Paso Corp. 55,547                     | 555                   |
| The Bank of New York Co., Inc. 67,215    | 1,878                 | EOG Resources, Inc. 20,648               | 982                   |
| The Bear Stearns Cos., Inc. 9,609        | 909                   | ▲② Exxon Mobil Corp. 550,934             | 31,420                |
| ■ Capital One Financial Corp. 21,408     | 1,518                 | ■ Halliburton Co. 43,522                 | 1,810                 |
| ■ The Charles Schwab Corp. 99,567        | 1,030                 | ■ Kerr-McGee Corp. 14,140                | 1,097                 |
| CIT Group, Inc. 18,284                   | 736                   | Kinder Morgan, Inc. 10,160               | 777                   |
| ▲④ Citigroup, Inc. 450,784               | 21,169                | Marathon Oil Corp. 30,022                | 1,398                 |
| • E*TRADE Financial Corp. 30,501         | 339                   | • Nabors Industries Ltd. 12,251          | 660                   |
| Federated Investors, Inc., Class B 8,418 | 239                   | • National-Oilwell Varco, Inc. 14,300    | 568                   |
| Franklin Resources, Inc. 16,754          | 1,151                 | Noble Corp. 11,755                       | 598                   |
| Goldman Sachs Group, Inc. 38,708         | 4,134                 | Occidental Petroleum Corp. 34,273        | 2,365                 |
| Janus Capital Group, Inc. 20,464         | 266                   | Rowan Cos., Inc. 9,303                   | 247                   |
| JPMorgan Chase & Co. 306,640             | 10,883                | Schlumberger Ltd. 50,884                 | 3,481                 |
| Lehman Brothers Holdings, Inc. 23,901    | 2,192                 | Sunoco, Inc. 5,855                       | 581                   |
| MBNA Corp. 110,275                       | 2,178                 | • Transocean, Inc. 27,367                | 1,269                 |
| Mellon Financial Corp. 35,979            | 996                   | Unocal Corp. 23,378                      | 1,275                 |
| Merrill Lynch & Co., Inc. 80,380         | 4,335                 | Valero Energy Corp. 21,851               | 1,498                 |
| Moody's Corp. 12,133                     | 997                   | Williams Cos., Inc. 49,252               | 838                   |
| Morgan Stanley 96,066                    | 5,055                 | XTO Energy, Inc. 29,470                  | 889                   |
| Northern Trust Corp. 17,983              | 810                   |  | <b>77,719</b>         |
| Principal Financial Group, Inc. 26,075   | 1,019                 | <b>Food &amp; Staples Retailing 2.8%</b> |                       |
| • Provident Financial Corp. 24,043       | 401                   | ■ Albertson's, Inc. 31,786               | 629                   |
| SLM Corp. 37,150                         | 1,770                 | Costco Wholesale Corp. 40,767            | 1,655                 |
| State Street Corp. 28,339                | 1,310                 | CVS Corp. 34,515                         | 1,780                 |
| T. Rowe Price Group, Inc. 10,530         | 581                   | ■ Kroger Co. 62,810                      | 991                   |
|  | <b>71,231</b>         | • Safeway, Inc. 38,612                   | 822                   |
| <b>Energy 8.3%</b>                       |                       | Supervalu, Inc. 11,442                   | 361                   |
| ■ Amerada Hess Corp. 7,495               | 702                   | Sysco Corp. 54,373                       | 1,881                 |
| Anadarko Petroleum Corp. 20,987          | 1,533                 | ▲⑧ Wal-Mart Stores, Inc. 292,279         | 13,778                |
| Apache Corp. 28,178                      | 1,586                 | Walmart Co. 88,207                       | 3,798                 |
| Ashland, Inc. 5,641                      | 379                   |  | <b>25,695</b>         |
| Baker Hughes, Inc. 29,245                | 1,290                 | <b>Food Beverage &amp; Tobacco 4.9%</b>  |                       |
| BJ Services Co. 14,080                   | 687                   | Altria Group, Inc. 178,522               | 11,602                |
| Burlington Resources, Inc. 33,306        | 1,619                 | Anheuser-Busch Cos., Inc. 67,194         | 3,149                 |
| ChevronTexaco Corp. 181,635              | 9,445                 | Archer-Daniels-Midland Co. 53,675        | 966                   |
| ConocoPhillips 60,108                    | 6,302                 | Brown-Forman Corp., Class B 7,694        | 427                   |
| Devon Energy Corp. 41,352                | 1,868                 | Campbell Soup Co. 27,595                 | 821                   |
|  |                       | The Coca-Cola Co. 195,512                | 8,493                 |
|  |                       | Coca-Cola Enterprises, Inc. 29,865       | 606                   |

| Security and Number of Shares              | Value<br>(\$ x 1,000) |
|--|-----------------------|
| ConAgra Foods, Inc. 43,670                 | 1,168                 |
| General Mills, Inc. 31,582                 | 1,560                 |
| H.J. Heinz Co. 29,655                      | 1,093                 |
| Hershey Foods Corp. 18,581                 | 1,187                 |
| Kellogg Co. 29,866                         | 1,343                 |
| McCormick & Co., Inc. 11,270               | 390                   |
| Molson Coors Brewing Co.,<br>Class B 6,994 | 432                   |
| The Pepsi Bottling Group, Inc. 17,010      | 488                   |
| PepsiCo, Inc. 144,837                      | 8,059                 |
| Reynolds American, Inc. 9,897              | 772                   |
| Sara Lee Corp. 68,168                      | 1,458                 |
| UST, Inc. 14,354                           | 657                   |
| Wm. Wrigley Jr. Co. 16,609                 | 1,148                 |
|  | <b>45,819</b>         |

#### Health Care Equipment & Services 4.9%

|   |       |
|---|-------|
| Aetna, Inc. 25,120                                      | 1,843 |
| AmerisourceBergen Corp. 9,435                           | 578   |
| Bausch & Lomb, Inc. 4,658                               | 349   |
| Baxter International, Inc. 53,553                       | 1,987 |
| Becton Dickinson & Co. 21,570                           | 1,262 |
| Biomet, Inc. 21,854                                     | 845   |
| • Boston Scientific Corp. 65,652                        | 1,942 |
| C.R. Bard, Inc. 9,099                                   | 648   |
| Cardinal Health, Inc. 37,435                            | 2,080 |
| • Caremark Rx, Inc. 39,480                              | 1,581 |
| CIGNA Corp. 11,412                                      | 1,050 |
| • Express Scripts, Inc. 6,652                           | 596   |
| • Fisher Scientific International,<br>Inc. 10,216       | 607   |
| Guidant Corp. 27,922                                    | 2,068 |
| HCA, Inc. 35,582  | 1,987 |
| ■ Health Management Associates, Inc.,<br>Class A 21,067 | 521   |
| • Hospira, Inc. 13,289                                  | 446   |
| ■ Humana, Inc. 13,969                                   | 484   |
| IMS Health, Inc. 20,060                                 | 481   |
| • Laboratory Corp. of America<br>Holdings 11,377        | 563   |
| Manor Care, Inc. 6,825                                  | 228   |
| McKesson Corp. 25,023                                   | 926   |

| Security and Number of Shares         | Value<br>(\$ x 1,000) |
|---------------------------------------|-----------------------|
| • Medco Health Solutions, Inc. 23,784 | 1,212                 |
| Medtronic, Inc. 104,421               | 5,503                 |
| • Millipore Corp. 3,868               | 186                   |
| PerkinElmer, Inc. 10,426              | 193                   |
| Quest Diagnostics 8,326               | 881                   |
| • St. Jude Medical, Inc. 31,221       | 1,219                 |
| Stryker Corp. 32,969                  | 1,601                 |
| ■ Tenet Healthcare Corp. 40,497       | 485                   |
| • Thermo Electron Corp. 13,601        | 340                   |
| UnitedHealth Group, Inc. 55,603       | 5,255                 |
| • Waters Corp. 9,898                  | 392                   |
| • WellPoint, Inc. 26,311              | 3,361                 |
| • Zimmer Holdings, Inc. 21,321        | 1,736                 |
|                                       | <b>45,436</b>         |

#### Hotels Restaurants & Leisure 1.4%

|   |               |
|---|---------------|
| Carnival Corp. 45,531                               | 2,226         |
| Darden Restaurants, Inc. 12,348                     | 370           |
| ■ Harrah's Entertainment, Inc. 9,916                | 651           |
| Hilton Hotels Corp. 33,261                          | 726           |
| International Game Technology 29,770                | 801           |
| Marriott International, Inc.,<br>Class A 17,342     | 1,088         |
| McDonald's Corp. 109,804                            | 3,218         |
| • Starbucks Corp. 34,003                            | 1,684         |
| Starwood Hotels & Resorts<br>Worldwide, Inc. 18,333 | 996           |
| Wendy's International, Inc. 9,348                   | 401           |
| Yum! Brands, Inc. 24,926                            | 1,171         |
|   | <b>13,332</b> |

#### Household & Personal Products 2.5%

|                                   |               |
|-----------------------------------|---------------|
| Alberto-Culver Co., Class B 7,132 | 317           |
| ■ Avon Products, Inc. 40,187      | 1,611         |
| Clorox Co. 13,266                 | 840           |
| Colgate-Palmolive Co. 45,090      | 2,245         |
| The Gillette Co. 85,611           | 4,421         |
| Kimberly-Clark Corp. 41,498       | 2,592         |
| ⑩ Procter & Gamble Co. 217,625    | 11,784        |
|                                   | <b>23,810</b> |

**Portfolio Holdings** continued

| Security and Number of Shares                        | Value<br>(\$ x 1,000) | Security and Number of Shares                    | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <b>Insurance 4.0%</b>                                |                       |  |                       |
| ACE Ltd. 24,113                                      | 1,036                 | Great Lakes Chemical Corp. 4,525                 | 140                   |
| AFLAC, Inc. 42,998                                   | 1,748                 | • Hercules, Inc. 8,321                           | 110                   |
| The Allstate Corp. 58,373                            | 3,278                 | International Flavors & Fragrances, Inc. 7,281   | 276                   |
| AMBAC Financial Group, Inc. 9,399                    | 628                   | International Paper Co. 42,303                   | 1,451                 |
| American International Group, Inc. 224,687           | 11,425                | Louisiana-Pacific Corp. 9,624                    | 237                   |
| AON Corp. 27,351                                     | 570                   | MeadWestvaco Corp. 17,494                        | 515                   |
| ■ Chubb Corp. 16,308                                 | 1,334                 | Monsanto Co. 22,985                              | 1,347                 |
| Cincinnati Financial Corp. 14,475                    | 583                   | ■ Newmont Mining Corp. 38,309                    | 1,455                 |
| Hartford Financial Services Group, Inc. 25,584       | 1,852                 | Nucor Corp. 13,842                               | 707                   |
| Jefferson-Pilot Corp. 11,797                         | 592                   | • Pactiv Corp. 12,809                            | 275                   |
| Lincoln National Corp. 15,120                        | 680                   | Phelps Dodge Corp. 8,429                         | 724                   |
| Loews Corp. 13,516                                   | 958                   | PPG Industries, Inc. 14,994                      | 1,013                 |
| Marsh & McLennan Cos., Inc. 45,660                   | 1,280                 | Praxair, Inc. 27,630                             | 1,294                 |
| MBIA, Inc. 12,174                                    | 638                   | Rohm & Haas Co. 16,441                           | 718                   |
| Metlife, Inc. 63,241                                 | 2,460                 | • Sealed Air Corp. 7,087                         | 343                   |
| The Progressive Corp. 17,032                         | 1,555                 | Sigma-Aldrich Corp. 5,972                        | 349                   |
| Prudential Financial, Inc. 45,272                    | 2,587                 | Temple-Inland, Inc. 9,964                        | 336                   |
| Safeco Corp. 11,016                                  | 580                   | United States Steel Corp. 9,923                  | 424                   |
| The St. Paul Travelers Cos., Inc. 57,804             | 2,069                 | Vulcan Materials Co. 8,902                       | 472                   |
| Torchmark Corp. 8,899                                | 475                   | Weyerhaeuser Co. 20,973                          | 1,439                 |
| UnumProvident Corp. 24,374                           | 408                   |  | <b>28,238</b>         |
| XL Capital Ltd., Class A 12,093                      | 850                   |  |                       |
|  | <b>37,586</b>         |  |                       |
| <b>Materials 3.0%</b>                                |                       | <b>Media 3.8%</b>                                |                       |
| Air Products & Chemicals, Inc. 19,344                | 1,136                 | Clear Channel Communications, Inc. 47,037        | 1,502                 |
| Alcoa, Inc. 75,188                                   | 2,182                 | • Comcast Corp., Class A 190,847                 | 6,128                 |
| Allegheny Technologies, Inc. 7,033                   | 157                   | Dow Jones & Co., Inc. 6,465                      | 216                   |
| Ball Corp. 9,232                                     | 365                   | ■ Gannett Co., Inc. 21,740                       | 1,674                 |
| Bemis Co. 9,327                                      | 257                   | • Interpublic Group of Cos., Inc. 36,528         | 470                   |
| The Dow Chemical Co. 82,331                          | 3,781                 | Knight-Ridder, Inc. 6,496                        | 420                   |
| E.I. du Pont de Nemours & Co. 86,051                 | 4,054                 | The McGraw-Hill Cos., Inc. 16,173                | 1,408                 |
| Eastman Chemical Co. 6,670                           | 360                   | Meredith Corp. 3,739                             | 176                   |
| Ecolab, Inc. 21,131                                  | 691                   | New York Times Co., Class A 11,930               | 398                   |
| Engelhard Corp. 10,564                               | 324                   | • News Corp, Inc., Class A 248,759               | 3,801                 |
| Freeport-McMoran Copper & Gold, Inc., Class B 15,459 | 536                   | Omnicom Group, Inc. 15,878                       | 1,316                 |
| Georgia-Pacific Corp. 22,461                         | 770                   | • Time Warner, Inc. 396,511                      | 6,665                 |
|  |                       | Tribune Co. 26,052                               | 1,006                 |
|  |                       | • Univision Communications, Inc., Class A 25,926 | 682                   |
|  |                       | Viacom, Inc., Class B 147,127                    | 5,094                 |
|  |                       | The Walt Disney Co. 176,658                      | 4,664                 |
|  |                       |  | <b>35,620</b>         |

| Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Pharmaceuticals &amp; Biotechnology 8.6%</b> |                       |
| Abbott Laboratories 134,518                     | 6,613                 |
| Allergan, Inc. 11,388                           | 802                   |
| • Amgen, Inc. 107,953                           | 6,284                 |
| Applied Biosystems Group – Applera Corp. 15,939 | 338                   |
| • Biogen Idec, Inc. 28,314                      | 1,026                 |
| Bristol-Myers Squibb Co. 168,651                | 4,385                 |
| • Chiron Corp. 12,529                           | 428                   |
| Eli Lilly & Co. 97,799                          | 5,718                 |
| • Forest Laboratories, Inc. 31,314              | 1,117                 |
| • Genzyme Corp. 21,023                          | 1,232                 |
| • Gilead Sciences, Inc. 36,806                  | 1,366                 |
| ⑤ Johnson & Johnson 256,571                     | 17,608                |
| • King Pharmaceuticals, Inc. 19,875             | 159                   |
| • Medimmune, Inc. 21,482                        | 545                   |
| Merck & Co., Inc. 190,562                       | 6,460                 |
| ■ Mylan Laboratories, Inc. 22,169               | 366                   |
| ▲⑥ Pfizer, Inc. 643,677                         | 17,489                |
| Schering-Plough Corp. 127,277                   | 2,656                 |
| • Watson Pharmaceuticals, Inc. 9,515            | 285                   |
| Wyeth 115,311                                   | 5,182                 |
|   | <b>80,059</b>         |

**Real Estate 0.6%**

|  |              |
|--|--------------|
| Apartment Investment & Management Co., Class A 8,284 | 316          |
| Archstone-Smith Trust 17,287                         | 622          |
| Equity Office Properties Trust 34,274                | 1,079        |
| Equity Residential 24,052                            | 826          |
| Plum Creek Timber Co., Inc. 15,891                   | 549          |
| ProLogis 15,911                                      | 630          |
| Simon Property Group, Inc. 18,835                    | 1,244        |
|  | <b>5,266</b> |

**Retailing 3.8%**

|                                   |       |
|-----------------------------------|-------|
| • Autonation, Inc. 21,761         | 398   |
| • AutoZone, Inc. 6,559            | 544   |
| • Bed, Bath & Beyond, Inc. 26,136 | 972   |
| Best Buy Co., Inc. 25,806         | 1,299 |
| ■ Big Lots, Inc. 8,829            | 90    |
| Circuit City Stores, Inc. 15,319  | 242   |

| Security and Number of Shares              | Value<br>(\$ x 1,000) |
|--|-----------------------|
| Dillard's, Inc., Class A 6,009             | 140                   |
| Dollar General Corp. 26,871                | 547                   |
| • eBay, Inc. 104,436                       | 3,314                 |
| Family Dollar Stores, Inc. 13,668          | 369                   |
| ■ Federated Department Stores, Inc. 14,376 | 827                   |
| ■ The Gap, Inc. 68,402                     | 1,460                 |
| Genuine Parts Co. 15,121                   | 649                   |
| Home Depot, Inc. 189,485                   | 6,702                 |
| J.C. Penney Co., Inc. Holding Co. 24,229   | 1,149                 |
| • Kohl's Corp. 28,138                      | 1,339                 |
| Limitedbrands 33,677                       | 730                   |
| Lowe's Cos., Inc. 66,677                   | 3,474                 |
| The May Department Stores Co. 24,866       | 872                   |
| Nordstrom, Inc. 11,495                     | 584                   |
| • Office Depot, Inc. 27,018                | 529                   |
| ■ OfficeMax, Inc. 8,152                    | 265                   |
| RadioShack Corp. 12,884                    | 322                   |
| • Sears Holdings Corp. 8,351               | 1,129                 |
| The Sherwin-Williams Co. 11,622            | 518                   |
| Staples, Inc. 63,501                       | 1,211                 |
| Target Corp. 77,328                        | 3,589                 |
| Tiffany & Co. 11,994                       | 362                   |
| TJX Cos., Inc. 40,917                      | 927                   |
| • Toys 'R' Us, Inc. 18,568                 | 471                   |
|  | <b>35,024</b>         |

**Semiconductors & Semiconductor Equipment 3.0%**

|   |        |
|---|--------|
| • Advanced Micro Devices, Inc. 34,064           | 485    |
| • Altera Corp. 32,135                           | 666    |
| Analog Devices, Inc. 31,918                     | 1,089  |
| • Applied Materials, Inc. 144,362               | 2,147  |
| • Applied Micro Circuits Corp. 26,193           | 70     |
| • Broadcom Corp., Class A 26,357                | 788    |
| • Freescale Semiconductor, Inc., Class B 34,669 | 654    |
| ⑨ Intel Corp. 537,418                           | 12,640 |
| • KLA-Tencor Corp. 17,028                       | 664    |
| Linear Technology Corp. 26,085                  | 932    |
| • LSI Logic Corp. 30,837                        | 165    |
| Maxim Integrated Products, Inc. 27,678          | 1,035  |

**Portfolio Holdings** continued

| Security and Number of Shares                           | Value<br>(\$ x 1,000) | Security and Number of Shares                    | Value<br>(\$ x 1,000) |
|---|-----------------------|--|-----------------------|
| ■ Micron Technology, Inc. 53,025                        | 515                   | <b>Technology Hardware &amp; Equipment 6.2%</b>  |                       |
| National Semiconductor Corp. 29,961                     | 572                   | • ADC Telecommunications, Inc. 64,958            | 147                   |
| ■ Novellus Systems, Inc. 12,126                         | 284                   | ■ Agilent Technologies, Inc. 36,320              | 754                   |
| • Nvidia Corp. 14,342                                   | 315                   | • Andrew Corp. 13,011                            | 160                   |
| • PMC – Sierra, Inc. 14,195                             | 114                   | ■ Apple Computer, Inc. 70,540                    | 2,544                 |
| • Teradyne, Inc. 15,144                                 | 167                   | • Avaya, Inc. 41,463                             | 360                   |
| Texas Instruments, Inc. 148,506                         | 3,707                 | • CIENA Corp. 42,616                             | 98                    |
| Xilinx, Inc. 30,140                                     | 812                   | • Cisco Systems, Inc. 559,677                    | 9,671                 |
|   | <b>27,821</b>         | • Comverse Technology, Inc. 16,761               | 382                   |
| <b>Software &amp; Services 5.3%</b>                     |                       | • Corning, Inc. 121,695                          | 1,673                 |
| Adobe Systems, Inc. 21,072                              | 1,253                 | • Dell, Inc. 212,128                             | 7,388                 |
| ■ Affiliated Computer Services, Inc.,<br>Class A 10,572 | 504                   | • EMC Corp. 207,609                              | 2,724                 |
| Autodesk, Inc. 19,868                                   | 633                   | • Gateway, Inc. 29,166                           | 99                    |
| Automatic Data Processing, Inc. 50,376                  | 2,188                 | Hewlett-Packard Co. 256,648                      | 5,254                 |
| • BMC Software, Inc. 19,204                             | 311                   | International Business Machines<br>Corp. 141,513 | 10,809                |
| • Citrix Systems, Inc. 14,656                           | 330                   | • Jabil Circuit, Inc. 16,529                     | 456                   |
| Computer Associates International,<br>Inc. 45,924       | 1,235                 | • JDS Uniphase Corp. 124,681                     | 184                   |
| • Computer Sciences Corp. 16,054                        | 698                   | • Lexmark International, Inc.,<br>Class A 11,021 | 765                   |
| • Compuware Corp. 29,962                                | 178                   | • Lucent Technologies, Inc. 375,711              | 913                   |
| • Convergys Corp. 11,101                                | 144                   | Molex, Inc. 15,534                               | 395                   |
| • Electronic Arts, Inc. 26,638                          | 1,422                 | Motorola, Inc. 211,541                           | 3,245                 |
| Electronic Data Systems Corp. 43,636                    | 845                   | • NCR Corp. 16,090                               | 531                   |
| First Data Corp. 70,557                                 | 2,683                 | ■ Network Appliance, Inc. 31,630                 | 842                   |
| ■ Fiserv, Inc. 16,739                                   | 708                   | • QLogic Corp. 7,970                             | 265                   |
| • Intuit, Inc. 16,073                                   | 648                   | Qualcomm, Inc. 142,013                           | 4,955                 |
| ■ Mercury Interactive Corp. 7,335                       | 303                   | • Sanmina – SCI Corp. 45,206                     | 181                   |
| ▲ ③ Microsoft Corp. 872,924                             | 22,085                | Scientific-Atlanta, Inc. 12,579                  | 385                   |
| • Novell, Inc. 32,707                                   | 193                   | • Soletron Corp. 79,626                          | 263                   |
| • Oracle Corp. 387,656                                  | 4,481                 | • Sun Microsystems, Inc. 285,843                 | 1,038                 |
| • Parametric Technology Corp. 20,887                    | 111                   | Symbol Technologies, Inc. 19,804                 | 265                   |
| Paychex, Inc. 31,011                                    | 949                   | Tektronix, Inc. 6,731                            | 146                   |
| ■ Sabre Holdings Corp., Class A 10,632                  | 208                   | • Tellabs, Inc. 39,870                           | 309                   |
| • Siebel Systems, Inc. 43,230                           | 389                   | • Xerox Corp. 81,007                             | 1,073                 |
| • SunGard Data Systems, Inc. 24,996                     | 835                   |  | <b>58,274</b>         |
| • Symantec Corp. 60,338                                 | 1,133                 | <b>Telecommunication Services 3.1%</b>           |                       |
| • Unisys Corp. 26,157                                   | 170                   | ■ Alltel Corp. 25,808                            | 1,470                 |
| • Veritas Software Corp. 36,497                         | 752                   | AT&T Corp. 69,065                                | 1,321                 |
| • Yahoo! Inc. 112,542                                   | 3,884                 | ■ BellSouth Corp. 158,015                        | 4,186                 |
|   | <b>49,273</b>         | CenturyTel, Inc. 11,068                          | 340                   |

| Security and Number of Shares                         | Value<br>(\$ x 1,000) |
|---|-----------------------|
| ■ Citizens Communications Co. 27,476                  | 350                   |
| • Nextel Communications, Inc.,<br>Class A 97,235      | 2,722                 |
| ■ Qwest Communications<br>International, Inc. 148,913 | 509                   |
| SBC Communications, Inc. 284,983                      | 6,783                 |
| ■ Sprint Corp. (FON Group) 127,530                    | 2,839                 |
| Verizon Communications, Inc. 238,969                  | 8,555                 |

**29,075****Transportation 1.6%**

|  |       |
|--|-------|
| Burlington Northern Santa Fe<br>Corp. 32,734   | 1,579 |
| CSX Corp. 18,615                               | 747   |
| ■ Delta Air Lines, Inc. 9,853                  | 33    |
| FedEx Corp. 26,048                             | 2,213 |
| Norfolk Southern Corp. 34,581                  | 1,086 |
| Ryder Systems, Inc. 5,273                      | 195   |
| Southwest Airlines Co. 63,939                  | 951   |
| Union Pacific Corp. 22,592                     | 1,444 |
| United Parcel Service, Inc.,<br>Class B 96,610 | 6,889 |

**15,137****Utilities 3.3%**

|  |       |
|--|-------|
| • The AES Corp. 55,127                   | 886   |
| ■ Allegheny Energy, Inc. 11,889          | 291   |
| Ameren Corp. 16,530                      | 855   |
| American Electric Power Co., Inc. 33,646 | 1,185 |
| ■ Calpine Corp. 42,883                   | 77    |
| Centerpoint Energy, Inc. 23,820          | 282   |
| Cinergy Corp. 16,290                     | 645   |
| • CMS Energy Corp. 18,600                | 240   |
| Consolidated Edison, Inc. 20,574         | 890   |
| Constellation Energy Group, Inc. 15,329  | 806   |
| Dominion Resources, Inc. 29,383          | 2,215 |
| DTE Energy Co. 15,074                    | 693   |
| Duke Energy Corp. 81,353                 | 2,375 |
| ■ Dynegy, Inc., Class A 29,391           | 98    |
| Edison International 27,719              | 1,006 |
| Entergy Corp. 19,041                     | 1,396 |
| Exelon Corp. 57,433                      | 2,843 |
| FirstEnergy Corp. 28,049                 | 1,221 |

| Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|
| FPL Group, Inc. 33,840                          | 1,381                 |
| KeySpan Corp. 13,904                            | 527                   |
| Nicor, Inc. 3,585                               | 133                   |
| NiSource, Inc. 23,474                           | 546                   |
| Peoples Energy Corp. 2,975                      | 118                   |
| ■ PG&E Corp. 33,103                             | 1,149                 |
| Pinnacle West Capital Corp. 7,973               | 334                   |
| PPL Corp. 16,052                                | 871                   |
| Progress Energy, Inc. 20,992                    | 881                   |
| Public Service Enterprise Group,<br>Inc. 20,200 | 1,174                 |
| Sempra Energy 20,588                            | 831                   |
| The Southern Co. 64,163                         | 2,114                 |
| TECO Energy, Inc. 17,823                        | 296                   |
| TXU Corp. 20,806                                | 1,785                 |
| Xcel Energy, Inc. 34,634                        | 595                   |

**30,739****Warrants**

0.0% of net assets

**Technology Hardware & Equipment 0.0%**

|  |          |
|--|----------|
| • Lucent Technologies, Inc.<br>expires 12/10/07 11,390 | <b>5</b> |
|--|----------|

**Short-Term Investment**

1.5% of net assets

|  |               |
|--|---------------|
| Provident Institutional<br>TempFund 13,922,460 | <b>13,922</b> |
|--|---------------|

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**U.S. Treasury Obligations**

0.2% of net assets

|  |              |
|--|--------------|
| ▲ U.S. Treasury Bills<br>2.73%-2.75%, 06/16/05 1,585 | <b>1,580</b> |
|--|--------------|

**End of investments.**

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Collateral Invested for Securities on Loan** -  
3.7% of net assets

**Commercial Paper & Other Corporate  
Obligations 1.1%**

|   |       |              |
|---|-------|--------------|
| Bank of America Corp.<br>2.80%, 05/02/05                          | 3,098 | 3,098        |
| Canadian Imperial Bank of<br>Commerce/New York<br>1.72%, 05/25/05 | 1,556 | 1,556        |
| Fortis Bank NY<br>1.78%, 06/06/05                                 | 25    | 25           |
| 2.06%, 06/08/05   | 2,486 | 2,486        |
| Skandinav Enskilda Bank<br>2.94%, 05/17/05                        | 2,649 | 2,649        |
|   |       | <b>9,814</b> |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Short-Term Investments 2.6%**

|   |       |       |
|---|-------|-------|
| KBC Bank, Time Deposit<br>2.95%, 05/02/05 | 1,688 | 1,688 |
|---|-------|-------|

**Security and Number of Shares**

|  |  |               |
|--|--|---------------|
| Institutional Money Market<br>Trust 22,897,783 |  | 22,898        |
|  |  | <b>24,586</b> |

**End of collateral invested for securities on loan.**

*In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.*

**Futures Contracts**

|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|--|------------------------|-------------------|----------------------|
| S&P 500 Index e-mini, Long<br>Expires 06/17/05 | 266                    | 15,408            | <b>(185)</b>         |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                |
|--|----------------|
| Investments, at value (including \$33,337 of securities on loan) | \$930,145      |
| Collateral invested for securities on loan                       | 34,400         |
| Receivables:   |                |
| Fund shares sold   | 1,628          |
| Interest   | 40             |
| Dividends  | 1,139          |
| Investments sold   | 49             |
| Due from brokers for futures                                     | 205            |
| Income from securities on loan                                   | 8              |
| Prepaid expenses   | + 29           |
| <b>Total assets</b>  | <b>967,643</b> |

**Liabilities**

|   |               |
|---|---------------|
| Collateral invested for securities on loan  | 34,400        |
| Payables:                                   |               |
| Fund shares redeemed                        | 174           |
| Transfer agent and shareholder service fees | 4             |
| Accrued expenses                            | + 53          |
| <b>Total liabilities</b>                    | <b>34,631</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 967,643          |
| <b>Total liabilities</b> | - 34,631         |
| <b>Net assets</b>        | <b>\$933,012</b> |

**Net Assets by Source**

|   |           |
|---|-----------|
| Capital received from investors           | 1,002,873 |
| Net investment income not yet distributed | 3,763     |
| Net realized capital losses               | (53,544)  |
| Net unrealized capital losses             | (20,080)  |

**Net Asset Value (NAV)**

| <b>Net Assets</b> | <b>÷</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
|-------------------|----------|---------------------------|----------|------------|
| \$933,012         |          | 102,584                   |          | \$9.10     |

Unless stated, all numbers x 1,000.

The fund paid \$950,040 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$602,255 |
| Sales/maturities | \$12,221  |

The fund's total security transactions with other Schwab Funds® during the period were \$447,466.

These derive from investments and futures.

**Federal Tax Data**

|   |                   |
|---|-------------------|
| <b>Portfolio cost</b>                   | \$956,467         |
| <b>Net unrealized gains and losses:</b> |                   |
| Gains                                   | \$76,211          |
| Losses                                  | + (102,533)       |
|   | <b>(\$26,322)</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$3,943 |
| Long-term capital gains | \$—     |

**Capital losses utilized** \$313**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2008              | \$152           |
| 2009              | 17,888          |
| 2010              | 27,645          |
| 2011              | + 1,609         |
|                   | <b>\$47,294</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$6,159      |
| Interest                       | 172          |
| Securities on loan             | + 24         |
| <b>Total investment income</b> | <b>6,355</b> |

**Net Realized Gains and Losses**

|   |                |
|---|----------------|
| Net realized losses on investments      | (2,237)        |
| Net realized gains on futures contracts | + 185          |
| <b>Net realized losses</b>              | <b>(2,052)</b> |

**Net Unrealized Gains and Losses**

|  |                 |
|--|-----------------|
| Net unrealized losses on investments       | (13,503)        |
| Net unrealized losses on futures contracts | + (398)         |
| <b>Net unrealized losses</b>               | <b>(13,901)</b> |

**Expenses**

|   |            |
|---|------------|
| Investment adviser and administrator fees   | 529        |
| Transfer agent and shareholder service fees | 294        |
| Trustees' fees                              | 5          |
| Custodian fees                              | 36         |
| Portfolio accounting fees                   | 38         |
| Professional fees                           | 13         |
| Registration fees                           | 26         |
| Shareholder reports                         | 21         |
| Other expenses                              | + 8        |
| Total expenses                              | 970        |
| Expense reduction                           | - 676      |
| <b>Net expenses</b>                         | <b>294</b> |

**Decrease in Net Assets from Operations**

|   |                   |
|---|-------------------|
| <b>Total investment income</b>                | <b>6,355</b>      |
| <b>Net expenses</b>                           | <b>- 294</b>      |
| <b>Net investment income</b>                  | <b>6,061</b>      |
| <b>Net realized losses</b>                    | <b>(2,052)</b>    |
| <b>Net unrealized losses</b>                  | <b>+ (13,901)</b> |
| <b>Decrease in net assets from operations</b> | <b>(\$9,892)</b>  |

Calculated as a percentage of average daily net assets: 0.18% of the first \$1 billion and 0.15% 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, 0.05% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$529 from the investment adviser (CSIM) and \$147 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 27, 2006, to 0.10% 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 \$15,953.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                                     | \$6,061         | \$4,771          |
| Net realized losses                                       | (2,052)         | (46)             |
| Net unrealized gains or losses                            | + (13,901)      | 21,386           |
| <b>Increase or decrease in net assets from operations</b> | <b>(9,892)</b>  | <b>26,111</b>    |

**Distributions Paid**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | <b>\$6,241</b> | <b>\$3,944</b> |
|--------------------------------------|----------------|----------------|

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                 |
|--|-----------------|------------------|------------------|-----------------|
|  | SHARES          | VALUE            | SHARES           | VALUE           |
| Shares sold                            | 68,232          | \$643,458        | 13,048           | \$114,347       |
| Shares reinvested                      | 537             | 4,985            | 371              | 3,113           |
| Shares redeemed                        | + (5,071)       | (47,163)         | (7,241)          | (63,271)        |
| <b>Net transactions in fund shares</b> | <b>63,698</b>   | <b>\$601,280</b> | <b>6,178</b>     | <b>\$54,189</b> |

**Shares Outstanding and Net Assets**

|                      | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|----------------------|-----------------|------------------|------------------|------------------|
|                      | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period  | 38,886          | \$347,865        | 32,708           | \$271,509        |
| Total increase       | + 63,698        | 585,147          | 6,178            | 76,356           |
| <b>End of period</b> | <b>102,584</b>  | <b>\$933,012</b> | <b>38,886</b>    | <b>\$347,865</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$3,944 |
| Long-term capital gains | \$—     |

For current period, includes subscriptions by other Schwab Funds® as follows:

**Schwab MarketTrack Portfolios:**

|                      | Shares | Value     |
|----------------------|--------|-----------|
| All Equity Portfolio | 21,804 | \$206,923 |
| Growth Portfolio     | 15,500 | \$147,092 |
| Balanced Portfolio   | 8,066  | \$76,546  |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

|                       |      |
|-----------------------|------|
| <b>Current period</b> | \$21 |
| <b>Prior period</b>   | \$15 |

Dollar amounts are net of the redemption proceeds.

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 distributable net investment income in the amount of \$3,763 and \$3,943 at the end of the current period and prior period, respectively.

Percent of Fund shares owned by other Schwab Funds® as of the end of the current period:

**Schwab MarketTrack Portfolios:**

|                      |       |
|----------------------|-------|
| All Equity Portfolio | 21.4% |
| Growth Portfolio     | 15.2% |
| Balanced Portfolio   | 8.4%  |

# Schwab Institutional Select<sup>®</sup> Large-Cap Value Index Fund

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 9.72                 | 8.66                 | 7.14                 | 8.92                 | 11.44                | 10.68                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.10                 | 0.16                 | 0.15                 | 0.18                 | 0.14                 | 0.15                 |
| Net realized and unrealized gains or losses     | 0.25                 | 1.05                 | 1.55                 | (1.49)               | (2.19)               | 0.84                 |
| Total income or loss from investment operations | 0.35                 | 1.21                 | 1.70                 | (1.31)               | (2.05)               | 0.99                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.16)               | (0.15)               | (0.18)               | (0.15)               | (0.15)               | (0.11)               |
| Distributions from net realized gains           | —                    | —                    | —                    | (0.32)               | (0.32)               | (0.12)               |
| Total distributions                             | (0.16)               | (0.15)               | (0.18)               | (0.47)               | (0.47)               | (0.23)               |
| Net asset value at end of period                | 9.91                 | 9.72                 | 8.66                 | 7.14                 | 8.92                 | 11.44                |
| Total return (%)                                | 3.58 <sup>1</sup>    | 14.12                | 24.40                | (15.65)              | (18.53)              | 9.48                 |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.25 <sup>2</sup>    | 0.25                 | 0.25                 | 0.26 <sup>3</sup>    | 0.25                 | 0.26 <sup>4</sup>    |
| Gross operating expenses                        | 0.41 <sup>2</sup>    | 0.44                 | 0.45                 | 0.48                 | 0.45                 | 0.51                 |
| Net investment income                           | 1.94 <sup>2</sup>    | 1.80                 | 1.94                 | 1.72                 | 1.47                 | 1.64                 |
| Portfolio turnover rate                         | 15 <sup>1</sup>      | 11                   | 24                   | 26                   | 47                   | 27                   |
| Net assets, end of period (\$ x 1,000,000)      | 108                  | 108                  | 79                   | 70                   | 128                  | 129                  |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.25% if interest expense had not been included.

<sup>4</sup> The ratio of net operating expenses would have been 0.25% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
  - Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- Issuer is affiliated with the fund's adviser
- This security or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>98.3%</b>         | <b>Common Stock</b>                               | 97,392             | 106,472             |
| <b>1.1%</b>          | <b>Short-Term Investment</b>                      | 1,243              | 1,243               |
| <b>0.1%</b>          | <b>U.S. Treasury Obligations</b>                  | 70                 | 70                  |
| <b>99.5%</b>         | <b>Total Investments</b>                          | <b>98,705</b>      | <b>107,785</b>      |
| <b>6.5%</b>          | <b>Collateral Invested for Securities on Loan</b> | 6,997              | 6,997               |
| <b>(6.0)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (6,481)             |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>108,301</b>      |

|                               |                       |
|-------------------------------|-----------------------|
| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|

**Common Stock** 98.3% of net assets

**Automobiles & Components 0.9%**

|                            |       |    |
|----------------------------|-------|----|
| ■ Cooper Tire & Rubber Co. | 1,300 | 23 |
| Dana Corp.                 | 2,700 | 31 |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Delphi Corp. 11,500           | 38                    |
| Ford Motor Co. 37,609         | 342                   |
| ■ General Motors Corp. 11,275 | 301                   |
| Johnson Controls, Inc. 4,000  | 219                   |
| ■ Visteon Corp. 2,585         | 9                     |
|                               | <b>963</b>            |

**Banks 15.1%**

|  |               |
|--|---------------|
| AmSouth Bancorp. 7,100                   | 187           |
| ▲③ Bank of America Corp. 82,080          | 3,697         |
| BB&T Corp. 11,300                        | 443           |
| Comerica, Inc. 3,200                     | 183           |
| Compass Bancshares, Inc. 2,500           | 108           |
| Countrywide Financial Corp. 11,198       | 405           |
| Fannie Mae 19,590                        | 1,057         |
| Fifth Third Bancorp. 10,530              | 458           |
| First Horizon National Corp. 2,500       | 104           |
| Freddie Mac 14,100                       | 867           |
| ■ Golden West Financial Corp. 5,710      | 356           |
| Huntington Bancshares, Inc. 4,741        | 111           |
| KeyCorp, Inc. 8,300                      | 275           |
| M&T Bank Corp. 1,990                     | 206           |
| Marshall & Ilsley Corp. 4,206            | 179           |
| MGIC Investment Corp. 1,800              | 106           |
| National City Corp. 12,030               | 409           |
| North Fork Bancorp., Inc. 9,520          | 268           |
| PNC Financial Services Group, Inc. 5,800 | 309           |
| Regions Financial Corp. 9,494            | 318           |
| Sovereign Bancorp, Inc. 7,700            | 158           |
| SunTrust Banks, Inc. 6,860               | 500           |
| Synovus Financial Corp. 6,000            | 168           |
| U.S. Bancorp. 37,518                     | 1,047         |
| ⑩ Wachovia Corp. 29,996                  | 1,535         |
| Washington Mutual, Inc. 17,950           | 742           |
| ⑦ Wells Fargo & Co. 34,330               | 2,058         |
| ▲ Zions Bancorp. 1,810                   | 127           |
|  | <b>16,381</b> |

**Capital Goods 5.1%**

|                                       |     |
|---------------------------------------|-----|
| American Power Conversion Corp. 3,900 | 94  |
| Cooper Industries Ltd., Class A 1,700 | 108 |
| ■ Cummins, Inc. 860                   | 58  |

## Portfolio Holdings continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares         | Value<br>(\$ x 1,000) |
|--|-----------------------|---------------------------------------|-----------------------|
| Deere & Co. 4,990                              | 312                   | <b>Diversified Financials 13.4%</b>   |                       |
| Dover Corp. 4,200                              | 153                   | The Bank of New York Co., Inc. 15,900 | 444                   |
| ■ Eaton Corp. 3,200                            | 188                   | The Bear Stearns Cos., Inc. 2,101     | 199                   |
| General Dynamics Corp. 4,100                   | 431                   | Capital One Financial Corp. 4,600     | 326                   |
| Goodrich Corp. 2,500                           | 101                   | ■ The Charles Schwab Corp. 23,240     | 240                   |
| Honeywell International, Inc. 17,217           | 616                   | CIT Group, Inc. 4,200                 | 169                   |
| Ingersoll-Rand Co., Class A 3,600              | 277                   | ▲① Citigroup, Inc. 105,803            | 4,968                 |
| ITT Industries, Inc. 1,800                     | 163                   | • E*TRADE Financial Corp. 7,700       | 86                    |
| L-3 Communications Holdings, Inc. 2,330        | 165                   | Franklin Resources, Inc. 3,700        | 254                   |
| Masco Corp. 9,300                              | 293                   | Goldman Sachs Group, Inc. 8,500       | 908                   |
| Northrop Grumman Corp. 7,288                   | 399                   | Janus Capital Group, Inc. 4,400       | 57                    |
| Pall Corp. 2,700                               | 72                    | ▲⑤ JPMorgan Chase & Co. 71,954        | 2,554                 |
| Parker Hannifin Corp. 2,400                    | 144                   | Lehman Brothers Holdings, Inc. 5,600  | 514                   |
| Raytheon Co. 8,800                             | 331                   | MBNA Corp. 26,300                     | 519                   |
| Textron, Inc. 2,730                            | 206                   | Mellon Financial Corp. 7,900          | 219                   |
| ▲ Tyco International Ltd. 40,761               | 1,276                 | Merrill Lynch & Co., Inc. 18,840      | 1,016                 |
| W.W. Grainger, Inc. 1,680                      | 93                    | Morgan Stanley 22,400                 | 1,179                 |
|  | <b>4,480</b>          | Northern Trust Corp. 4,110            | 185                   |
| <b>Commercial Services &amp; Supplies 0.9%</b> |                       | Principal Financial Group, Inc. 5,900 | 231                   |
| • Allied Waste Industries, Inc. 5,600          | 45                    | • Provident Financial Corp. 6,000     | 100                   |
| Cendant Corp. 21,360                           | 425                   | State Street Corp. 6,800              | 314                   |
| R.R. Donnelley & Sons Co. 4,500                | 148                   |                                       | <b>14,482</b>         |
| Waste Management, Inc. 11,700                  | 333                   | <b>Energy 8.1%</b>                    |                       |
|  | <b>951</b>            | ■ Amerada Hess Corp. 1,720            | 161                   |
| <b>Consumer Durables &amp; Apparel 1.1%</b>    |                       | Anadarko Petroleum Corp. 4,788        | 350                   |
| Brunswick Corp. 2,200                          | 92                    | Apache Corp. 6,670                    | 375                   |
| Centex Corp. 2,600                             | 150                   | Ashland, Inc. 1,400                   | 94                    |
| ■ Eastman Kodak Co. 5,400                      | 135                   | Burlington Resources, Inc. 8,000      | 389                   |
| ■ Hasbro, Inc. 3,370                           | 64                    | ▲⑥ ChevronTexaco Corp. 39,804         | 2,070                 |
| ■ Jones Apparel Group, Inc. 2,600              | 79                    | ConocoPhillips 14,082                 | 1,476                 |
| KB Home 1,680                                  | 96                    | Devon Energy Corp. 9,700              | 438                   |
| Leggett & Platt, Inc. 3,800                    | 102                   | El Paso Corp. 13,173                  | 132                   |
| Liz Claiborne, Inc. 2,200                      | 78                    | EOG Resources, Inc. 4,800             | 228                   |
| Pulte Homes, Inc. 1,900                        | 136                   | ■ Kerr-McGee Corp. 3,100              | 241                   |
| Reebok International Ltd. 1,100                | 45                    | Kinder Morgan, Inc. 2,215             | 169                   |
| Snap-On, Inc. 1,000                            | 33                    | Marathon Oil Corp. 7,000              | 326                   |
| VF Corp. 2,000                                 | 113                   | • Nabors Industries Ltd. 2,860        | 154                   |
| Whirlpool Corp. 1,500                          | 93                    | • National-Oilwell Varco, Inc. 3,000  | 119                   |
|  | <b>1,216</b>          | Noble Corp. 2,900                     | 148                   |
|  |                       | Occidental Petroleum Corp. 8,100      | 559                   |
|  |                       | Rowan Cos., Inc. 2,100                | 56                    |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| Sunoco, Inc. 1,400            | 139                   |
| • Transocean, Inc. 6,096      | 283                   |
| Unocal Corp. 5,300            | 289                   |
| Valero Energy Corp. 5,300     | 363                   |
| Williams Cos., Inc. 11,400    | 194                   |
|                               | <b>8,753</b>          |

#### Food & Staples Retailing 1.3%

|                                |              |
|--------------------------------|--------------|
| ■ Albertson's, Inc. 7,138      | 141          |
| ■ Costco Wholesale Corp. 9,560 | 388          |
| CVS Corp. 7,800                | 402          |
| ■ Kroger Co. 15,200            | 240          |
| • Safeway, Inc. 9,200          | 196          |
| Supervalu, Inc. 2,800          | 89           |
|                                | <b>1,456</b> |

#### Food Beverage & Tobacco 1.2%

|  |              |
|--|--------------|
| Archer-Daniels-Midland Co. 11,715          | 211          |
| Coca-Cola Enterprises, Inc. 7,140          | 145          |
| ConAgra Foods, Inc. 10,400                 | 278          |
| General Mills, Inc. 7,500                  | 370          |
| Molson Coors Brewing Co.,<br>Class B 1,600 | 99           |
| Reynolds American, Inc. 2,350              | 183          |
|  | <b>1,286</b> |

#### Health Care Equipment & Services 3.8%

|  |     |
|--|-----|
| Aetna, Inc. 5,560                                      | 408 |
| AmerisourceBergen Corp. 2,240                          | 137 |
| Cardinal Health, Inc. 8,770                            | 487 |
| • Caremark Rx, Inc. 9,443                              | 378 |
| CIGNA Corp. 2,460                                      | 226 |
| • Fisher Scientific International, Inc. 2,200          | 131 |
| ■ HCA, Inc. 8,200                                      | 458 |
| ■ Health Management Associates, Inc.,<br>Class A 4,700 | 116 |
| ■ Humana, Inc. 3,400                                   | 118 |
| • Laboratory Corp. of America<br>Holdings 2,730        | 135 |
| Manor Care, Inc. 1,800                                 | 60  |
| McKesson Corp. 6,200                                   | 230 |
| • Medco Health Solutions, Inc. 5,290                   | 270 |

| Security and Number of Shares  | Value<br>(\$ x 1,000) |
|--------------------------------|-----------------------|
| • Tenet Healthcare Corp. 9,800 | 117                   |
| • Thermo Electron Corp. 3,100  | 78                    |
| • WellPoint, Inc. 6,129        | 783                   |
|                                | <b>4,132</b>          |

#### Hotels Restaurants & Leisure 1.6%

|  |              |
|--|--------------|
| ■ Carnival Corp. 10,660                            | 521          |
| Hilton Hotels Corp. 7,900                          | 173          |
| McDonald's Corp. 25,800                            | 756          |
| Starwood Hotels & Resorts<br>Worldwide, Inc. 4,200 | 228          |
| Wendy's International, Inc. 2,300                  | 99           |
|  | <b>1,777</b> |

#### Household & Personal Products 0.1%

|                                   |           |
|-----------------------------------|-----------|
| Alberto-Culver Co., Class B 1,800 | <b>80</b> |
|-----------------------------------|-----------|

#### Insurance 8.0%

|  |              |
|--|--------------|
| ACE Ltd. 5,700                                   | 245          |
| AFLAC, Inc. 9,700                                | 394          |
| The Allstate Corp. 13,750                        | 772          |
| AMBAC Financial Group, Inc. 2,200                | 147          |
| ▲ 4 American International Group,<br>Inc. 52,738 | 2,682        |
| AON Corp. 6,250                                  | 130          |
| Chubb Corp. 3,600                                | 294          |
| Cincinnati Financial Corp. 3,612                 | 145          |
| Hartford Financial Services<br>Group, Inc. 5,700 | 412          |
| Jefferson-Pilot Corp. 2,600                      | 131          |
| Lincoln National Corp. 3,600                     | 162          |
| Loews Corp. 3,030                                | 215          |
| Marsh & McLennan Cos., Inc. 10,800               | 303          |
| MBIA, Inc. 2,950                                 | 155          |
| Metlife, Inc. 13,838                             | 538          |
| The Progressive Corp. 4,050                      | 370          |
| Prudential Financial, Inc. 9,800                 | 560          |
| Safeco Corp. 2,500                               | 132          |
| The St. Paul Travelers Cos., Inc. 13,740         | 492          |
| Torchmark Corp. 2,100                            | 112          |
| ■ UnumProvident Corp. 5,849                      | 98           |
| XL Capital Ltd., Class A 2,900                   | 204          |
|  | <b>8,693</b> |

**Portfolio Holdings** continued

| Security and Number of Shares                   | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|---|-----------------------|--|-----------------------|
| <b>Materials 3.4%</b>                           |                       |  |                       |
| Air Products & Chemicals, Inc. 4,600            | 270                   | ② Pfizer, Inc. 151,060                                   | 4,104                 |
| Alcoa, Inc. 17,832                              | 517                   | • Watson Pharmaceuticals, Inc. 2,500                     | 75                    |
| Bemis Co. 2,300                                 | 63                    |  | <b>4,627</b>          |
| Engelhard Corp. 2,300                           | 70                    | <b>Real Estate 0.9%</b>                                  |                       |
| ■ Georgia-Pacific Corp. 5,210                   | 179                   | ■ Apartment Investment & Management Co., Class A 2,000   | 76                    |
| Great Lakes Chemical Corp. 900                  | 28                    | ■ Archstone-Smith Trust 4,000                            | 144                   |
| International Paper Co. 9,915                   | 340                   | Equity Office Properties Trust 8,200                     | 258                   |
| Louisiana-Pacific Corp. 2,300                   | 57                    | Equity Residential 5,800                                 | 199                   |
| MeadWestvaco Corp. 4,146                        | 122                   | Plum Creek Timber Co., Inc. 3,600                        | 124                   |
| Monsanto Co. 5,500                              | 322                   | ProLogis 3,800   | 151                   |
| Newmont Mining Corp. 9,100                      | 346                   |  | <b>952</b>            |
| ■ Nucor Corp. 3,200                             | 163                   | <b>Retailing 2.0%</b>                                    |                       |
| Phelps Dodge Corp. 1,920                        | 165                   | • Autonation, Inc. 4,570                                 | 84                    |
| PPG Industries, Inc. 3,200                      | 216                   | ■ Big Lots, Inc. 1,800                                   | 18                    |
| Rohm & Haas Co. 3,635                           | 159                   | ■ Circuit City Stores, Inc. 4,100                        | 65                    |
| Temple-Inland, Inc. 2,200                       | 74                    | Dillards, Inc., Class A 1,430                            | 33                    |
| United States Steel Corp. 2,400                 | 103                   | Federated Department Stores, Inc. 3,500                  | 201                   |
| Vulcan Materials Co. 2,200                      | 117                   | Genuine Parts Co. 3,600                                  | 154                   |
| Weyerhaeuser Co. 5,000                          | 343                   | J.C. Penney Co., Inc. Holding Co. 5,380                  | 255                   |
|   | <b>3,654</b>          | • Kohl's Corp. 6,590                                     | 314                   |
| <b>Media 6.7%</b>                               |                       | Limitedbrands 8,188                                      | 178                   |
| Clear Channel Communications, Inc. 10,669       | 341                   | The May Department Stores Co. 5,700                      | 200                   |
| • Comcast Corp., Class A 44,783                 | 1,438                 | Nordstrom, Inc. 2,350                                    | 120                   |
| Gannett Co., Inc. 5,080                         | 391                   | • Office Depot, Inc. 6,400                               | 125                   |
| • Interpublic Group of Cos., Inc. 8,200         | 106                   | ■ OfficeMax, Inc. 1,900                                  | 62                    |
| • News Corp, Inc., Class A 54,000               | 825                   | • Sears Holdings Corp. 1,353                             | 183                   |
| • Time Warner, Inc. 86,850                      | 1,460                 | Tiffany & Co. 2,700                                      | 81                    |
| Tribune Co. 6,030                               | 233                   | • Toys 'R' Us, Inc. 4,350                                | 110                   |
| • Univision Communications, Inc., Class A 5,910 | 155                   |  | <b>2,183</b>          |
| Viacom, Inc., Class B 34,521                    | 1,195                 | <b>Semiconductors &amp; Semiconductor Equipment 2.1%</b> |                       |
| The Walt Disney Co. 41,450                      | 1,094                 | • Advanced Micro Devices, Inc. 7,900                     | 113                   |
|   | <b>7,238</b>          | • Applied Materials, Inc. 33,770                         | 502                   |
| <b>Pharmaceuticals &amp; Biotechnology 4.3%</b> |                       | • Applied Micro Circuits Corp. 5,200                     | 14                    |
| • Biogen Idec, Inc. 6,100                       | 221                   | • Freescale Semiconductor, Inc., Class B 7,955           | 150                   |
| • Chiron Corp. 2,980                            | 102                   | ■ KLA-Tencor Corp. 4,000                                 | 156                   |
| • King Pharmaceuticals, Inc. 5,500              | 44                    | • LSI Logic Corp. 7,700                                  | 41                    |
| Mylan Laboratories, Inc. 4,900                  | 81                    | ■ Micron Technology, Inc. 12,600                         | 123                   |
|   |                       | National Semiconductor Corp. 7,500                       | 143                   |

| Security and Number of Shares  | Value<br>(\$ x 1,000) |
|--------------------------------|-----------------------|
| ■ Novellus Systems, Inc. 3,000 | 70                    |
| • Nvidia Corp. 3,200           | 70                    |
| • Teradyne, Inc. 4,000         | 44                    |
| Texas Instruments, Inc. 34,850 | 870                   |
|                                | <b>2,296</b>          |

**Software & Services 1.3%**

|   |              |
|---|--------------|
| ■ Affiliated Computer Services, Inc., Class A 2,558 | 122          |
| • BMC Software, Inc. 4,400                          | 71           |
| • Computer Sciences Corp. 3,800                     | 165          |
| • Convergys Corp. 3,000                             | 39           |
| Electronic Data Systems Corp. 10,500                | 203          |
| • Fiserv, Inc. 4,000                                | 169          |
| • Novell, Inc. 7,500                                | 44           |
| Sabre Holdings Corp., Class A 2,700                 | 53           |
| • Siebel Systems, Inc. 10,600                       | 96           |
| • SunGard Data Systems, Inc. 5,700                  | 191          |
| • Unisys Corp. 6,800                                | 44           |
| • Veritas Software Corp. 8,900                      | 183          |
|   | <b>1,380</b> |

**Technology Hardware & Equipment 3.7%**

|                                       |              |
|---------------------------------------|--------------|
| • ADC Telecommunications, Inc. 19,600 | 44           |
| ■ Agilent Technologies, Inc. 8,750    | 182          |
| • Andrew Corp. 3,000                  | 37           |
| • CIENA Corp. 11,100                  | 26           |
| • Comverse Technology, Inc. 4,000     | 91           |
| • EMC Corp. 49,100                    | 644          |
| Hewlett-Packard Co. 58,628            | 1,200        |
| • Jabil Circuit, Inc. 4,009           | 111          |
| • JDS Uniphase Corp. 27,500           | 41           |
| Molex, Inc. 2,900                     | 74           |
| Motorola, Inc. 49,985                 | 767          |
| • NCR Corp. 3,500                     | 116          |
| • Sanmina — SCI Corp. 10,300          | 41           |
| • Solectron Corp. 20,000              | 66           |
| • Sun Microsystems, Inc. 69,000       | 250          |
| Tektronix, Inc. 2,000                 | 43           |
| • Tellabs, Inc. 9,400                 | 73           |
| • Xerox Corp. 18,300                  | 242          |
|                                       | <b>4,048</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Telecommunication Services 5.6%**

|                                       |              |
|---------------------------------------|--------------|
| ■ Alltel Corp. 6,300                  | 359          |
| AT&T Corp. 16,252                     | 311          |
| BellSouth Corp. 37,080                | 982          |
| CenturyTel, Inc. 2,900                | 89           |
| ■ Citizens Communications Co. 6,948   | 88           |
| ⑨ SBC Communications, Inc. 66,880     | 1,592        |
| ■ Sprint Corp. (FON Group) 30,200     | 672          |
| ⑧ Verizon Communications, Inc. 56,080 | 2,008        |
|                                       | <b>6,101</b> |

**Transportation 1.8%**

|  |              |
|--|--------------|
| Burlington Northern Santa Fe Corp. 7,700 | 371          |
| CSX Corp. 4,100                          | 165          |
| FedEx Corp. 6,200                        | 527          |
| Norfolk Southern Corp. 8,100             | 254          |
| Ryder Systems, Inc. 1,300                | 48           |
| Southwest Airlines Co. 14,300            | 213          |
| Union Pacific Corp. 5,300                | 339          |
|  | <b>1,917</b> |

**Utilities 5.9%**

|   |     |
|---|-----|
| ■ Allegheny Energy, Inc. 2,900          | 71  |
| Ameren Corp. 3,950                      | 204 |
| American Electric Power Co., Inc. 7,760 | 273 |
| ■ Calpine Corp. 8,400                   | 15  |
| Cinergy Corp. 3,700                     | 147 |
| • CMS Energy Corp. 4,000                | 52  |
| ■ Consolidated Edison, Inc. 4,910       | 212 |
| Constellation Energy Group, Inc. 3,600  | 189 |
| Dominion Resources, Inc. 6,448          | 486 |
| DTE Energy Co. 3,500                    | 161 |
| Duke Energy Corp. 17,690                | 516 |
| ■ Dynegy, Inc., Class A 7,500           | 25  |
| Edison International 6,700              | 243 |
| Entergy Corp. 4,310                     | 316 |
| Exelon Corp. 13,700                     | 678 |
| ■ FirstEnergy Corp. 6,722               | 293 |
| FPL Group, Inc. 7,600                   | 310 |
| KeySpan Corp. 3,300                     | 125 |
| Nicor, Inc. 800                         | 30  |
| NiSource, Inc. 5,515                    | 128 |

**Portfolio Holdings** continued

| Security and Number of Shares               | Value<br>(\$ x 1,000) | Security<br>Rate, Maturity Date   | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---|-----------------------|---|-----------------------------|-----------------------|
| Peoples Energy Corp. 700                    | 28                    | <b>Collateral Invested for Securities on Loan</b><br>6.5% of net assets |                             |                       |
| ■ PG&E Corp. 7,300                          | 253                   |   |                             |                       |
| Pinnacle West Capital Corp. 1,900           | 80                    | <b>Commercial Paper &amp; Other Corporate Obligations 1.6%</b>          |                             |                       |
| PPL Corp. 3,700                             | 201                   |   |                             |                       |
| Progress Energy, Inc. 4,906                 | 206                   | Bank of America Corp.   |                             |                       |
| Public Service Enterprise Group, Inc. 4,900 | 285                   | 2.80%, 05/02/05   | 456                         | 456                   |
| Sempra Energy 4,800                         | 194                   | Canadian Imperial Bank of Commerce/New York                             |                             |                       |
| The Southern Co. 15,040                     | 496                   | 1.72%, 05/25/05   | 78                          | 78                    |
| TECO Energy, Inc. 4,100                     | 68                    | Fortis Bank NY  |                             |                       |
| Xcel Energy, Inc. 8,210                     | 141                   | 1.78%, 06/06/05   | 161                         | 161                   |
|   | <b>6,426</b>          | 2.06%, 06/08/05   | 7                           | 7                     |
|   |                       | Skandinav Enskilda Bank   |                             |                       |
|   |                       | 2.94%, 05/17/05   | 591                         | 591                   |
|   |                       | Societe Generale  |                             |                       |
|   |                       | 2.91%, 05/16/05   | 453                         | 453                   |
|   |                       |   |                             | <b>1,746</b>          |
|   |                       | <b>Short-Term Investments 4.9%</b>                                      |                             |                       |
|   |                       | KBC Bank, Tlme Deposit  |                             |                       |
|   |                       | 2.95%, 05/02/05   | 306                         | 306                   |
|   |                       | <b>Security and Number of Shares</b>                                    |                             |                       |
|   |                       | Institutional Money Market  |                             |                       |
|   |                       | Trust 4,944,821   |                             | 4,945                 |
|   |                       |   |                             | <b>5,251</b>          |
|   |                       | <b>End of collateral invested for securities on loan.</b>               |                             |                       |

**Short -Term Investment**  
1.1% of net assets

|  |              |
|--|--------------|
| Provident Institutional TempFund 1,242,969 | <b>1,243</b> |
|--|--------------|

|                              |                          |
|------------------------------|--------------------------|
| Security Rate, Maturity Date | Face Amount (\$ x 1,000) |
|------------------------------|--------------------------|

**U.S. Treasury Obligations**  
0.1% of net assets

|                       |    |           |
|-----------------------|----|-----------|
| ▲ U.S. Treasury Bills |    |           |
| 2.73%-2.75%, 06/16/05 | 70 | <b>70</b> |

**End of investments.**

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

**Futures Contracts**

|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Gains |
|--|------------------------|-------------------|---------------------|
| S&P 500 Index e-mini, Long<br>Expires 06/17/05 | 20                     | 1,159             | <b>6</b>            |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |                |
|--|----------------|
| Investments, at value (including<br>\$6,758 of securities on loan) | \$107,785      |
| Collateral invested for securities on loan                         | 6,997          |
| Receivables:   |                |
| Fund shares sold   | 482            |
| Dividends  | 217            |
| Due from broker for futures  | 15             |
| Income from securities on loan                                     | 1              |
| Prepaid expenses   | + 12           |
| <b>Total assets</b>  | <b>115,509</b> |

**Liabilities**

|   |              |
|---|--------------|
| Collateral invested for securities on loan  | 6,997        |
| Payables:                                   |              |
| Fund shares redeemed                        | 180          |
| Transfer agent and shareholder service fees | 1            |
| Trustees' fees                              | 1            |
| Accrued expenses                            | + 29         |
| <b>Total liabilities</b>                    | <b>7,208</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 115,509          |
| <b>Total liabilities</b> | — 7,208          |
| <b>Net assets</b>        | <b>\$108,301</b> |

**Net Assets by Source**

|   |          |
|---|----------|
| Capital received from investors           | 127,549  |
| Net investment income not yet distributed | 738      |
| Net realized capital losses               | (29,072) |
| Net unrealized capital gains              | 9,086    |

**Net Asset Value (NAV)**

|                   |   |                               |   |            |
|-------------------|---|-------------------------------|---|------------|
| <b>Net Assets</b> | ÷ | <b>Shares<br/>Outstanding</b> | = | <b>NAV</b> |
| \$108,301         |   | 10,933                        |   | \$9.91     |

Unless stated, all numbers x 1,000.

The fund paid \$98,705 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$17,040 |
| Sales/maturities | \$17,752 |

The fund's total security transactions with other Schwab Funds® during the period were \$1,521.

These derive from investments and futures.

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$100,206      |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$21,055       |
| Losses                                  | + (13,476)     |
|   | <b>\$7,579</b> |

**As of October 31, 2004:**

|                                    |                |
|------------------------------------|----------------|
| <b>Net undistributed earnings:</b> |                |
| Ordinary income                    | \$1,427        |
| Long-term capital gains            | \$—            |
| <b>Capital losses utilized</b>     | <b>\$1,252</b> |

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2010              | \$24,705        |
| 2011              | + 6,374         |
|                   | <b>\$31,079</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$1,212      |
| Interest                       | 19           |
| Securities on loan             | + 6          |
| <b>Total investment income</b> | <b>1,237</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments       | 3,517        |
| Net realized gains on futures contracts | + 169        |
| <b>Net realized gains</b>               | <b>3,686</b> |

**Net Unrealized Gains and Losses**

|  |              |
|--|--------------|
| Net unrealized losses on investments       | (913)        |
| Net unrealized losses on futures contracts | + (7)        |
| <b>Net unrealized losses</b>               | <b>(920)</b> |

**Expenses**

|   |                   |
|---|-------------------|
| Investment adviser and administrator fees   | 113               |
| Transfer agent and shareholder service fees | 57                |
| Trustees' fees                              | 4                 |
| Custodian fees                              | 12                |
| Portfolio accounting fees                   | 7                 |
| Professional fees                           | 12                |
| Registration fees                           | 10                |
| Shareholder reports                         | 12                |
| Other expenses                              | + 6               |
| Total expenses                              | <u>233</u>        |
| Expense reduction                           | - 91              |
| <b>Net expenses</b>                         | <u><b>142</b></u> |

**Increase in Net Assets from Operations**

|  |                |
|--|----------------|
| Total investment income                | 1,237          |
| Net expenses                           | — 142          |
| Net investment income                  | <u>1,095</u>   |
| Net realized gains                     | 3,686          |
| Net unrealized losses                  | + (920)        |
| Increase in net assets from operations | <u>\$3,861</u> |

Calculated as a percentage of average daily net assets: 0.20% of the first \$1 billion and 0.18% 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, 0.05% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$90 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 27, 2006, to 0.25% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$2,766.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$1,095         | \$1,687          |
| Net realized gains                            | 3,686           | 1,485            |
| Net unrealized gains or losses                | + (920)         | 8,575            |
| <b>Increase in net assets from operations</b> | <b>3,861</b>    | <b>11,747</b>    |

**Distributions Paid**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | <b>\$1,784</b> | <b>\$1,357</b> |
|--------------------------------------|----------------|----------------|

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                 |
|--|-----------------|------------------|------------------|-----------------|
|  | SHARES          | VALUE            | SHARES           | VALUE           |
| Shares sold                            | 1,686           | \$17,122         | 4,232            | \$39,448        |
| Shares reinvested                      | 154             | 1,553            | 132              | 1,154           |
| Shares redeemed                        | + (1,996)       | (20,176)         | (2,432)          | (22,547)        |
| <b>Net transactions in fund shares</b> | <b>(156)</b>    | <b>(\$1,501)</b> | <b>1,932</b>     | <b>\$18,055</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|----------------------------|-----------------|------------------|------------------|------------------|
|                            | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period        | 11,089          | \$107,725        | 9,157            | \$79,280         |
| Total increase or decrease | + (156)         | 576              | 1,932            | 28,445           |
| <b>End of period</b>       | <b>10,933</b>   | <b>\$108,301</b> | <b>11,089</b>    | <b>\$107,725</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$1,357 |
| Long-term capital gains | \$—     |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days the fund charges a 2.00% redemption fee.

|                       |      |
|-----------------------|------|
| <b>Current period</b> | \$9  |
| <b>Prior period</b>   | \$11 |

Dollar amounts are net of the redemption proceeds.

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 distributable net investment income in the amount of \$738 and \$1,427 at the end of the current period and prior period, respectively.

# Schwab Institutional Select<sup>®</sup> Small-Cap Value Index Fund

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 14.78                | 12.55                | 9.50                 | 10.82                | 11.23                | 9.89                 |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income                           | 0.07                 | 0.16                 | 0.11                 | 0.10                 | 0.09                 | 0.09                 |
| Net realized and unrealized gains or losses     | 0.39                 | 2.18                 | 3.04                 | (0.32)               | 0.32                 | 1.74                 |
| Total income or loss from investment operations | 0.46                 | 2.34                 | 3.15                 | (0.22)               | 0.41                 | 1.83                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.17)               | (0.11)               | (0.10)               | (0.10)               | (0.08)               | (0.09)               |
| Distributions from net realized gains           | (1.30)               | —                    | —                    | (1.00)               | (0.74)               | (0.40)               |
| Total distributions                             | (1.47)               | (0.11)               | (0.10)               | (1.10)               | (0.82)               | (0.49)               |
| Net asset value at end of period                | 13.77                | 14.78                | 12.55                | 9.50                 | 10.82                | 11.23                |
| Total return (%)                                | 2.59 <sup>1</sup>    | 18.76                | 33.52                | (3.32)               | 4.14                 | 19.42                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.32 <sup>2</sup>    | 0.32                 | 0.32                 | 0.33 <sup>3</sup>    | 0.32                 | 0.28 <sup>4</sup>    |
| Gross operating expenses                        | 0.56 <sup>2</sup>    | 0.58                 | 0.63                 | 0.61                 | 0.61                 | 0.66                 |
| Net investment income                           | 0.86 <sup>2</sup>    | 1.15                 | 0.95                 | 0.81                 | 0.87                 | 0.94                 |
| Portfolio turnover rate                         | 16 <sup>1</sup>      | 40                   | 36                   | 56                   | 69                   | 71                   |
| Net assets, end of period (\$ x 1,000,000)      | 39                   | 42                   | 36                   | 37                   | 47                   | 39                   |

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.32% if interest expense had not been included.

<sup>4</sup> The ratio of net operating expenses would have been 0.27% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

## ① Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- This security or a portion of this security is on loan
- ▷ Security is valued at fair value (see Accounting Policies)

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>99.1%</b>         | <b>Common Stock</b>                               | 32,152             | 39,090              |
| <b>0.5%</b>          | <b>Short-Term Investment</b>                      | 174                | 174                 |
| <b>0.2%</b>          | <b>U.S. Treasury Obligation</b>                   | 80                 | 80                  |
| <b>99.8%</b>         | <b>Total Investments</b>                          | <b>32,406</b>      | <b>39,344</b>       |
| <b>7.1%</b>          | <b>Collateral Invested for Securities on Loan</b> | 2,797              | 2,797               |
| <b>(6.9)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (2,702)             |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>39,439</b>       |

## Security and Number of Shares

Value  
(\$ x 1,000)

Common Stock 99.1% of net assets

**Automobiles & Components 0.5%**

|                           |       |    |
|---------------------------|-------|----|
| Coachmen Industries, Inc. | 2,300 | 27 |
| Monaco Coach Corp.        | 5,100 | 72 |

## Security and Number of Shares

Value  
(\$ x 1,000)

|   |       |            |
|---|-------|------------|
| Standard Motor Products, Inc.           | 3,400 | 31         |
| Superior Industries International, Inc. | 3,500 | 71         |
|   |       | <b>201</b> |

**Banks 9.9%**

|   |        |              |
|---|--------|--------------|
| Anchor Bancorp Wisconsin, Inc.          | 4,000  | 106          |
| • BankUnited Financial Corp., Class A   | 5,100  | 122          |
| Boston Private Financial Holdings, Inc. | 4,300  | 96           |
| ■ Brookline Bancorp, Inc.               | 9,200  | 138          |
| ▲ Chittenden Corp.                      | 7,450  | 187          |
| ▲ Commercial Federal Corp.              | 6,800  | 177          |
| Community Bank System, Inc.             | 4,700  | 104          |
| Dime Community Bancshares, Inc.         | 5,700  | 84           |
| ▲ Downey Financial Corp.                | 4,600  | 298          |
| First Republic Bank                     | 4,350  | 136          |
| • FirstFed Financial Corp.              | 2,700  | 137          |
| ▲ Flagstar Bancorp., Inc.               | 8,000  | 152          |
| ▲ Fremont General Corp.                 | 13,500 | 293          |
| Gold Banc Corp., Inc.                   | 7,000  | 97           |
| Irwin Financial Corp.                   | 4,900  | 98           |
| ▲ MAF Bancorp., Inc.                    | 5,400  | 218          |
| Provident Bankshares Corp.              | 5,305  | 155          |
| Riggs National Corp.                    | 4,900  | 96           |
| ⑨ The South Financial Group, Inc.       | 12,200 | 322          |
| Sterling Bancshares, Inc. Texas         | 7,800  | 105          |
| • Sterling Financial Corp. Washington   | 4,000  | 131          |
| Susquehanna Bancshares, Inc.            | 7,700  | 162          |
| Umpqua Holdings Corp.                   | 7,300  | 162          |
| ▲⑧ Whitney Holding Corp.                | 7,250  | 328          |
|   |        | <b>3,904</b> |

**Capital Goods 13.1%**

|                                       |       |     |
|---------------------------------------|-------|-----|
| A.O. Smith Corp., Class B             | 5,000 | 142 |
| ▲ AAR Corp.                           | 4,800 | 71  |
| ▲ Albany International Corp., Class A | 5,500 | 172 |
| Apogee Enterprises, Inc.              | 4,400 | 57  |

**Portfolio Holdings** continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares                  | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| Applied Industrial Technologies, Inc. 5,250    | 146                   | <b>Commercial Services &amp; Supplies 5.2%</b> |                       |
| • Astec Industries, Inc. 3,100                 | 72                    | ABM Industries, Inc. 7,900                     | 144                   |
| Barnes Group, Inc. 3,700                       | 106                   | Angelica Corp. 1,400                           | 38                    |
| Briggs & Stratton Corp. 8,200                  | 265                   | Bowne & Co., Inc. 5,400                        | 70                    |
| C&D Technologies, Inc. 3,900                   | 27                    | CDI Corp. 3,100                                | 69                    |
| Cubic Corp. 4,200                              | 74                    | Central Parking Corp. 6,100                    | 100                   |
| Curtiss-Wright Corp. 3,200                     | 173                   | • Consolidated Graphics, Inc. 2,200            | 101                   |
| • DRS Technologies, Inc. 4,600                 | 204                   | G&K Services, Inc., Class A 3,600              | 138                   |
| • EMCOR Group, Inc. 2,500                      | 112                   | • Imagistics International, Inc. 2,400         | 64                    |
| • Esterline Technologies Corp. 3,700           | 120                   | • Insurance Auto Auctions, Inc. 1,900          | 54                    |
| • Gardner Denver, Inc. 3,400                   | 124                   | ► Mascotech Escrow 8,900                       | —                     |
| • Griffon Corp. 4,800                          | 92                    | • Mobile Mini, Inc. 2,300                      | 81                    |
| ▲ Hughes Supply, Inc. 11,400                   | 298                   | • NCO Group, Inc. 5,500                        | 102                   |
| • Insituform Technologies, Inc., Class A 4,200 | 63                    | • On Assignment, Inc. 3,000                    | 13                    |
| Kaman Corp., Class A 3,300                     | 43                    | • PRG-Schultz International, Inc. 9,100        | 43                    |
| Lennox International, Inc. 10,112              | 198                   | • School Specialty, Inc. 3,500                 | 130                   |
| • Lydall, Inc. 2,000                           | 18                    | • SOURCECORP, Inc. 2,600                       | 46                    |
| ▲ Magnetek, Inc. 4,100                         | 15                    | • Spherion Corp. 9,300                         | 52                    |
| • Moog, Inc., Class A 6,750                    | 201                   | The Standard Register Co. 4,800                | 60                    |
| Mueller Industries, Inc. 6,100                 | 158                   | • Tetra Tech, Inc. 8,900                       | 94                    |
| Regal Beloit Corp. 5,000                       | 132                   | • United Stationers, Inc. 5,200                | 219                   |
| Robbins & Myers, Inc. 2,100                    | 46                    | Viad Corp. 3,500                               | 90                    |
| • The Shaw Group, Inc. 10,600                  | 192                   | • Volt Information Sciences, Inc. 2,800        | 55                    |
| Standex International Corp. 2,000              | 52                    | • Waste Connections, Inc. 8,050                | 284                   |
| Stewart & Stevenson Services, Inc. 5,200       | 125                   |  | <b>2,047</b>          |
| Thomas Industries, Inc. 2,900                  | 114                   | <b>Consumer Durables &amp; Apparel 4.7%</b>    |                       |
| ⑤ The Timken Co. 15,300                        | 380                   | Action Performance Cos., Inc. 2,900            | 31                    |
| Tredegar Corp. 6,500                           | 106                   | ▲• Applica, Inc. 3,800                         | 9                     |
| • Triumph Group, Inc. 2,300                    | 72                    | ▲• Ashworth, Inc. 2,400                        | 26                    |
| Universal Forest Products, Inc. 2,600          | 99                    | Bassett Furniture Industries, Inc. 1,900       | 37                    |
| • URS Corp. 7,300                              | 224                   | Brown Shoe Co., Inc. 3,000                     | 93                    |
| Valmont Industries, Inc. 3,700                 | 86                    | • Department 56, Inc. 2,600                    | 34                    |
| • Vicor Corp. 6,700                            | 79                    | ▲• Enesco Group, Inc. 1,900                    | 11                    |
| Watsco, Inc. 4,400                             | 191                   | Fedders Corp. 4,000                            | 8                     |
| Watts Water Technologies, Inc., Class A 5,100  | 159                   | Haggar Corp. 1,200                             | 23                    |
| • Wolverine Tube, Inc. 2,100                   | 14                    | ▲• Jakks Pacific, Inc. 4,200                   | 79                    |
| Woodward Governor Co. 2,000                    | 141                   | • K2, Inc. 7,500                               | 95                    |
|  | <b>5,163</b>          | Kellwood Co. 4,400                             | 112                   |
|  |                       | ■ La-Z-Boy, Inc. 8,500                         | 101                   |
|  |                       | Libbey, Inc. 2,000                             | 35                    |

| Security and Number of Shares          | Value<br>(\$ x 1,000) |
|--|-----------------------|
| ■② MDC Holdings, Inc. 6,739            | 441                   |
| ▲• Meade Instruments Corp. 1,700       | 5                     |
| National Presto Industries, Inc. 1,000 | 39                    |
| Russ Berrie & Co., Inc. 3,600          | 47                    |
| Russell Corp. 5,400                    | 95                    |
| Skyline Corp. 1,500                    | 54                    |
| ▲④ Standard-Pacific Corp. 5,400        | 387                   |
| Stride Rite Corp. 6,100                | 74                    |
| Sturm Ruger & Co., Inc. 4,600          | 30                    |
|  | <b>1,866</b>          |

**Diversified Financials 1.2%**

|   |            |
|---|------------|
| Cash America International, Inc. 4,700    | 70         |
| Financial Federal Corp. 2,900             | 102        |
| • Investment Technology Group, Inc. 7,000 | 133        |
| • Piper Jaffray Cos. 3,100                | 86         |
| • Rewards Network, Inc. 4,500             | 22         |
| SWS Group, Inc. 2,697                     | 40         |
|   | <b>453</b> |

**Energy 3.8%**

|   |              |
|---|--------------|
| • Dril-Quip, Inc. 3,200                 | 93           |
| • Input/Output, Inc. 11,800             | 71           |
| • Maverick Tube Corp. 7,000             | 204          |
| • Oceaneering International, Inc. 3,900 | 128          |
| • Offshore Logistics, Inc. 3,700        | 107          |
| • Seacor Holdings, Inc. 2,700           | 154          |
| • Spinnaker Exploration Co. 5,500       | 176          |
| • Stone Energy Corp. 4,400              | 198          |
| • Swift Energy Co. 4,400                | 116          |
| • Veritas DGC, Inc. 5,500               | 141          |
| • W-H Energy Services, Inc. 4,400       | 97           |
|   | <b>1,485</b> |

**Food & Staples Retailing 1.9%**

|   |            |
|---|------------|
| Casey's General Stores, Inc. 8,300        | 140        |
| ■• Great Atlantic & Pacific Tea Co. 6,300 | 99         |
| ■▲ Longs Drug Stores Corp. 6,500          | 236        |
| ▲ Nash Finch Co. 2,400                    | 85         |
| • Performance Food Group Co. 7,600        | 204        |
|   | <b>764</b> |

| Security and Number of Shares               | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Food Beverage &amp; Tobacco 1.9%</b>     |                       |
| ■ American Italian Pasta Co., Class A 2,700 | 64                    |
| ▲ Corn Products International, Inc. 12,400  | 273                   |
| DIMON, Inc. 7,400                           | 44                    |
| Flowers Foods, Inc. 7,100                   | 205                   |
| • Hain Celestial Group, Inc. 5,900          | 105                   |
| • J & J Snack Foods Corp. 1,400             | 68                    |
|   | <b>759</b>            |

**Health Care Equipment & Services 7.8%**

|  |              |
|--|--------------|
| ▲•⑥ Accredo Health, Inc. 8,100                       | 367          |
| Analogic Corp. 2,500                                 | 104          |
| Chemed Corp. 2,000                                   | 142          |
| • Conmed Corp. 5,300                                 | 158          |
| • Cross Country Healthcare, Inc. 5,700               | 92           |
| Datascope Corp. 2,300                                | 66           |
| • DJ Orthopedics, Inc. 3,700                         | 93           |
| • Gentiva Health Services, Inc. 4,100                | 80           |
| Hooper Holmes, Inc. 10,400                           | 38           |
| • ICU Medical, Inc. 2,000                            | 71           |
| ▲ Invacare Corp. 5,100                               | 209          |
| • LifePoint Hospitals, Inc. 2,391                    | 106          |
| NDCHHealth Corp. 5,700                               | 87           |
| ■• OCA, Inc. 8,100                                   | 33           |
| ▲• Osteotech, Inc. 1,400                             | 4            |
| ▲ Owens & Minor, Inc. 6,300                          | 183          |
| • Parexel International Corp. 4,500                  | 82           |
| ▲• Pediatrix Medical Group, Inc. 3,500               | 238          |
| • Priority Healthcare Corp., Class B 7,200           | 164          |
| • RehabCare Group, Inc. 2,600                        | 78           |
| • Sunrise Senior Living, Inc. 3,600                  | 184          |
| • Theragenics Corp. 3,600                            | 13           |
| • United Surgical Partners International, Inc. 5,000 | 221          |
| • Viasys Healthcare, Inc. 5,000                      | 106          |
| Vital Signs, Inc. 2,200                              | 90           |
| • Wilson Greatbatch Technologies, Inc. 3,400         | 65           |
|  | <b>3,074</b> |

**Portfolio Holdings** continued

| Security and Number of Shares                  | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <b>Hotels Restaurants &amp; Leisure 2.7%</b>   |                       |  |                       |
| ■ Aztar Corp. 5,800                            | 158                   | • Century Aluminum Co. 5,300                             | 124                   |
| • Jack in the Box, Inc. 6,500                  | 238                   | Chesapeake Corp. 3,000                                   | 58                    |
| Landry's Restaurants, Inc. 4,100               | 107                   | ■ Commercial Metals Co. 9,500                            | 242                   |
| Lone Star Steakhouse & Saloon,<br>Inc. 3,059   | 87                    | H.B. Fuller Co. 4,800                                    | 146                   |
| The Marcus Corp. 5,100                         | 98                    | ▲ Material Sciences Corp. 2,100                          | 26                    |
| • Multimedia Games, Inc. 4,800                 | 38                    | Myers Industries, Inc. 6,050                             | 58                    |
| • O'Charleys, Inc. 3,300                       | 66                    | ▲ OM Group, Inc. 4,600                                   | 101                   |
| • Pinnacle Entertainment, Inc. 6,000           | 91                    | Penford Corp. 1,200                                      | 17                    |
| • Ryan's Restaurant Group, Inc. 6,800          | 86                    | • PolyOne Corp. 14,800                                   | 114                   |
| • The Steak N Shake Co. 4,400                  | 79                    | ▲ Pope & Talbot, Inc. 2,700                              | 35                    |
|  | <b>1,048</b>          | Quaker Chemical Corp. 1,300                              | 25                    |
|  |                       | Quanex Corp. 4,350                                       | 220                   |
| <b>Insurance 4.2%</b>                          |                       | Reliance Steel & Aluminum Co. 5,300                      | 200                   |
| Delphi Financial Group, Inc.,<br>Class A 5,467 | 227                   | Rock-Tennessee Co., Class A 5,800                        | 59                    |
| Infinity Property & Casualty<br>Corp. 3,000    | 97                    | • RTI International Metals, Inc. 3,900                   | 88                    |
| ■ Landamerica Financial Group,<br>Inc. 3,300   | 164                   | Ryerson Tull, Inc. 3,900                                 | 41                    |
| Presidential Life Corp. 5,400                  | 78                    | Schweitzer-Mauduit International,<br>Inc. 2,400          | 70                    |
| • ProAssurance Corp. 5,000                     | 188                   | Steel Technologies, Inc. 1,900                           | 36                    |
| RLI Corp. 4,400                                | 189                   | Texas Industries, Inc. 3,700                             | 171                   |
| ▲ SCPIE Holdings, Inc. 900                     | 10                    | Wellman, Inc. 5,500                                      | 59                    |
| Selective Insurance Group, Inc. 4,700          | 207                   |  | <b>2,971</b>          |
| Stewart Information Services<br>Corp. 3,100    | 112                   |  |                       |
| UICI 8,000                                     | 186                   | <b>Media 0.1%</b>  |                       |
| Zenith National Insurance Corp. 3,500          | 201                   | • 4Kids Entertainment, Inc. 2,500                        | <b>50</b>             |
|  | <b>1,659</b>          | <b>Pharmaceuticals &amp; Biotechnology 0.4%</b>          |                       |
| <b>Materials 7.5%</b>                          |                       | Alpharma, Inc., Class A 8,900                            | 84                    |
| A. Schulman, Inc. 4,900                        | 82                    | ▲ Arqule, Inc. 3,700                                     | 19                    |
| ▲ A.M. Castle & Co. 2,700                      | 32                    | ■ Bradley Pharmaceuticals, Inc. 2,300                    | 21                    |
| • Aleris International, Inc. 4,619             | 99                    | • Savient Pharmaceuticals, Inc. 8,400                    | 23                    |
| ▲ Aptargroup, Inc. 6,300                       | 304                   |  | <b>147</b>            |
| ▲ Arch Chemicals, Inc. 4,200                   | 108                   | <b>Real Estate 4.6%</b>                                  |                       |
| • Brush Engineered Materials,<br>Inc. 3,100    | 44                    | Capital Automotive Real Estate<br>Investment Trust 6,500 | 221                   |
| • Buckeye Technologies, Inc. 6,300             | 50                    | ▲ Colonial Properties Trust 4,400                        | 170                   |
| ▲ Cambrex Corp. 4,400                          | 84                    | Commercial Net Lease Realty 8,600                        | 163                   |
| • Caraustar Industries, Inc. 5,100             | 46                    | CRT Properties, Inc. 4,600                               | 106                   |
| Carpenter Technology Corp. 4,200               | 232                   | Entertainment Properties Trust 4,100                     | 177                   |
|  |                       | Gables Residential Trust 5,000                           | 183                   |
|  |                       | Glenborough Realty Trust, Inc. 5,400                     | 111                   |
|  |                       | Lexington Corp. Properties Trust 8,000                   | 184                   |

| Security and Number of Shares                       | Value<br>(\$ x 1,000) |
|---|-----------------------|
| Parkway Properties, Inc. 2,000                      | 91                    |
| ▲⑩ Shurgard Storage Centers, Inc.,<br>Class A 7,600 | 318                   |
| Sovran Self Storage, Inc. 2,500                     | 107                   |
|   | <b>1,831</b>          |

**Retailing 6.5%**

|  |     |
|--|-----|
| Building Material Holding Corp. 2,100              | 115 |
| ▲ Burlington Coat Factory Warehouse<br>Corp. 5,400 | 149 |
| • The Dress Barn, Inc. 5,000                       | 86  |
| Fred's, Inc. 6,600                                 | 95  |
| • Gamestop Corp., Class B 8,200                    | 191 |
| Goody's Family Clothing, Inc. 5,300                | 44  |
| • Group 1 Automotive, Inc. 3,800                   | 96  |
| • The Gymboree Corp. 5,100                         | 58  |
| Hancock Fabrics, Inc. 2,300                        | 14  |
| Haverty Furniture Cos., Inc. 3,900                 | 56  |
| • Insight Enterprises, Inc. 8,000                  | 145 |
| • The J. Jill Group, Inc. 3,500                    | 44  |
| ▲ Jo-Ann Stores, Inc. 3,610                        | 91  |
| ■ Linens 'N Things, Inc. 7,500                     | 175 |
| • The Men's Wearhouse, Inc. 6,300                  | 260 |
| Movie Gallery, Inc. 5,200                          | 141 |
| Pep Boys-Manny, Moe & Jack 9,400                   | 133 |
| • ShopKo Stores, Inc. 5,000                        | 120 |
| Sonic Automotive, Inc. 6,800                       | 134 |
| • Stage Stores, Inc. 2,800                         | 106 |
| • TBC Corp. 3,600                                  | 94  |
| • Zale Corp. 8,600                                 | 232 |

**2,579****Semiconductors & Semiconductor Equipment 4.0%**

|  |     |
|--|-----|
| • Actel Corp. 4,100                      | 58  |
| • Advanced Energy Industries, Inc. 4,900 | 52  |
| ▲ Alliance Semiconductor Corp. 5,300     | 8   |
| • Axcelis Technologies, Inc. 16,500      | 102 |
| • Brooks Automation, Inc. 8,000          | 103 |
| Cohu, Inc. 3,200                         | 57  |
| ■ Cymer, Inc. 5,500                      | 136 |
| • DSP Group, Inc. 4,700                  | 113 |
| • ESS Technology, Inc. 5,600             | 22  |
| • Exar Corp. 7,000                       | 89  |

| Security and Number of Shares                              | Value<br>(\$ x 1,000) |
|--|-----------------------|
| • FEI Co. 6,000  | 108                   |
| • Kopin Corp. 12,100                                       | 37                    |
| • Pericom Semiconductor Corp. 4,300                        | 36                    |
| • Photronics, Inc. 5,700                                   | 91                    |
| • Rudolph Technologies, Inc. 2,700                         | 35                    |
| ▲ Skyworks Solutions, Inc. 25,700                          | 135                   |
| • Standard Microsystems Corp. 2,700                        | 38                    |
| • Ultratech Stepper, Inc. 3,600                            | 57                    |
| • Varian Semiconductor Equipment<br>Associates, Inc. 6,000 | 224                   |
| • Veeco Instruments, Inc. 5,100                            | 68                    |

**1,569****Software & Services 2.7%**

|                                      |     |
|--------------------------------------|-----|
| • Captaris, Inc. 5,000               | 18  |
| • Ciber, Inc. 9,900                  | 77  |
| • Concord Communications, Inc. 3,500 | 58  |
| • Digital Insight Corp. 6,100        | 122 |
| • EPIQ Systems, Inc. 2,600           | 39  |
| • FindWhat.com 4,800                 | 40  |
| • Intrado, Inc. 3,000                | 38  |
| • JDA Software Group, Inc. 4,400     | 45  |
| • Mapinfo Corp. 3,500                | 40  |
| • MAXIMUS, Inc. 3,600                | 111 |
| • MRO Software, Inc. 4,300           | 55  |
| • NYFIX, Inc. 4,800                  | 25  |
| • Pegasus Solutions, Inc. 3,400      | 36  |
| • Phoenix Technologies Ltd. 3,800    | 31  |
| • Radiant Systems, Inc. 4,500        | 39  |
| • SPSS, Inc. 3,000                   | 48  |
| ■ THQ, Inc. 6,600                    | 167 |
| • Verity, Inc. 6,500                 | 53  |

**1,042****Technology Hardware & Equipment 6.3%**

|                                     |     |
|-------------------------------------|-----|
| ▲ Adaptec, Inc. 18,700              | 68  |
| • Aeroflex, Inc. 12,000             | 95  |
| Agilysys, Inc. 5,700                | 75  |
| • Anixter International, Inc. 6,200 | 229 |
| • Audiovox Corp., Class A 3,400     | 46  |
| Bel Fuse, Inc., Class B 2,000       | 54  |
| ■ Belden CDT, Inc. 7,625            | 140 |
| ▲ Bell Microproducts, Inc. 4,200    | 34  |

**Portfolio Holdings** continued

| Security and Number of Shares                | Value<br>(\$ x 1,000) |
|--|-----------------------|
| ▲ Benchmark Electronics, Inc. 6,650          | 180                   |
| Black Box Corp. 2,700                        | 88                    |
| • Brooktrout, Inc. 2,500                     | 25                    |
| • C-COR.net Corp. 8,000                      | 53                    |
| • Checkpoint Systems, Inc. 6,500             | 103                   |
| • Coherent, Inc. 5,400                       | 173                   |
| CTS Corp. 5,700                              | 60                    |
| • Electro Scientific Industries, Inc. 4,600  | 76                    |
| • Gerber Scientific, Inc. 4,000              | 28                    |
| ■ Hutchinson Technology, Inc. 4,400          | 163                   |
| • Itron, Inc. 3,400                          | 123                   |
| Methode Electronics, Class A 5,900           | 66                    |
| • Network Equipment Technologies, Inc. 3,900 | 20                    |
| Park Electrochemical Corp. 3,300             | 73                    |
| • Paxar Corp. 6,900                          | 124                   |
| • PC-Tel, Inc. 3,500                         | 25                    |
| • Photon Dynamics, Inc. 2,700                | 52                    |
| • Pinnacle Systems, Inc. 11,200              | 56                    |
| • Planar Systems, Inc. 1,800                 | 14                    |
| • Radisys Corp. 3,200                        | 45                    |
| • SBS Technologies, Inc. 3,000               | 28                    |
| • Symmetricom, Inc. 7,600                    | 78                    |
| • Technitrol, Inc. 7,000                     | 91                    |
| • Tollgrade Communications, Inc. 2,200       | 16                    |
|  | <b>2,501</b>          |

**Telecommunication Services 0.2%**

|  |           |
|--|-----------|
| • Boston Communications Group 3,300          | 18        |
| • General Communication, Inc., Class A 9,100 | 77        |
|  | <b>95</b> |

**Transportation 2.0%**

|                                       |            |
|---------------------------------------|------------|
| ▲ Arkansas Best Corp. 4,100           | 129        |
| • Frontier Airlines, Inc. 6,100       | 59         |
| ▲ Kansas City Southern Railway 10,600 | 201        |
| ■ Mesa Air Group, Inc. 5,500          | 29         |
| ■ SkyWest, Inc. 9,100                 | 165        |
| ■ USF Corp. 4,600                     | 196        |
|                                       | <b>779</b> |

| Security and Number of Shares              | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Utilities 7.9%</b>                      |                       |
| ▲ Allete, Inc. 5,100                       | 213                   |
| American States Water Co. 2,800            | 71                    |
| ▲ 7 Atmos Energy Corp. 12,700              | 334                   |
| ▲ Avista Corp. 8,100                       | 136                   |
| Cascade Natural Gas Corp. 1,600            | 30                    |
| Central Vermont Public Service Corp. 2,200 | 46                    |
| CH Energy Group, Inc. 2,500                | 107                   |
| Cleco Corp. 8,200                          | 167                   |
| • El Paso Electric Co. 8,200               | 160                   |
| ▲ Green Mountain Power Corp. 900           | 27                    |
| The Laclede Group, Inc. 3,500              | 96                    |
| Northwest Natural Gas Co. 4,400            | 156                   |
| Piedmont Natural Gas Co. 12,800            | 294                   |
| • 3 Southern Union Co. 16,575              | 397                   |
| Southwest Gas Corp. 5,700                  | 139                   |
| 1 UGI Corp. 8,800                          | 442                   |
| UIL Holdings Corp. 2,200                   | 113                   |
| Unisource Energy Corp. 5,600               | 175                   |
|  | <b>3,103</b>          |

**Short-Term Investment**

0.5% of net assets

|                                  |         |            |
|----------------------------------|---------|------------|
| Provident Institutional TempFund | 173,866 | <b>174</b> |
|----------------------------------|---------|------------|

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**U.S. Treasury Obligation**

0.2% of net assets

|   |    |           |
|---|----|-----------|
| ▲ U.S. Treasury Bill<br>2.73%, 06/16/05 | 80 | <b>80</b> |
|---|----|-----------|

**End of investments.**

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**Collateral Invested for Securities on Loan**

7.1% of net assets

**Commercial Paper & Other Corporate  
Obligation 0.4%**

|  |     |            |
|--|-----|------------|
| Skandinav Enskilda Bank<br>2.94%, 05/17/05 | 167 | <b>167</b> |
|--|-----|------------|

**Short-Term Investments 6.7%**

|   |     |     |
|---|-----|-----|
| KBC Bank, Tlme Deposit<br>2.95%, 05/02/05 | 138 | 138 |
|---|-----|-----|

**Security and Number of Shares**

|   |              |
|---|--------------|
| Institutional Money Market<br>Trust 2,491,866 | 2,492        |
|   | <b>2,630</b> |

**End of collateral invested for securities on loan.**

*In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.*

**Futures Contracts**

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|---|------------------------|-------------------|----------------------|
| Russell 2000 Index e-mini, Long<br>Expires 06/17/05 | 4                      | 232               | <b>(17)</b>          |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

Unless stated, all numbers x 1,000.

**Assets**

|   |               |
|---|---------------|
| Investments, at value (Including \$2,662 of securities on loan) | \$39,344      |
| Collateral invested for securities on loan                      | 2,797         |
| Receivables:  |               |
| Fund shares sold  | 86            |
| Interest  | 1             |
| Dividends   | 30            |
| Investments sold  | 2             |
| Due from brokers for futures                                    | 3             |
| Income from securities on loan                                  | 1             |
| Prepaid expenses  | + 8           |
| <b>Total assets</b>   | <b>42,272</b> |

The fund paid \$32,406 for these securities.

Includes securities valued at fair value worth \$0 or 0.0% 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        | \$6,911 |
| Sales/maturities | \$9,497 |

**Liabilities**

|  |              |
|--|--------------|
| Collateral invested for securities on loan | 2,797        |
| Payables:                                  |              |
| Fund shares redeemed                       | 16           |
| Trustees' fees                             | 1            |
| Accrued expenses                           | + 19         |
| <b>Total liabilities</b>                   | <b>2,833</b> |

**Net Assets**

|                          |                 |
|--------------------------|-----------------|
| <b>Total assets</b>      | 42,272          |
| <b>Total liabilities</b> | - 2,833         |
| <b>Net assets</b>        | <b>\$39,439</b> |

**Net Assets by Source**

|   |        |
|---|--------|
| Capital received from investors           | 29,789 |
| Net investment income not yet distributed | 102    |
| Net realized capital gains                | 2,627  |
| Net unrealized capital gains              | 6,921  |

These derive from investments and futures.

**Net Asset Value (NAV)**

|                   |   |                           |   |            |
|-------------------|---|---------------------------|---|------------|
| <b>Net Assets</b> | ÷ | <b>Shares Outstanding</b> | = | <b>NAV</b> |
| \$39,439          |   | 2,864                     |   | \$13.77    |

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$32,692       |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$9,881        |
| Losses                                  | + (3,229)      |
|   | <b>\$6,652</b> |

**As of October 31, 2004:**

|                                    |              |
|------------------------------------|--------------|
| <b>Net undistributed earnings:</b> |              |
| Ordinary income                    | \$1,034      |
| Long-term capital gains            | \$3,033      |
| <b>Capital losses utilized</b>     | <b>\$826</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

|                                |   |            |
|--------------------------------|---|------------|
| Dividends                      |   | \$243      |
| Interest                       |   | 4          |
| Securities on loan             | + | 5          |
| <b>Total investment income</b> |   | <b>252</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments       | 2,880        |
| Net realized gains on futures contracts | + 123        |
| <b>Net realized gains</b>               | <b>3,003</b> |

**Net Unrealized Gains and Losses**

|  |                |
|--|----------------|
| Net unrealized losses on investments       | (1,881)        |
| Net unrealized losses on futures contracts | + (36)         |
| <b>Net unrealized losses</b>               | <b>(1,917)</b> |

**Expenses**

|   |           |
|---|-----------|
| Investment adviser and administrator fees   | 54        |
| Transfer agent and shareholder service fees | 21        |
| Trustees' fees                              | 3         |
| Custodian fees                              | 9         |
| Portfolio accounting fees                   | 3         |
| Professional fees                           | 12        |
| Registration fees                           | 7         |
| Shareholder reports                         | 6         |
| Other expenses                              | + 5       |
| Total expenses                              | 120       |
| Expense reduction                           | - 51      |
| <b>Net expenses</b>                         | <b>69</b> |

**Increase in Net Assets from Operations**

|  |                |
|--|----------------|
| Total investment income                | 252            |
| Net expenses                           | — 69           |
| Net investment income                  | <u>183</u>     |
| Net realized gains                     | 3,003          |
| Net unrealized losses                  | + (1,917)      |
| Increase in net assets from operations | <u>\$1,269</u> |

Calculated as a percentage of average daily net assets: 0.25% of the first \$1 billion and 0.23% 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, 0.05% of the fund's assets. These fees are paid to Charles Schwab & Co., Inc. (Schwab).

For the fund's independent trustees only.

Includes \$50 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 27, 2006, to 0.32% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$1,086.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$183           | \$443            |
| Net realized gains                            | 3,003           | 4,673            |
| Net unrealized gains or losses                | + (1,917)       | 1,455            |
| <b>Increase in net assets from operations</b> | <b>1,269</b>    | <b>6,571</b>     |

**Distributions Paid**

|   |                |              |
|---|----------------|--------------|
| Dividends from net investment income          | 479            | 313          |
| Distributions from net realized gains         | + 3,668        | —            |
| <b>Total dividends and distributions paid</b> | <b>\$4,147</b> | <b>\$313</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |              | 11/1/03-10/31/04 |               |
|--|-----------------|--------------|------------------|---------------|
|  | SHARES          | VALUE        | SHARES           | VALUE         |
| Shares sold                            | 248             | \$3,654      | 637              | \$8,882       |
| Shares reinvested                      | 224             | 3,246        | 18               | 238           |
| Shares redeemed                        | + (452)         | (6,627)      | (667)            | (9,167)       |
| <b>Net transactions in fund shares</b> | <b>20</b>       | <b>\$273</b> | <b>(12)</b>      | <b>(\$47)</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                 | 11/1/03-10/31/04 |                 |
|----------------------------|-----------------|-----------------|------------------|-----------------|
|                            | SHARES          | NET ASSETS      | SHARES           | NET ASSETS      |
| Beginning of period        | 2,844           | \$42,044        | 2,856            | \$35,833        |
| Total increase or decrease | + 20            | (2,605)         | (12)             | 6,211           |
| <b>End of period</b>       | <b>2,864</b>    | <b>\$39,439</b> | <b>2,844</b>     | <b>\$42,044</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |       |
|-------------------------|-------|
| Ordinary income         | \$313 |
| Long-term capital gains | \$—   |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

|                       |     |
|-----------------------|-----|
| <b>Current period</b> | \$1 |
| <b>Prior period</b>   | \$2 |

Dollar amounts are net of the redemption proceeds.

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 distributable net investment income in the amount of \$102 and \$398 at the end of the current period and prior period, respectively.

# Financial Notes

## Business Structure of the Funds

**Each of the funds discussed in this report is a series of Schwab Capital Trust, 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.

**The funds offer one share class.** Shares are bought and sold at net asset value (NAV), which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other fund operations 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 pay dividends** from net investment income and make distributions from net capital gains once a year.

**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. The potential for losses associated with futures contracts may exceed amounts recorded in the Statement of Assets and Liabilities.

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 a 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 repurchase agreements.** In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The

## The Trust and its Funds

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

**Schwab Capital Trust** organized May 7, 1993

Schwab S&P 500 Index Fund  
 Schwab Small-Cap Index Fund  
 Schwab Total Stock Market Index Fund  
 Schwab International Index Fund  
 Schwab MarketTrack All Equity Portfolio  
 Schwab MarketTrack Growth Portfolio  
 Schwab MarketTrack Balanced Portfolio  
 Schwab MarketTrack Conservative Portfolio  
 Laudus U.S. MarketMasters Fund  
 Laudus Balanced MarketMasters Fund  
 Laudus Small-Cap MarketMasters Fund  
 Laudus International MarketMasters Fund  
 Schwab Premier Equity Fund  
 Schwab Core Equity Fund  
 Schwab Dividend Equity Fund  
 Schwab Small-Cap Equity Fund  
 Schwab Hedged Equity Fund  
 Schwab Financial Services Fund  
 Schwab Health Care Fund  
 Schwab Technology Fund

**Schwab Institutional Select S&P 500 Fund**

**Schwab Institutional Select Large-Cap Value Index Fund**

**Schwab Institutional Select Small-Cap Value Index Fund**

date, price and other conditions are all specified when the agreement is created.

The funds' repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds' custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

**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 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 related parties.** For instance, a fund may own shares of The Charles Schwab Corporation if that company is included in its index.

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 trusts were in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but they did pay the 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 trust to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds 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.

| Fund  | Amount<br>outstanding<br>at 4/30/05<br>(\$ × 1,000) | Average<br>borrowing*<br>(\$ × 1,000) | Weighted<br>average<br>interest<br>rate* (%) |
|---|---|---------------------------------------|--|
| <b>Schwab Institutional<br/>Select Large-Cap<br/>Value Fund</b>       | —   | 906                                   | 3.16   |
| <b>Schwab Institutional<br/>Select Small-Cap<br/>Value Index Fund</b> | —   | 114                                   | 2.84   |

\* Based on the number of days for which the borrowing is outstanding.

**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 net realized 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. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales.

**Under the funds' organizational documents, its 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.

**Subsequent Event.** On May 24, 2005, the Board of Trustees approved the closure and liquidation of the Schwab Institutional Select Large-Cap Value Index Fund and the Schwab Institutional Select Small-Cap Value Index Fund. The funds will liquidate all of their outstanding shares on July 22, 2005.

## 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:

- **Securities traded on an exchange or over-the-counter:** valued at the closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes. Securities that are primarily traded on foreign exchanges are valued at the closing values of such

securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.

- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security's last close and the time that a fund calculates net asset value: 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 and the Pricing Committee. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been de-listed from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.
- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards 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.

**Dividends and distributions from portfolio securities** are recorded on the date they are effective (the ex-dividend date), although the funds record certain foreign security dividends on the day they learn of the ex-dividend date.

**Income from interest and the accretion of discount** is recorded as it accrues.

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

**Expenses** that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily 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 keeps certain assets in segregated accounts, as may be 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.

# Trustees and Officers of Schwab Capital Trust

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 Schwab Funds (of which there were 53 as of 4/30/05) 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.

| Individuals Who Are Interested Trustees and Officers of the Trust |   |  |
|---|---|--|
| Name and Birthdate  | Trust Position(s); Trustee Since  | Main Occupations and Other Directorships and Affiliations  |
| <b>Charles R. Schwab</b> <sup>2</sup><br>7/29/37                  | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co. |

<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.

### Individuals Who Are Interested Trustees but Not Officers of the Trust

| Name and Birthdate                | Trustee Since      | Main Occupations and Other Directorships and Affiliations  |
|-----------------------------------|--------------------|--|
| <b>Randall W. Merk</b><br>7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

### Individuals Who Are Officers of the Trust but Not Trustees

| Name and Birthdate                  | Trust Office(s) Held                                       | Main Occupations and Other Directorships and Affiliations   |
|-------------------------------------|--|---|
| <b>Evelyn Dilsaver</b><br>5/4/55    | President, CEO<br>(all trusts).                            | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust.   |
| <b>Stephen B. Ward</b><br>4/5/55    | SVP, Chief Investment<br>Officer (all trusts).             | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.   |
| <b>Kimon Daifotis</b><br>7/10/59    | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Jeffrey Mortimer</b><br>9/29/63  | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Randall Fillmore</b><br>11/11/60 | Chief Compliance<br>Officer (all trusts).                  | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc. <i>Until 9/04:</i> VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| <b>Koji E. Felton</b><br>3/13/61    | Secretary (all trusts).                                    | SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98:</i> Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.   |
| <b>George Pereira</b><br>6/9/64     | Treasurer, Principal<br>Financial Officer<br>(all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange.  |

## Individuals Who Are Independent Trustees

| Name and Birthdate                   | Trustee Since  | Main Occupations and Other Directorships and Affiliations   |
|--------------------------------------|--|---|
| <b>Mariann Byerwalter</b><br>8/13/60 | 2000 (all trusts).   | Chair, JDN Corp. Advisory LLC; 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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>2001:</i> Stanford University, Special Assistant to the President, <i>from 1996-2001</i> , VP of Business Affairs, CFO. |
| <b>Donald F. Dorward</b><br>9/23/31  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> EVP, Managing Director, Grey Advertising. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising.   |
| <b>William A. Hasler</b><br>11/22/41 | 2000 (all trusts).   | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals).  |
| <b>Robert G. Holmes</b><br>5/15/31   | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).   |
| <b>Gerald B. Smith</b><br>9/28/50    | 2000 (all trusts).   | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).  |
| <b>Donald R. Stephens</b><br>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> Chair, CEO, North American Trust (real estate investment trust).  |
| <b>Michael W. Wilsey</b><br>8/18/43  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).  |

# Glossary

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

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

**beta** A historical measure of an investment's volatility relative to a market index (usually the S&P 500®). The index is defined as having a beta of 1.00. Investments with a beta higher than 1.00 have been more volatile than the index; those with a beta of less than 1.00 have been less volatile.

**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.

**cap, capitalization** See "market cap."

**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.

**earnings growth rate** For a mutual fund, the average yearly rate at which the earnings of the companies in the fund's portfolio have grown, measured over the past five years.

**earnings per share (EPS)** A company's earnings, or net income, for the past 12 months, divided by the number of shares outstanding.

**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.

**market cap, market capitalization** The value of a company as determined by the total value of all shares of its stock outstanding.

**median market cap** The midpoint of the range of market caps of the stocks held by a fund. There are different ways of calculating median market cap. With a simple median, half of the stocks in the fund's portfolio would be larger than the median, and half would be smaller. With a weighted median (the type that is calculated for these funds), half of the fund's assets are invested in stocks that are larger than the median market cap, and half in stocks that are smaller.

**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.

**price-to-book ratio (P/B)** The market price of a company's stock compared with its "book value." A mutual fund's P/B is the weighted average of the P/B of all stocks in the fund's portfolio.

**price-to-earnings ratio (P/E)** The market price of a company's stock compared with earnings over the past year. A mutual fund's P/E is the weighted average of the P/E of all stocks in the fund's portfolio.

**return on equity (ROE)** The average yearly rate of return for each dollar of investors' money, measured over the past five years.

**stock** A share of ownership, or equity, in the issuing company.

**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.

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

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

## Notes

## 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 web site at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds), the SEC's web site 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 web site 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 Financial Services Fund™  
Schwab Health Care Fund™  
Schwab Technology Fund™  
Schwab Institutional Select® S&P 500 Fund

### Asset Allocation Funds

Schwab MarketTrack Portfolios®  
Schwab MarketTrack All Equity Portfolio™  
Schwab MarketTrack Growth Portfolio™  
Schwab MarketTrack Balanced Portfolio™  
Schwab MarketTrack Conservative Portfolio™

### 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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# Schwab Active Equity Funds

## Semiannual Report

April 30, 2005

Schwab Premier Equity Fund™

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Schwab Financial Services Fund™  
*(formerly Financial Services Focus Fund)*

Schwab Health Care Fund™  
*(formerly Health Care Focus Fund)*

Schwab Technology Fund™  
*(formerly Technology Focus Fund)*

*charles* SCHWAB

*The power of Schwab Equity Ratings®. The convenience and diversification of mutual funds.*

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## *Select Shares® are available on many Schwab Funds®*

Schwab Funds offers Select Shares, a share class that carries lower expenses than Investor Shares™ in exchange for higher investment minimums on many of its funds. Select Shares are available for initial purchases of \$50,000 or more of a single fund in a single account and for shareholders who add to their existing Investor Share position, bringing the value to or above \$50,000. We encourage shareholders of Investor Shares to review their

portfolio to see if they are eligible to exchange into Select Shares. If you believe you are eligible, you should contact Schwab to perform a tax-free interclass exchange into Select Shares. Instructions for performing a tax-free interclass exchange can also be referenced on the Schwab Funds website at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds) under Schwab Funds Investor Information.

Fund investment adviser: Charles Schwab Investment Management, Inc. (CSIM)  
Distributor and transfer agent: Charles Schwab & Co., Inc. (Schwab).

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

# From the Chairman



Charles Schwab  
Chairman

Dear Shareholder,

I am a big fan of mutual funds and have been throughout my 40-year career. During this time I've watched the mutual fund market grow, with investors today having nearly 17,000 funds from which to choose.

I also have advocated the need to take a long-term view of investing, as well as the importance of developing and maintaining an asset allocation plan. I continue to believe that mutual funds are excellent vehicles to help you build a diversified portfolio in keeping with your goals.

We have designed Schwab equity funds to deliver a combination of strong performance and good value. While I am proud of Schwab Funds® in general, I am especially pleased with the Schwab Dividend Equity Fund, which performed very well over the report period. The Fund is one of eight powered by Schwab Equity Ratings® and uses the same stock-ranking expertise that helped Schwab's model equity portfolio achieve industry recognition in Barron's 2004 annual stock-selection competition.

Looking forward, we continue to see tremendous opportunities for investors, and my colleagues and I are committed to helping you maximize them. We will continue to expand the array of products and services that can help you meet your long- and short-term investment goals.

In closing, I want to remind you that our commitment to our shareholders will not change. Thank you for investing with us.

Sincerely,

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

*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.*

# Management's Discussion

for the six months ended April 30, 2005



**Evelyn Dilsaver** is President and CEO of Charles Schwab Investment Management, Inc. and is president 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,

When I assumed my new role as President and CEO of Schwab Funds® last year, I pledged that I would be committed to offering you more relevant choices and better value. I am pleased to report that we already have done both.

I'm also happy to announce that Schwab Funds has launched another fund. The Schwab Premier Equity Fund™, the newest addition to Schwab Funds' Active Equity Fund family, was launched on March 21, 2005. The Schwab Premier Equity Fund portfolio managers use a multi-cap strategy and include a variety of investment styles and asset classes, shifting between growth and value according to market conditions. The Fund also is diversified across all sectors. With this broad coverage, the Schwab Premier Equity Fund can be an integral part of a balanced, diversified portfolio that can help you reach your long-term investment goals.

In terms of value, the Schwab Premier Equity Fund, as well as other Schwab funds, offer Select Shares, a share class that has lower expenses and higher investment minimums than Investor Shares.

I speak for all of Schwab Funds when I say we want Schwab to be a place where investors can find useful, quality financial products and services to help them succeed. Regardless of the size of their portfolios, Schwab should be the place investors can trust to watch out for their best interests.

I continue to look for more ways to offer you relevant choices and value. Your trust is very important to us, and I will do all I can to maintain that trust. 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, stylized 'E' and 'D'.

*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.*

*The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive.*

## The Investment Environment and the Funds

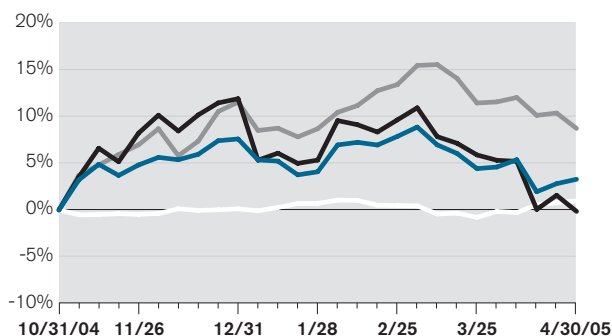
If the 2004 equity market ended with a bang, the 2005 market started with a whimper, with all the major equity indices down from their year-end highs at the end of April. For the six-month report period, however, the S&P 500® Index<sup>1</sup> was still up 3.28%, due to the end-of-year rally. The broader Dow Jones Wilshire 5000 Composite Index<sup>SM2</sup> was up 3.50% for the report period, again predominantly because of strong equity returns in November and December 2004. Small-cap stocks lost their leading position to their larger-cap cohorts, and value continued to be the favored style. Stocks were volatile and sentiment was fickle in the face of high energy prices, indications of budding inflation, and prospects of the Federal Reserve continuing to raise short-term interest rates, which it did four times during the six-month report period.

Early in the period, investors were heartened when oil prices dipped and the U.S. presidential election results were uncontested. Unfortunately, the brief respite in oil prices was short-lived and strengthening global demand for oil, particularly in the Pacific Rim, and refinery constraints at home drove crude prices to record highs, above \$50 per barrel in mid-February.

### Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 3.28% **S&P 500® Index:** measures U.S. large-cap stocks
- -0.15% **Russell 2000® Index:** measures U.S. small-cap stocks
- 8.71% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 0.98% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures 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. Remember that past performance is not an indication of future results. Data source: Charles Schwab & Co., Inc.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Standard & Poor's®, S&P®, S&P 500®, Standard & Poor's 500® and 500® are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by the fund. The fund is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the fund.

<sup>2</sup> Dow Jones®, "Wilshire", "The DJW 5000<sup>SM</sup>", "The Dow Jones Wilshire 5000<sup>SM</sup>" and "The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>" are service marks of Dow Jones & Company, Inc. and Wilshire Associates Incorporated. The Schwab Total Stock Market Index Fund, based on The Dow Jones Wilshire 5000 Composite Index<sup>SM</sup>, is not sponsored, endorsed, sold or promoted by Dow Jones or Wilshire; and, neither Dow Jones nor Wilshire makes any representation regarding the advisability of investing in such a product.



**Jeffrey Mortimer, CFA**, at right, senior vice president and chief investment officer, equities, of the investment adviser is responsible for the overall management of the funds. Prior to joining the firm in October 1997, he worked for more than nine years in asset management.

**Vivienne Hsu, CFA**, at left, vice president and senior equities portfolio manager of the investment adviser, is responsible for the day-to-day co-management of the funds. Prior to joining the firm in August 2004, she worked for more than 11 years in asset management and quantitative analysis.

**Larry Mano**, in front, vice president and senior portfolio manager, is responsible for the day-to-day management of the funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path and corporate liquidity remained positive. Consumer sentiment, however, hit a soft patch and started to weaken in 2005. First-quarter GDP came in at 3.1%, slightly below expectations and weaker than the fourth quarter, when it was 3.8%. In this environment, retail sales softened.

Despite the slowdown in the GDP, strong labor market conditions remained positive for domestic consumption. On the earnings front, fourth-quarter earnings were generally better than expected due, in part, to strong reports from companies in the Energy sector. Expectations for first-quarter earnings remained upbeat, although weaker than recent quarters, due to difficult year-over-year comparisons.

Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, productivity growth and slack in the economy have mostly kept a lid on core inflation. This productivity, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control.

While high energy prices remained a significant headwind for economic performance, they certainly helped boost oil companies' bottom lines. In fact, the strongest sector, according to S&P, was Energy, closely followed by Utilities and then Health Care. On the flip side, Information Technology was the worst performing sector over the report period, while the Consumer Discretionary sector also suffered.

**Schwab Equity Ratings<sup>®</sup>, which are designed to identify companies with high-quality characteristics, performed as expected over the six-month period,** with the A- and B-rated stocks outperforming the D- and F-rated ones. Equities were especially volatile during the report period, with the S&P 500 experiencing two distinct sets of up and down markets. Despite the roller coaster ride, all but one of the Funds that have six-months of performance data outperformed their respective benchmarks. The one lagging fund was the Schwab Technology Fund, which suffered along with the rest of the weak Information Technology sector.

**The Schwab Core Equity Fund** was up 7.47%, outperforming its benchmark, the S&P 500 Index, which was up 3.28% for the six-month period. The Fund was helped by holding mid-cap stocks, which were slightly smaller-sized relative to the benchmark. The sector that had the largest positive impact relative to the benchmark was Health Care, in which the Fund was overweight. Within Health Care, Coventry Health's performance was excellent. Other top performers for the period included Exxon and Gillette. Conversely, the sector that had the largest negative

Schwab Equity Ratings<sup>®</sup> are produced by the Schwab Center for Investment Research<sup>®</sup>. Source of Sector Classification: S&P and MSCL.

*Though some high oil and commodity prices may have hampered growth and stirred inflationary pressures, pro-ductivity growth and slack in the economy have mostly kept a lid on core inflation.*

impact relative to the benchmark was Telecommunications Services, in which the Fund also was overweight. Within this sector, McAfee was a drag on returns, as investors feared that Microsoft would encroach on the company's dominant standing in the anti-virus marketplace.

**The Schwab Dividend Equity Fund** was up 6.42% for the six-month report period, well above its benchmark, the S&P 500 Index, which returned 3.28%. The Fund was helped, in part, by its natural value tilt, as the market favored value. Although the Fund is broad-based across capitalization size, we avoided most small-cap companies which helped performance because the large-cap stocks were stronger than their smaller-cap cohorts. Also a boon to performance was that the Fund was underweight in the floundering Information Technology sector, and overweight in Utilities, which were strong. Stocks that stood out on the upside were Altria, Kerr-McGee and Constellation Energy, a leading supplier and generator of electrical power, which benefited from the still-hot Energy sector. On the downside, toy maker, Mattel, fell as did Electronic Data Systems.

**The Schwab Small-Cap Equity Fund** was up 3.44%, outperforming its benchmark, the S&P SmallCap 600 Index, which was up 2.57% for the six-month period. Small-cap stocks, which had led the market prior to the report period, lost their position to their larger-cap cohorts. Nonetheless, with the help of Schwab Equity Ratings' ability to identify stocks likely to outperform the market over the next 12 months, we were able to find small-cap stocks that did well. Among them were: American Retirement, provider of senior services and housing; United Defense Industries, maker of landing craft and armored vehicles since WWII, and insurer Zenith National. Stocks that were a drag on the Fund included oil-exploration company, Meridian Resources and semiconductor manufacturer, Siliconix.

*On February 28, 2005, the Schwab Hedged Equity Fund introduced an Investor Share class with an investment minimum of \$2,500. Because the Investor Shares had abbreviated performance during the six-month report period, the following discussion references the Fund's Select Shares.*

**The Schwab Hedged Equity Fund**, which was up 9.19% for the period, handily outperformed its benchmark, the S&P 500 Index, which increased 3.28% for the period. In general, the Fund selects its long positions from stocks that are rated "A" or "B" at the time of purchase and selects its short positions from stocks that are rated "D" or "F". Performance of the

Source of Sector Classification: S&P and MSCI.

The Hedged Equity Fund's long positions can decline in value at the same time the value of its shorted stocks increases, thereby increasing the potential for loss. The potential loss associated with short positions is much greater than the original value of the securities sold. The use of borrowing and short sales may cause the fund to have higher expenses than those of equity funds that do not use such techniques.

## Performance at a Glance

Total return for the six months ended 4/30/05, 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 Core Equity Fund™** . . . **7.47%**  
Benchmark . . . . . **3.28%**  
Fund Category<sup>1</sup> . . . . . **3.26%**  
*Performance Details . . . . . page 11*

**Schwab Dividend Equity Fund™**  
Investor Shares . . . . . **6.42%**  
Select Shares® . . . . . **6.52%**  
Benchmark . . . . . **3.28%**  
Fund Category<sup>1</sup> . . . . . **4.94%**  
*Performance Details . . . pages 13-14*

**Schwab Small-Cap Equity Fund™**  
Investor Shares . . . . . **3.44%**  
Select Shares . . . . . **3.50%**  
Benchmark . . . . . **2.57%**  
Fund Category<sup>1</sup> . . . . . **2.32%**  
*Performance Details . . . pages 16-17*

**Schwab Hedged Equity Fund™**  
Investor Shares<sup>2</sup> . . . . . **0.30%**  
Select Shares . . . . . **9.19%**  
Benchmark . . . . . **3.28%**  
Fund Category<sup>1</sup> . . . . . **2.83%**  
*Performance Details . . . pages 19-20*

long portfolio was strong, adding more than 3% to performance, while the short side also contributed positively. The Fund had a value tilt, which also benefited from the market favoring value during the report period. Importantly, in addition to outperforming its benchmark, the Fund did it with less market volatility during the period than its benchmark.

More specifically, the Fund benefited from having long positions in the top three performing sectors—Energy, Health Care and Utilities. Also helping the Fund's performance was good stock selection in the lagging Consumer Discretionary sector. Within this sector, owning Toys R Us, Barnes & Noble and Abercrombie & Fitch contributed positively to results, as did avoiding WalMart. On the short side, our positions in the poorly performing Information Technology sector added to performance.

**The Schwab Financial Services Fund** was up 3.24% for the six-month report period, outperforming the S&P 1500 SuperComposite Financial Services Index, which was up 0.55%. In terms of market capitalization, the mid-cap holdings helped slightly more than the small-cap positions hurt. The Fund was slightly overweight in the Banks and Insurance industries, which helped boost returns; however, it was Schwab Equity Ratings' rigorous stock evaluation and its ability to identify stocks likely to outperform the market over the next 12 months that helped the most. More specifically, Raymond James Financial and Compucredit Corp, both in the Diversified Financials industry were top performers. Avoiding troubled Fannie Mae, which comprised 2.8% of the benchmark during the period, also helped the Fund's performance.

**The Schwab Health Care Fund**, which was up 16.88% for the six-month report period was the best performing of the three sector funds, outperforming its benchmark, the S&P 1500 SuperComposite Health Care Index, which was up 10.91%. The Fund benefited from its value tilt in a market that favored value more than growth, as well as from its mid-cap holdings, as this group of stocks was strong during the report period. Being overweight in Health Care Equipment and underweight in Pharmaceuticals also benefited the Fund. A significant amount of the Fund's outperformance, however, can be attributed to Schwab Equity Ratings' rigorous stock evaluation and its ability to identify stocks

Source of Sector Classification: S&P and MSCI. 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 CSIM and Schwab. Without these reductions, the funds' total returns 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.

Small-company stocks are subject to greater volatility than other asset categories.  
Schwab Equity Ratings® are produced by the Schwab Center for Investment Research®.

<sup>1</sup> Source for category information: Morningstar, Inc.

<sup>2</sup> Total return is for 3/1/05 – 4/30/05.

## Performance at a Glance

Total return for the six months ended 4/30/05, 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 Financial Services

**Fund™ . . . . . 3.24%**  
Benchmark . . . . . **0.55%**  
Fund Category<sup>1</sup> . . . . . **0.89%**  
*Performance Details . . . . . page 22*

**Schwab Health Care Fund™. 16.88%**  
Benchmark . . . . . **10.91%**  
Fund Category<sup>1</sup> . . . . . **6.03%**  
*Performance Details . . . . . page 24*

**Schwab Technology Fund™. -4.98%**  
Benchmark . . . . . **-4.05%**  
Fund Category<sup>1</sup> . . . . . **-4.34%**  
*Performance Details . . . . . page 26*

**Schwab Premier Equity Fund™**  
Investor Shares<sup>2</sup>. . . . . **-4.70%**  
Select Shares<sup>2</sup>. . . . . **-4.70%**  
Benchmark<sup>2</sup>. . . . . **-2.61%**  
Fund Category<sup>1,2</sup>. . . . . **-3.14%**  
*Performance Details . . . . . pages 8-9*

likely to outperform the market over the next 12 months. Within the Health Care sector, the most positive contributions came from Humana and Pacificare. In the Pharmaceutical industry, Medicis Pharmaceuticals was the worst performer.

**The Schwab Technology Fund** was down 4.98% for the period, underperforming its benchmark, the S&P 1500 SuperComposite Technology Index, which was down 4.05%. The Fund's value tilt helped performance in a market in which value was the more dominant style. Amid the floundering Information Technology industry, there were pockets of strength. With the help of Schwab Equity Ratings' ability to identify stocks likely to outperform the market over the next 12 months, we were able to find some of them. Within the Software and Services industry, Progress Software and MTS Systems Corp. performed well during the period. On the downside, the Fund was hurt most by office-telephone maker, Avaya Inc., which fell as competition from voice-over-Internet protocol heated up.

*The Schwab Premier Equity Fund was launched on March 21, 2005. Performance numbers are since inception, not for the full six-month report period.*

**The Schwab Premier Equity Fund**, a new Schwab Fund that showcases Schwab's industry-recognized stock-ranking expertise in a single investment, is comprised of approximately 100 stocks that have been identified as likely to outperform the market over the next 12 months. The portfolio is diversified across sectors and capitalization size, and is designed for capital growth. The broad-based Fund was launched during a stock market correction and moved with the market. It also was negatively impacted by its small-cap holdings, as the market favored larger-size equities over the brief six-week period since inception. On the upside, the Fund's value tilt helped, as the market favored value over growth during the abbreviated report period. The upside, however, wasn't enough to push the Fund into positive territory and the Fund was off 4.70%, underperforming its benchmark, the S&P 500 Index, which was down 2.61% for the six-week period.

Source of Sector Classification: S&P and MSCI. 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 CSIM and Schwab. Without these reductions, the funds' total returns 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.

Since the Financial Services, Health Care, and Technology funds focus their investments on companies involved in specific sectors, these funds may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

Schwab Equity Ratings® are produced by the Schwab Center for Investment Research®.

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.

<sup>1</sup> Source for category information: Morningstar, Inc.

<sup>2</sup> Total return is for 3/21/05 – 4/30/05.

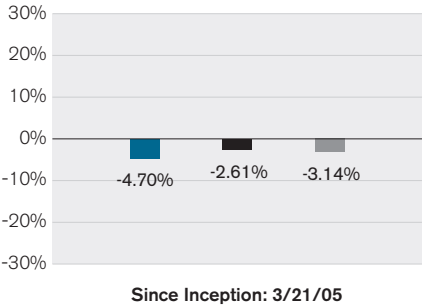
# Schwab Premier Equity Fund™

## Investor Shares Performance as of 4/30/05

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

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

- Fund: **Investor Shares** Ticker Symbol: SWPNX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Large-Cap Blend**

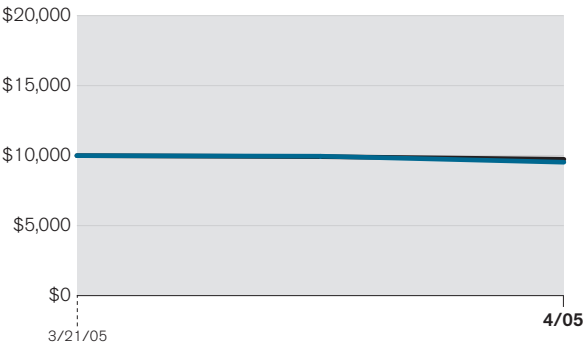


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance 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.

- \$9,530 **Investor Shares**
- \$9,739 **S&P 500® 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 returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

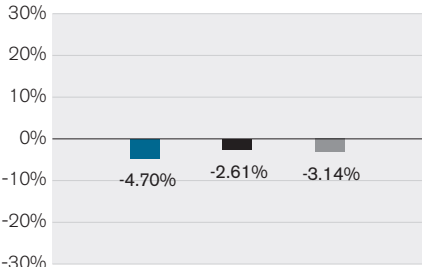
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

- Fund: **Select Shares** Ticker Symbol: SWPSX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Large-Cap Blend**



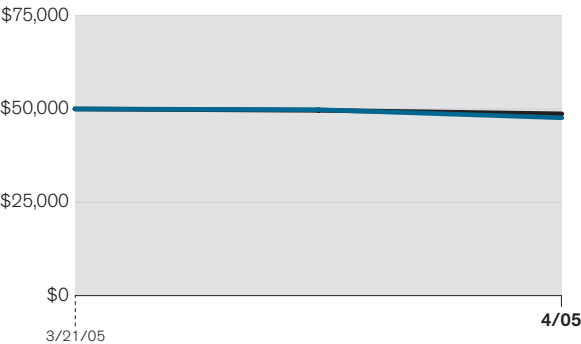
Since Inception: 3/21/05

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).

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.

- \$47,650 **Select Shares**
- \$48,697 **S&P 500® 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 returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

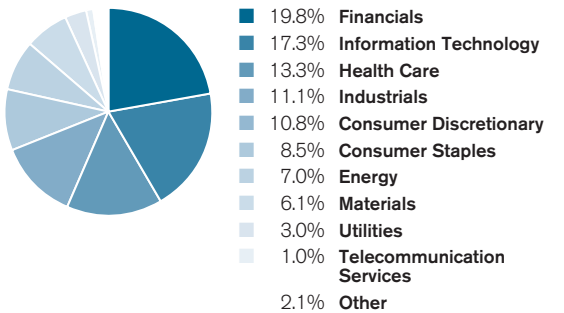
|  |          |
|--|----------|
| Number of Holdings   | 102      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$22,656 |
| Price/Earnings Ratio (P/E)                                 | 18.7     |
| Price/Book Ratio (P/B)                                     | 2.4      |
| Portfolio Turnover Rate <sup>2</sup>                       | 2%       |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Top Holdings<sup>4</sup>

| Security                                   | % of Net Assets |
|--|-----------------|
| 1 AFLAC, Inc.                              | 1.2%            |
| 2 Genesis HealthCare Corp.                 | 1.1%            |
| 3 Earthlink, Inc.                          | 1.1%            |
| 4 Applied Biosystems Group – Applera Corp. | 1.1%            |
| 5 Aetna, Inc.                              | 1.1%            |
| 6 Lockheed Martin Corp.                    | 1.1%            |
| 7 UnitedHealth Group, Inc.                 | 1.1%            |
| 8 Payless Shoesource, Inc.                 | 1.1%            |
| 9 CIGNA Corp.                              | 1.1%            |
| 10 Haemonetics Corp.                       | 1.1%            |
| Total                                      | 11.1%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

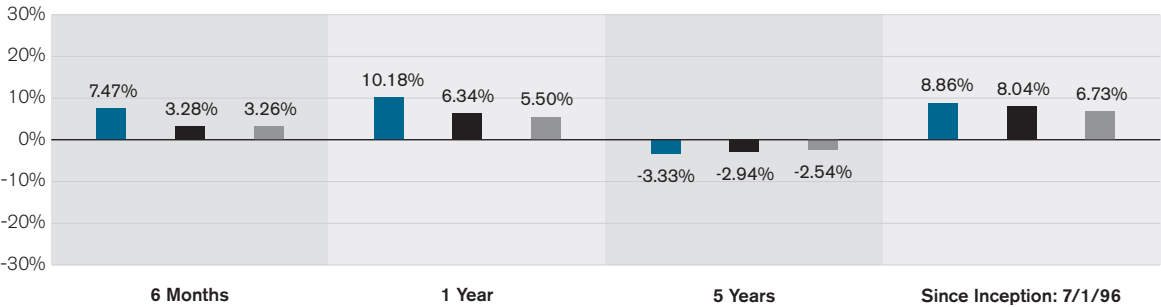
# Schwab Core Equity Fund™

Performance as of 4/30/05

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

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

- **Fund** Ticker Symbol: SWANX
- **Benchmark: S&P 500® Index**
- **Fund Category: Morningstar Large-Cap Blend**

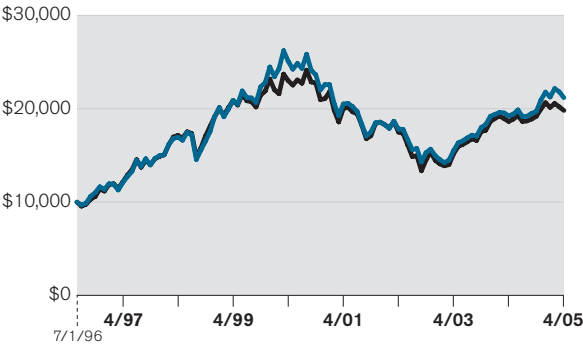


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$21,176 **Fund**
- \$19,812 **S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

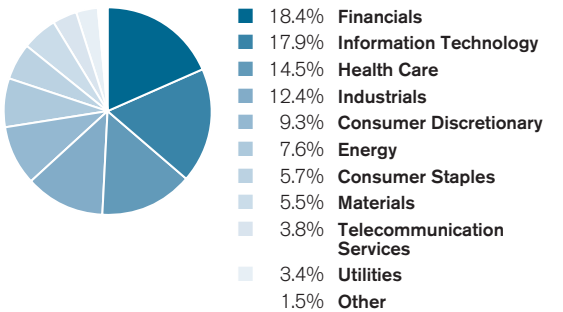
|   |          |
|---|----------|
| Number of Holdings  | 93       |
| Weighted Average Market Cap (\$ x 1,000,000)  | \$59,117 |
| Price/Earnings Ratio (P/E)  | 19.0     |
| Price/Book Ratio (P/B)  | 2.8      |
| Portfolio Turnover Rate <sup>2</sup>  | 26%      |
| Minimum Initial Investment <sup>3</sup><br>(\$1,000 for retirement, education and custodial accounts) | \$2,500  |

Top Holdings<sup>4</sup>

|                            | % of Net Assets |
|----------------------------|-----------------|
| Security                   |                 |
| 1 Intel Corp.              | 5.1%            |
| 2 The Boeing Co.           | 5.0%            |
| 3 Exxon Mobil Corp.        | 4.8%            |
| 4 Johnson & Johnson        | 4.7%            |
| 5 Franklin Resources, Inc. | 4.2%            |
| 6 UST, Inc.                | 4.0%            |
| 7 Metlife, Inc.            | 3.7%            |
| 8 UnionBanCal Corp.        | 3.7%            |
| 9 UnitedHealth Group, Inc. | 3.1%            |
| 10 Time Warner, Inc.       | 2.7%            |
| Total                      | 41.0%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

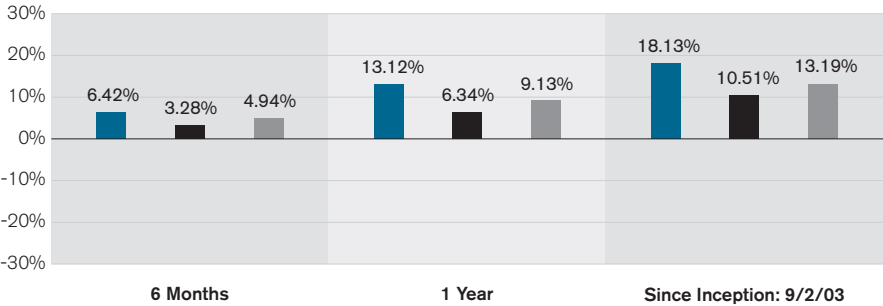
# Schwab Dividend Equity Fund™

## Investor Shares Performance as of 4/30/05

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

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

- Fund: **Investor Shares** Ticker Symbol: SWDIX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Large-Cap Value**

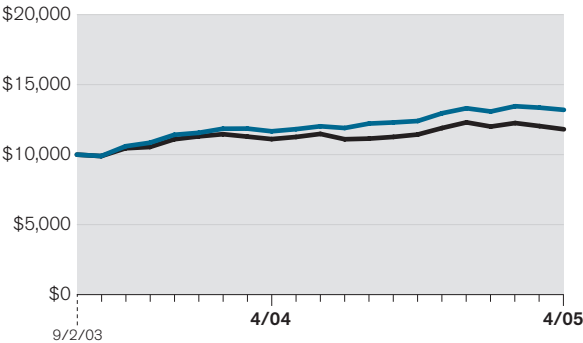


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$13,198 **Investor Shares**
- \$11,811 **S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

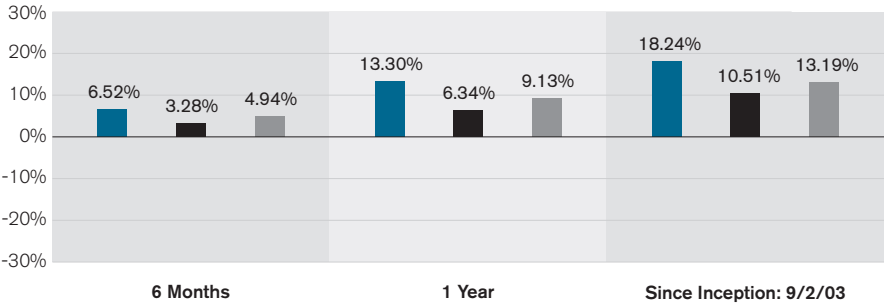
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

- Fund: **Select Shares** Ticker Symbol: SWDSX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Large-Cap Value**

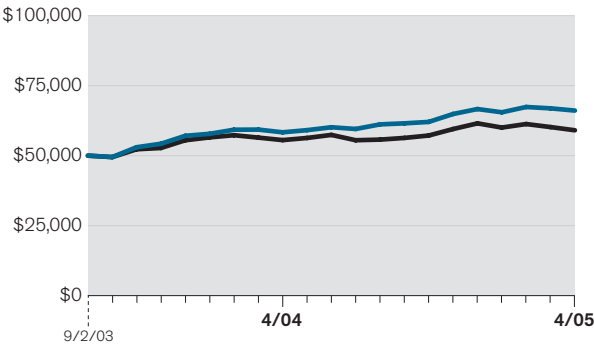


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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 a benchmark.

- \$66,095 **Select Shares**
- \$59,057 **S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

## Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>

## Statistics

|  |          |
|--|----------|
| Number of Holdings   | 112      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$40,324 |
| Price/Earnings Ratio (P/E)                                 | 18.5     |
| Price/Book Ratio (P/B)                                     | 2.5      |
| Portfolio Turnover Rate <sup>2</sup>                       | 12%      |
| SEC Yield <sup>3</sup>                                     |          |
| Investor Shares  | 1.92%    |
| Select Shares  | 2.07%    |
| Minimum Initial Investment <sup>4</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

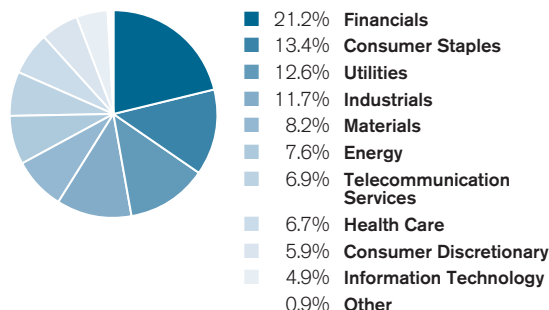
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Top Holdings<sup>5</sup>

| Security             | % of Net Assets |
|----------------------|-----------------|
| ① Goodrich Corp.     | 1.3%            |
| ② Chubb Corp.        | 1.2%            |
| ③ The Allstate Corp. | 1.2%            |
| ④ The Coca-Cola Co.  | 1.2%            |
| ⑤ FirstEnergy Corp.  | 1.2%            |
| ⑥ Comerica, Inc.     | 1.2%            |
| ⑦ Weyerhaeuser Co.   | 1.2%            |
| ⑧ Alltel Corp.       | 1.2%            |
| ⑨ Duke Energy Corp.  | 1.2%            |
| ⑩ BellSouth Corp.    | 1.2%            |
| <b>Total</b>         | <b>12.1%</b>    |

## Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Fund holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</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>4</sup> Please see prospectus for further detail and eligibility requirements.

<sup>5</sup> This list is not a recommendation of any security by the investment adviser.

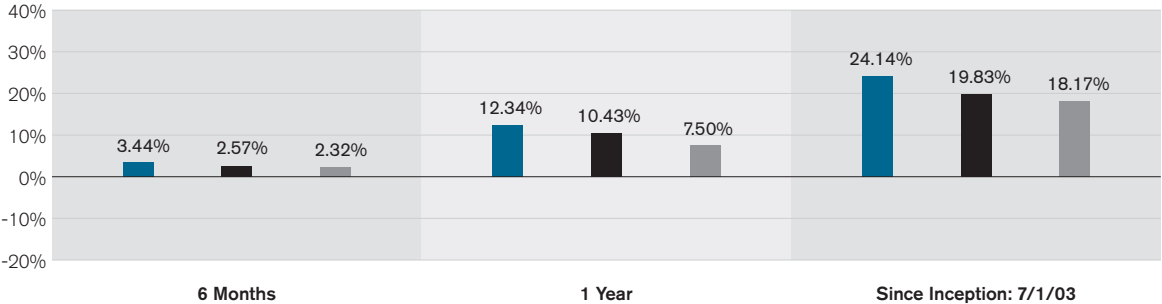
# Schwab Small-Cap Equity Fund™

## Investor Shares Performance as of 4/30/05

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

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

- Fund: **Investor Shares** Ticker Symbol: SWSIX
- Benchmark: **S&P SmallCap 600 Index**
- Fund Category: **Morningstar Small-Cap Blend**

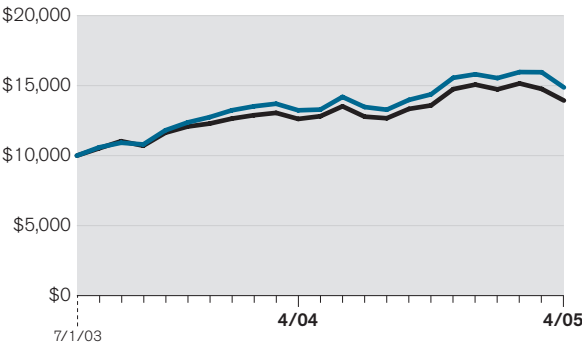


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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.

- \$14,872 **Investor Shares**
- \$13,938 **S&P SmallCap 600 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

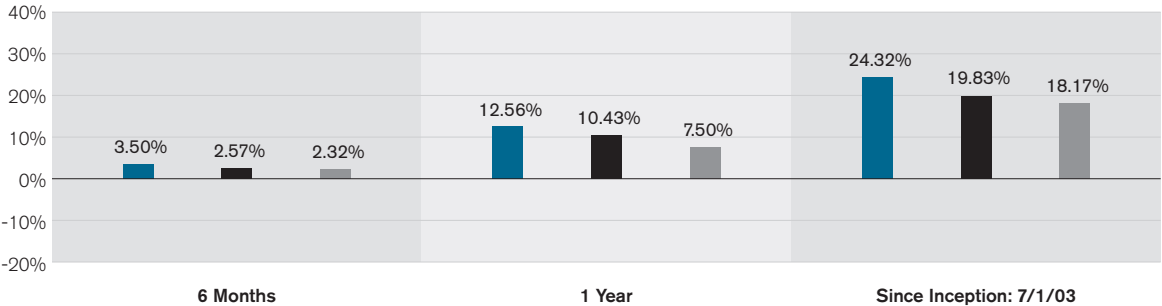
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

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

- Fund: **Select Shares** Ticker Symbol: SWSCX
- Benchmark: **S&P SmallCap 600 Index**
- Fund Category: **Morningstar Small-Cap Blend**

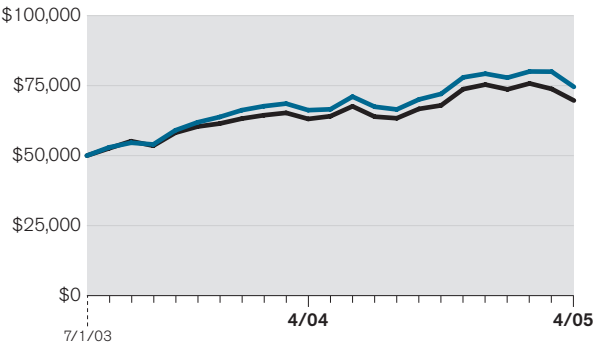


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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.

- \$74,560 **Select Shares**
- \$69,690 **S&P SmallCap 600 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

Fund Facts as of 4/30/05

Style Assessment<sup>1</sup>



Statistics

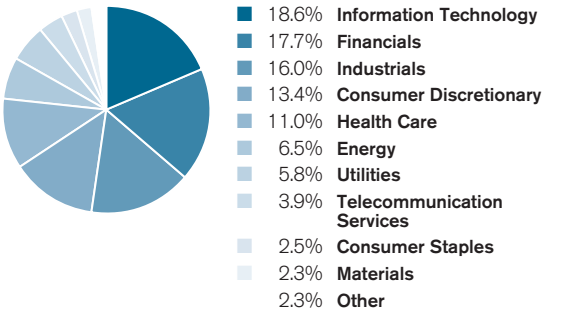
|  |          |
|--|----------|
| Number of Holdings   | 141      |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$1,004  |
| Price/Earnings Ratio (P/E)                                 | 21.0     |
| Price/Book Ratio (P/B)                                     | 2.0      |
| Portfolio Turnover Rate <sup>2</sup>                       | 48%      |
| Minimum Initial Investment <sup>3</sup>                    |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Top Holdings<sup>4</sup>

|  | % of Net Assets |
|--|-----------------|
| 1 Haemonetics Corp.                        | 3.2%            |
| 2 National Fuel Gas Co.                    | 3.0%            |
| 3 Cleco Corp.                              | 2.9%            |
| 4 ESCO Technologies, Inc.                  | 2.8%            |
| 5 Earthlink, Inc.                          | 2.8%            |
| 6 Commonwealth Telephone Enterprises, Inc. | 2.7%            |
| 7 Blackrock, Inc., Class A                 | 2.3%            |
| 8 Hydril Co.                               | 2.2%            |
| 9 Instinet Group, Inc.                     | 2.0%            |
| 10 CAL Dive International, Inc.            | 2.0%            |
| Total                                      | 25.9%           |

Sector Weightings % of Investments

This chart shows the fund's sector composition as of the report date. A sector is a portion of the overall stock market that is made up of industries whose business components share similar characteristics.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

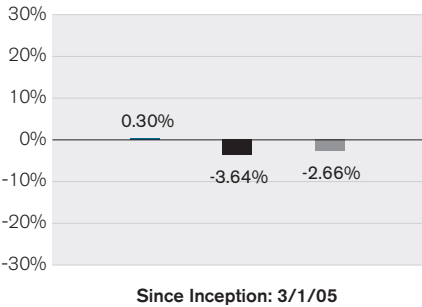
# Schwab Hedged Equity Fund<sup>TM</sup>

## Investor Shares Performance as of 4/30/05

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

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

- Fund: **Investor Shares** Ticker Symbol: SWHIX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Moderate Allocation**

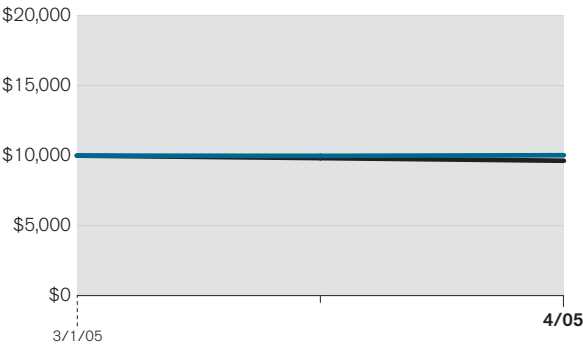


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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.

- \$10,030 **Investor Shares**
- \$9,636 **S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

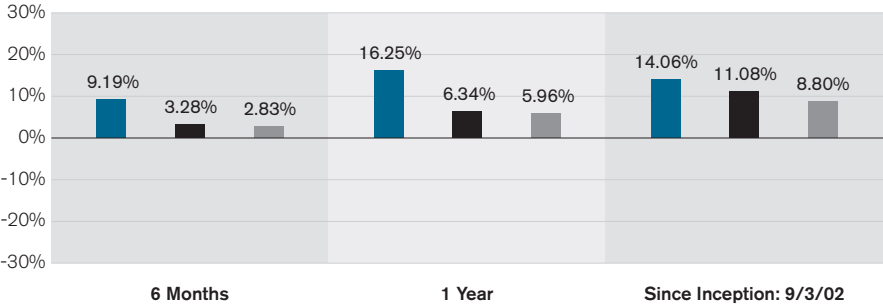
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares® Performance as of 4/30/05

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

This chart compares performance of the fund with a benchmark and the fund's Morningstar category.

- Fund: **Select Shares** Ticker Symbol: SWHEX
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Moderate Allocation**

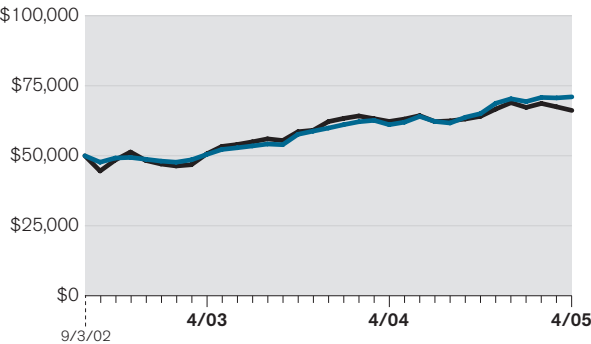


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Performance of a Hypothetical \$25,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$25,000 investment in the fund (the minimum investment for this fund), compared with a similar investment in a benchmark.

- \$71,030 **Select Shares**
- \$66,189 **S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

## Fund Facts as of 4/30/05

| Top Long Holdings <sup>1</sup> |                 |
|--------------------------------|-----------------|
| Security                       | % of Net Assets |
| ① Johnson & Johnson, Inc.      | 3.8%            |
| ② Exxon Mobil Corp.            | 3.6%            |
| ③ Duke Energy Corp.            | 3.5%            |
| ④ Intel Corp.                  | 2.0%            |
| ⑤ Ameristar Casinos, Inc.      | 1.8%            |
| <b>Total</b>                   | <b>14.7%</b>    |

| Top Short Positions <sup>1</sup>         |                 |
|--|-----------------|
| Security                                 | % of Net Assets |
| ① Quicksilver Resources, Inc.            | 2.0%            |
| ② The Neiman-Marcus Group, Inc., Class A | 1.9%            |
| ③ United Natural Foods, Inc.             | 1.7%            |
| ④ Wynn Resorts Ltd.                      | 1.7%            |
| ⑤ Airgas, Inc.                           | 1.7%            |
| <b>Total</b>                             | <b>9.0%</b>     |

| Statistics   |          |
|--|----------|
| <b>Number of Holdings</b>                                  |          |
| Long Holdings  | 165      |
| Short Positions  | 104      |
| <b>Weighted Average Market Cap</b> (\$ x 1,000,000)        |          |
| Long Holdings  | \$38,293 |
| Short Positions  | \$3,310  |
| <b>Price/Earnings Ratio (P/E)</b>                          |          |
| Long Holdings  | 19.1     |
| Short Positions  | 25.7     |
| <b>Price/Book Ratio (P/B)</b>                              |          |
| Long Holdings  | 2.5      |
| Short Positions  | 1.8      |
| <b>Portfolio Turnover Rate<sup>2</sup></b>                 | 65%      |
| <b>Minimum Initial Investment<sup>3</sup></b>              |          |
| Investor Shares  | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |
| Select Shares  | \$50,000 |

Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> This list is not a recommendation of any security by the investment adviser.

<sup>2</sup> Not annualized. Short positions have been excluded from the calculation of portfolio turnover because at the time of entering into the short positions, the fund did not intend to hold the positions for more than one year.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

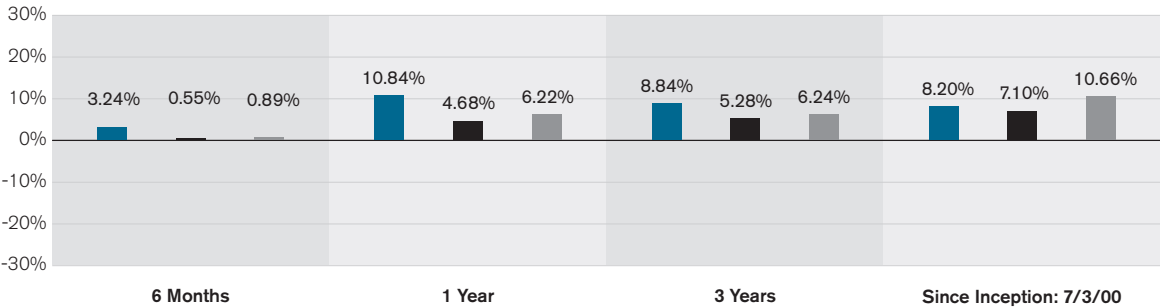
# Schwab Financial Services Fund™

## Performance as of 4/30/05

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

This chart compares performance of the fund with a benchmark and the fund's Morningstar category.

- Fund Ticker Symbol: SWFFX
- Benchmark: **S&P 1500 SuperComposite Financials Sector Index**
- Fund Category: **Morningstar Financial Services**

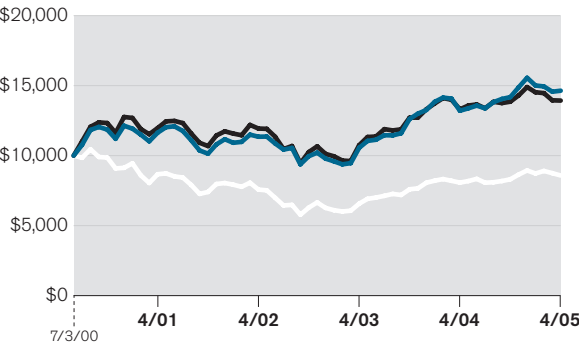


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$10,000 investment in the fund, compared with a similar investment in a benchmark and an additional index.

- \$14,637 Fund
- \$13,932 S&P 1500 SuperComposite Financials Sector Index
- \$8,583 S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

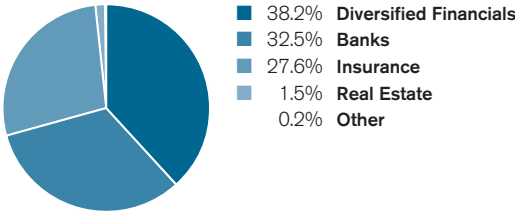
Fund Facts as of 4/30/05

| Top Holdings <sup>1</sup>         |                 |
|-----------------------------------|-----------------|
| Security                          | % of Net Assets |
| ① AFLAC, Inc.                     | 5.7%            |
| ② City National Corp.             | 5.3%            |
| ③ Franklin Resources, Inc.        | 5.2%            |
| ④ Comerica, Inc.                  | 5.1%            |
| ⑤ American Express Co.            | 5.0%            |
| ⑥ KeyCorp, Inc.                   | 4.9%            |
| ⑦ UnionBanCal Corp.               | 4.8%            |
| ⑧ Principal Financial Group, Inc. | 4.7%            |
| ⑨ Metlife, Inc.                   | 4.7%            |
| ⑩ Mellon Financial Corp.          | 4.5%            |
| Total                             | 49.9%           |

| Statistics   |          |
|--|----------|
| Number of Holdings   | 44       |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$18,694 |
| Price/Earnings Ratio (P/E)                                 | 13.9     |
| Price/Book Ratio (P/B)                                     | 1.9      |
| Portfolio Turnover Rate <sup>2</sup>                       | 50%      |
| Minimum Initial Investment <sup>3</sup>                    | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |

Industry Weightings % of Investments

This chart shows the fund's industry composition as of the report date.



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.  
<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

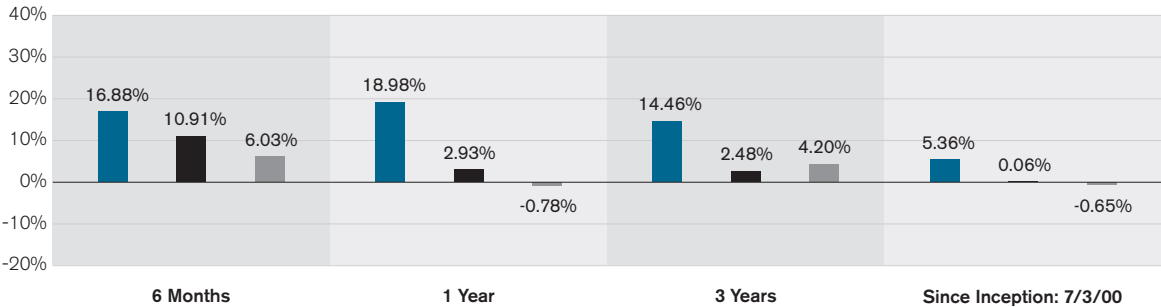
# Schwab Health Care Fund™

Performance as of 4/30/05

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

This chart compares performance of the fund with a benchmark and the fund's Morningstar category.

- **Fund** Ticker Symbol: SWHFX
- **Benchmark: S&P 1500 SuperComposite Health Care Sector Index**
- **Fund Category: Morningstar Health Care**

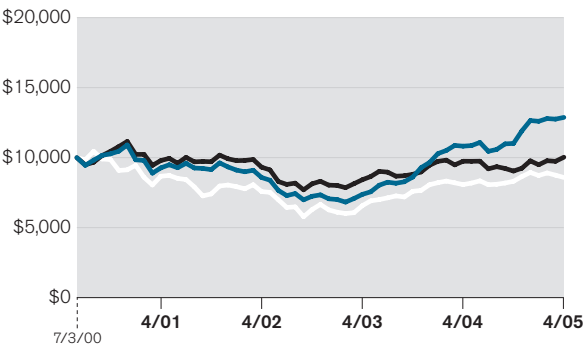


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance 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, compared with a similar investment in a benchmark and an additional index.

- \$12,873 **Fund**
- \$10,031 **S&P 1500 SuperComposite Health Care Sector Index**
- \$8,583 **S&P 500® 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.

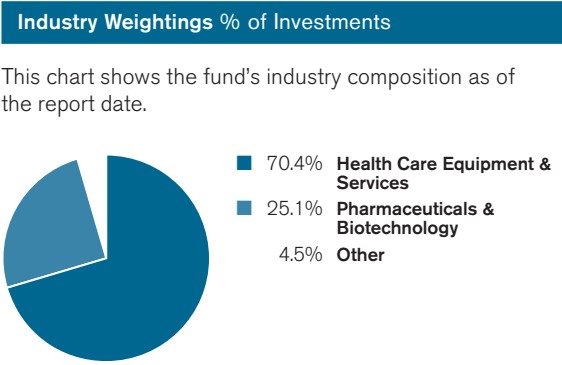
<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

Fund Facts as of 4/30/05

| Top Holdings <sup>1</sup>                  |                 |
|--|-----------------|
| Security                                   | % of Net Assets |
| ① Aetna, Inc.                              | 3.5%            |
| ② CIGNA Corp.                              | 3.5%            |
| ③ UnitedHealth Group, Inc.                 | 3.5%            |
| ④ Kos Pharmaceuticals, Inc.                | 3.4%            |
| ⑤ Becton Dickinson & Co.                   | 3.4%            |
| ⑥ Pacificare Health Systems, Inc.          | 3.4%            |
| ⑦ Applied Biosystems Group – Applera Corp. | 3.3%            |
| ⑧ Johnson & Johnson                        | 3.3%            |
| ⑨ Express Scripts, Inc.                    | 3.3%            |
| ⑩ Invitrogen Corp.                         | 3.3%            |
| Total                                      | 33.9%           |

| Statistics   |          |
|--|----------|
| Number of Holdings   | 52       |
| Weighted Average Market Cap (\$ x 1,000,000)               | \$23,950 |
| Price/Earnings Ratio (P/E)                                 | 21.3     |
| Price/Book Ratio (P/B)                                     | 3.1      |
| Portfolio Turnover Rate <sup>2</sup>                       | 30%      |
| Minimum Initial Investment <sup>3</sup>                    | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |



Portfolio holdings may have changed since the report date.  
Source of Sector Classification: S&P and MSCI.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.  
<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

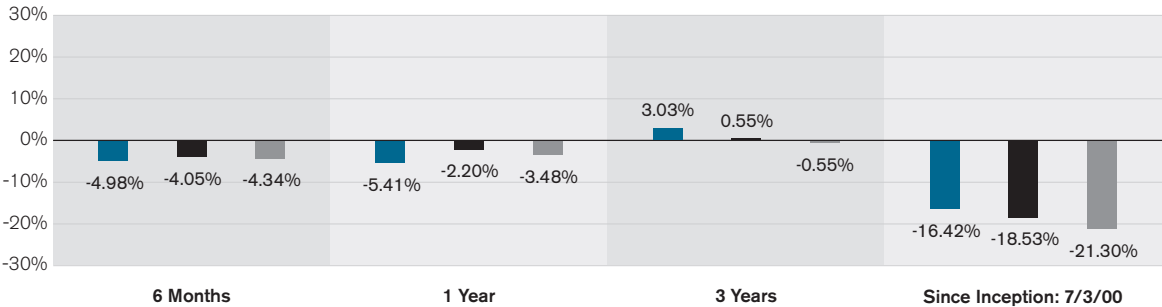
# Schwab Technology Fund™

Performance as of 4/30/05

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

This chart compares performance of the fund with a benchmark and the fund's Morningstar category.

- Fund Ticker Symbol: SWTFX
- Benchmark: **S&P 1500 SuperComposite Technology Sector Index**
- Fund Category: **Morningstar Technology**

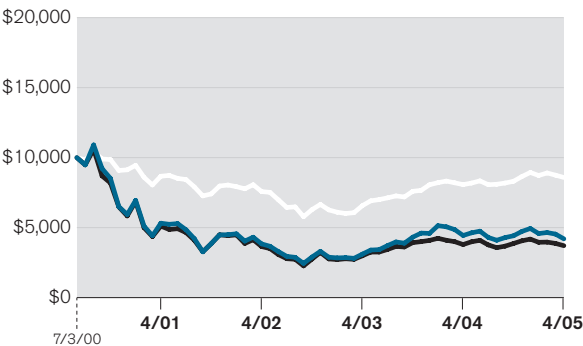


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance 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, compared with a similar investment in a benchmark and an additional index.

- \$4,200 Fund
- \$3,711 S&P 1500 SuperComposite Technology Sector Index
- \$8,583 S&P 500® 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 partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

## Fund Facts as of 4/30/05

Top Holdings<sup>1</sup>

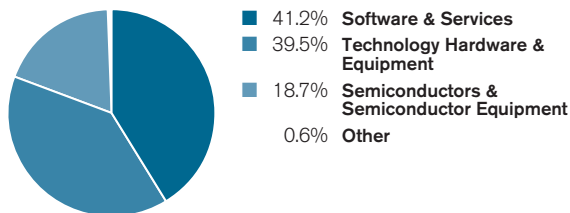
| Security                  | % of Net Assets |
|---------------------------|-----------------|
| ① Intel Corp.             | 7.4%            |
| ② Xerox Corp.             | 6.7%            |
| ③ Oracle Corp.            | 6.3%            |
| ④ Motorola, Inc.          | 4.7%            |
| ⑤ Hewett-Packard Co.      | 4.5%            |
| ⑥ Applied Materials, Inc. | 4.5%            |
| ⑦ EMC Corp.               | 3.7%            |
| ⑧ NCR Corp.               | 3.7%            |
| ⑨ Progress Software Corp. | 3.4%            |
| ⑩ Autodesk, Inc.          | 3.2%            |
| <b>Total</b>              | <b>48.1%</b>    |

## Statistics

|  |          |
|--|----------|
| <b>Number of Holdings</b>                                  | 49       |
| <b>Weighted Average Market Cap</b> (\$ x 1,000,000)        | \$29,479 |
| <b>Price/Earnings Ratio</b> (P/E)                          | 22.4     |
| <b>Price/Book Ratio</b> (P/B)                              | 2.8      |
| <b>Portfolio Turnover Rate</b> <sup>2</sup>                | 40%      |
| <b>Minimum Initial Investment</b> <sup>3</sup>             | \$2,500  |
| (\$1,000 for retirement, education and custodial accounts) |          |

## Industry Weightings % of Investments

This chart shows the fund's industry composition as of the report date.



Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

<sup>1</sup> This list is not a recommendation of any security by the investment adviser.

<sup>2</sup> Not annualized.

<sup>3</sup> Please see prospectus for further detail and eligibility requirements.

# Fund Expenses

## 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 November 1, 2004 and held through April 30, 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 ÷ \$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><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period<br>11/1/04–4/30/05 |
|------------------------------------|--|--|--|---|
| <b>Schwab Premier Equity Fund™</b> |  |  |  |   |
| <i>Investor Shares</i>             |  |  |  |   |
| Actual Return                      | 0.00%                                      | \$1,000                                  | \$953.00   | \$0.00 <sup>2</sup>                               |
| Hypothetical 5% Return             | 0.00%                                      | \$1,000                                  | \$1,005.89   | \$0.00 <sup>2</sup>                               |
| <i>Select Shares</i>               |  |  |  |   |
| Actual Return                      | 0.00%                                      | \$1,000                                  | \$953.00   | \$0.00 <sup>2</sup>                               |
| Hypothetical 5% Return             | 0.00%                                      | \$1,000                                  | \$1,005.89   | \$0.00 <sup>2</sup>                               |
| <b>Schwab Core Equity Fund™</b>    |  |  |  |   |
| Actual Return                      | 0.75%                                      | \$1,000                                  | \$1,074.70   | \$3.85 <sup>3</sup>                               |
| Hypothetical 5% Return             | 0.75%                                      | \$1,000                                  | \$1,021.08   | \$3.76 <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 have agreed that "annual operating expenses" (excluding interest, taxes, and certain non-routine expense) of Investor Shares and Select Shares will equal 0.00% from 3/21/05 (commencement of operations) through 6/30/05. For the period 7/1/05-2/27/06, Schwab and the investment adviser have agreed to limit the net operating expenses of Investor and Select Shares to 1.30% and 1.15%, respectively. Based on these expense ratios, "Expenses Paid During Period" (3/21/05-4/30/05) would be: \$1.43 based on Actual Return and \$1.46 based on Hypothetical 5% Return for Investor Shares; and, \$1.26 based on Actual Return and \$1.29 based on Hypothetical 5% Return for Select Shares.

<sup>3</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 181 days of the period, and divided by 365 days of the fiscal year.

**Fund Expenses** continued

|  | Expense Ratio <sup>1</sup><br>(Annualized) | Beginning<br>Account Value<br>at 11/1/04 | Ending<br>Account Value<br>(Net of Expenses)<br>at 4/30/05 | Expenses<br>Paid During Period<br>11/1/04–4/30/05 |
|--|--|--|--|---|
| <b>Schwab Dividend Equity Fund™</b>    |  |  |  |   |
| <i>Investor Shares</i>                 |  |  |  |   |
| Actual Return                          | 1.09%                                      | \$1,000                                  | \$1,064.20   | \$5.56 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 1.09%                                      | \$1,000                                  | \$1,019.41   | \$5.44 <sup>2</sup>                               |
| <i>Select Shares®</i>                  |  |  |  |   |
| Actual Return                          | 0.94%                                      | \$1,000                                  | \$1,065.20   | \$4.79 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 0.94%                                      | \$1,000                                  | \$1,020.15   | \$4.69 <sup>2</sup>                               |
| <b>Schwab Small-Cap Equity Fund™</b>   |  |  |  |   |
| <i>Investor Shares</i>                 |  |  |  |   |
| Actual Return                          | 1.30%                                      | \$1,000                                  | \$1,034.40   | \$6.55 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 1.30%                                      | \$1,000                                  | \$1,018.35   | \$6.50 <sup>2</sup>                               |
| <i>Select Shares</i>                   |  |  |  |   |
| Actual Return                          | 1.12%                                      | \$1,000                                  | \$1,035.00   | \$5.65 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 1.12%                                      | \$1,000                                  | \$1,019.25   | \$5.60 <sup>2</sup>                               |
| <b>Schwab Hedged Equity Fund™</b>      |  |  |  |   |
| <i>Investor Shares</i>                 |  |  |  |   |
| Actual Return                          | 2.44%                                      | \$1,000                                  | \$1,003.00   | \$4.08 <sup>3</sup>                               |
| Hypothetical 5% Return                 | 2.44%                                      | \$1,000                                  | \$1,004.28   | \$4.09 <sup>3</sup>                               |
| <i>Select Shares</i>                   |  |  |  |   |
| Actual Return                          | 2.52% <sup>4</sup>                         | \$1,000                                  | \$1,091.90   | \$13.07 <sup>2</sup>                              |
| Hypothetical 5% Return                 | 2.52% <sup>4</sup>                         | \$1,000                                  | \$1,012.30   | \$12.57 <sup>2</sup>                              |
| <b>Schwab Financial Services Fund™</b> |  |  |  |   |
| Actual Return                          | 1.06%                                      | \$1,000                                  | \$1,032.40   | \$5.32 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 1.06%                                      | \$1,000                                  | \$1,019.56   | \$5.29 <sup>2</sup>                               |
| <b>Schwab Health Care Fund™</b>        |  |  |  |   |
| Actual Return                          | 0.91%                                      | \$1,000                                  | \$1,168.80   | \$4.87 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 0.91%                                      | \$1,000                                  | \$1,020.30   | \$4.54 <sup>2</sup>                               |
| <b>Schwab Technology Fund™</b>         |  |  |  |   |
| Actual Return                          | 0.99%                                      | \$1,000                                  | \$950.20   | \$4.77 <sup>2</sup>                               |
| Hypothetical 5% Return                 | 0.99%                                      | \$1,000                                  | \$1,019.90   | \$4.94 <sup>2</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> 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 181 days of the period, and divided by 365 days of the fiscal year.

<sup>3</sup> Expenses for this share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 61 days of the period (from 3/1/05, commencement of operations through 4/30/05), and divided by 365 days of the fiscal year.

<sup>4</sup> Reflects a blended expense ratio. Prior to 3/1/05, the expense ratio (including dividend and interest expenses) was 2.62%, and effective 3/1/05, this expense ratio was lowered to 2.38%.

# Schwab Premier Equity Fund™

## Financial Statements

### Financial Highlights

| Investor Shares                            |  | 3/21/05 <sup>1</sup> –<br>04/30/05* |
|--|--|-------------------------------------|
| <b>Per-Share Data (\$)</b>                 |  |                                     |
| Net asset value at beginning of period     |  | 10.00                               |
| Income or loss from investment operations: |  |                                     |
| Net investment income                      |  | 0.01                                |
| Net realized and unrealized losses         |  | (0.48)                              |
| Total loss from investment operations      |  | (0.47)                              |
| Net asset value at end of period           |  | 9.53                                |
| Total return (%)                           |  | (4.70) <sup>2</sup>                 |
| <b>Ratios/Supplemental Data (%)</b>        |  |                                     |
| Ratios to average net assets:              |  |                                     |
| Net operating expenses                     |  | —                                   |
| Gross operating expenses                   |  | 1.24 <sup>3</sup>                   |
| Net investment income                      |  | 1.18 <sup>3</sup>                   |
| Portfolio turnover rate                    |  | 2 <sup>2</sup>                      |
| Net assets, end of period (\$ x 1,000,000) |  | 186                                 |

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

| Select Shares                              | 3/21/05 <sup>1</sup> –<br>04/30/05* |
|--|-------------------------------------|
| <b>Per-Share Data (\$)</b>                 |                                     |
| Net asset value at beginning of period     | 10.00                               |
| Income or loss from investment operations: |                                     |
| Net investment income                      | 0.01                                |
| Net realized and unrealized losses         | (0.48)                              |
| Total loss from investment operations      | (0.47)                              |
| Net asset value at end of period           | 9.53                                |
| Total return (%)                           | (4.70) <sup>2</sup>                 |
| <b>Ratios/Supplemental Data (%)</b>        |                                     |
| Ratios to average net assets:              |                                     |
| Net operating expenses                     | —                                   |
| Gross operating expenses                   | 1.09 <sup>3</sup>                   |
| Net investment income                      | 1.20 <sup>3</sup>                   |
| Portfolio turnover rate                    | 2 <sup>2</sup>                      |
| Net assets, end of period (\$ x 1,000,000) | 257                                 |

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**1** Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts

| Holdings by Category |  | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|--|--------------------|---------------------|
| <b>99.3%</b>         | <b>Common Stock</b>                      | 459,456            | 440,464             |
| <b>2.1%</b>          | <b>Short-Term Investment</b>             | 9,310              | 9,310               |
| <b>0.0%</b>          | <b>U.S. Treasury Obligation</b>          | 199                | 199                 |
| <b>101.4%</b>        | <b>Total Investments</b>                 | <b>468,965</b>     | <b>449,973</b>      |
| <b>(1.4)%</b>        | <b>Other Assets and Liabilities, Net</b> |                    | (6,331)             |
| <b>100.0%</b>        | <b>Total Net Assets</b>                  |                    | <b>443,642</b>      |

Security and Number of Shares Value  
(\$ x 1,000)

**Common Stock** 99.3% of net assets

**Banks 4.1%**

|                     |        |       |
|---------------------|--------|-------|
| City National Corp. | 69,300 | 4,887 |
| Comerica, Inc.      | 83,800 | 4,798 |

| Security and Number of Shares |         | Value<br>(\$ x 1,000) |
|-------------------------------|---------|-----------------------|
| Countrywide Financial Corp.   | 119,800 | 4,335                 |
| Wachovia Corp.                | 80,100  | 4,099                 |
|                               |         | <b>18,119</b>         |

**Capital Goods 7.6%**

|                                 |         |               |
|---------------------------------|---------|---------------|
| Ametek, Inc.                    | 120,100 | 4,548         |
| The Boeing Co.                  | 80,200  | 4,774         |
| Cooper Industries Ltd., Class A | 58,200  | 3,705         |
| ⑥ Lockheed Martin Corp.         | 81,100  | 4,943         |
| Precision Castparts Corp.       | 63,700  | 4,692         |
| Raytheon Co.                    | 107,600 | 4,047         |
| Rockwell Automation, Inc.       | 71,000  | 3,282         |
| W.W. Grainger, Inc.             | 66,000  | 3,649         |
|                                 |         | <b>33,640</b> |

**Commercial Services & Supplies 1.5%**

|  |         |              |
|--|---------|--------------|
| • Heidrick & Struggles International, Inc. | 109,000 | 2,819        |
| • Korn/Ferry International                 | 267,900 | 3,858        |
|  |         | <b>6,677</b> |

**Consumer Durables & Apparel 1.7%**

|                   |         |              |
|-------------------|---------|--------------|
| Eastman Kodak Co. | 149,500 | 3,738        |
| VF Corp.          | 69,200  | 3,916        |
|                   |         | <b>7,654</b> |

**Diversified Financials 6.9%**

|                                 |         |               |
|---------------------------------|---------|---------------|
| A.G. Edwards, Inc.              | 100,000 | 3,971         |
| American Express Co.            | 78,000  | 4,111         |
| • AmeriCredit Corp.             | 200,100 | 4,682         |
| Capital One Financial Corp.     | 67,800  | 4,806         |
| ▲ Franklin Resources, Inc.      | 70,300  | 4,828         |
| Mellon Financial Corp.          | 145,600 | 4,032         |
| Principal Financial Group, Inc. | 105,400 | 4,119         |
|                                 |         | <b>30,549</b> |

**Energy 7.1%**

|                                |         |       |
|--------------------------------|---------|-------|
| Burlington Resources, Inc.     | 100,100 | 4,866 |
| • CAL Dive International, Inc. | 103,200 | 4,590 |
| ChevronTexaco Corp.            | 91,700  | 4,768 |
| Exxon Mobil Corp.              | 84,700  | 4,830 |
| ▲ Lone Star Technologies, Inc. | 109,000 | 4,245 |

| Security and Number of Shares                    | Value<br>(\$ x 1,000) |
|--|-----------------------|
| Sunoco, Inc. 43,900                              | 4,358                 |
| • Transocean, Inc. 85,400                        | 3,960                 |
|  | <b>31,617</b>         |
| <b>Food Beverage &amp; Tobacco 6.7%</b>          |                       |
| Archer-Daniels-Midland Co. 188,900               | 3,398                 |
| Brown-Forman Corp., Class B 88,100               | 4,890                 |
| The Coca-Cola Co. 112,400                        | 4,883                 |
| Hormel Foods Corp. 140,300                       | 4,369                 |
| Kellogg Co. 100,000                              | 4,495                 |
| PepsiAmericas, Inc. 180,000                      | 4,444                 |
| UST, Inc. 76,000                                 | 3,481                 |
|  | <b>29,960</b>         |
| <b>Health Care Equipment &amp; Services 9.4%</b> |                       |
| ⑤ Aetna, Inc. 67,400                             | 4,945                 |
| Bausch & Lomb, Inc. 51,100                       | 3,833                 |
| Becton Dickinson & Co. 79,500                    | 4,652                 |
| ⑨ CIGNA Corp. 53,300                             | 4,903                 |
| • ② Genesis HealthCare Corp. 126,100             | 5,031                 |
| • ⑩ Haemonetics Corp. 114,600                    | 4,901                 |
| • Medco Health Solutions, Inc. 79,500            | 4,052                 |
| PerkinElmer, Inc. 243,500                        | 4,505                 |
| ⑦ UnitedHealth Group, Inc. 52,300                | 4,943                 |
|  | <b>41,765</b>         |
| <b>Hotels Restaurants &amp; Leisure 1.9%</b>     |                       |
| Ameristar Casinos, Inc. 78,000                   | 3,845                 |
| Darden Restaurants, Inc. 159,900                 | 4,797                 |
|  | <b>8,642</b>          |
| <b>Household &amp; Personal Products 1.9%</b>    |                       |
| Clorox Co. 63,000                                | 3,988                 |
| Kimberly-Clark Corp. 68,300                      | 4,265                 |
|  | <b>8,253</b>          |
| <b>Insurance 9.1%</b>                            |                       |
| ▲ ① AFLAC, Inc. 125,800                          | 5,114                 |
| • Allmerica Financial Corp. 121,000              | 4,062                 |
| Chubb Corp. 53,300                               | 4,359                 |
| Hartford Financial Services Group, Inc. 58,400   | 4,226                 |
| Loews Corp. 65,300                               | 4,628                 |

| Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|
| Metlife, Inc. 118,800                                    | 4,621                 |
| Nationwide Financial Services, Inc., Class A 125,400     | 4,443                 |
| Prudential Financial, Inc. 72,300                        | 4,132                 |
| W.R. Berkley Corp. 149,800                               | 4,869                 |
|  | <b>40,454</b>         |
| <b>Materials 6.2%</b>                                    |                       |
| ▲ • Crown Holdings, Inc. 312,400                         | 4,702                 |
| The Dow Chemical Co. 85,000                              | 3,904                 |
| Eastman Chemical Co. 87,300                              | 4,714                 |
| Martin Marietta Materials, Inc. 86,600                   | 4,762                 |
| PPG Industries, Inc. 70,700                              | 4,776                 |
| Rohm & Haas Co. 103,100                                  | 4,501                 |
|  | <b>27,359</b>         |
| <b>Media 1.8%</b>  |                       |
| • Getty Images, Inc. 60,400                              | 4,322                 |
| • Time Warner, Inc. 232,200                              | 3,903                 |
|  | <b>8,225</b>          |
| <b>Pharmaceuticals &amp; Biotechnology 4.1%</b>          |                       |
| ④ Applied Biosystems Group –<br>Applera Corp. 234,800    | 4,978                 |
| • Invitrogen Corp. 59,000                                | 4,323                 |
| Johnson & Johnson 65,500                                 | 4,495                 |
| Merck & Co., Inc. 129,800                                | 4,400                 |
|  | <b>18,196</b>         |
| <b>Retailing 5.4%</b>                                    |                       |
| American Eagle Outfitters, Inc. 183,400                  | 4,809                 |
| J.C. Penney Co., Inc. Holding Co. 101,700                | 4,822                 |
| Michaels Stores, Inc. 142,100                            | 4,718                 |
| Nordstrom, Inc. 89,400                                   | 4,544                 |
| • ⑧ Payless Shoesource, Inc. 360,800                     | 4,928                 |
|  | <b>23,821</b>         |
| <b>Semiconductors &amp; Semiconductor Equipment 2.0%</b> |                       |
| ▲ Intel Corp. 205,000                                    | 4,822                 |
| • Photronics, Inc. 246,000                               | 3,911                 |
|  | <b>8,733</b>          |

**Portfolio Holdings** continued

| Security and Number of Shares                        | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Software &amp; Services 9.7%</b>                  |                       |
| Autodesk, Inc. 145,800                               | 4,641                 |
| • BEA Systems, Inc. 550,000                          | 3,795                 |
| ▲ Compuware Corp. 653,700                            | 3,890                 |
| • Earthlink, Inc. 542,900                            | 4,984                 |
| Fair Isaac Corp. 119,000                             | 3,913                 |
| • Oracle Corp. 343,200                               | 3,967                 |
| The Reynolds & Reynolds Co.,<br>Class A 165,500      | 4,364                 |
| • Sybase, Inc. 239,100                               | 4,526                 |
| • Synopsys, Inc. 278,800                             | 4,583                 |
| • United Online, Inc. 485,800                        | 4,270                 |
|  | <b>42,933</b>         |
| <b>Technology Hardware &amp; Equipment 5.9%</b>      |                       |
| • Apple Computer, Inc. 109,100                       | 3,934                 |
| ▲ Emulex Corp. 310,000                               | 4,814                 |
| Inter-Tel, Inc. 167,000                              | 3,180                 |
| • NCR Corp. 142,700                                  | 4,709                 |
| Scientific-Atlanta, Inc. 153,100                     | 4,682                 |
| • Xerox Corp. 354,600                                | 4,699                 |
|  | <b>26,018</b>         |
| <b>Telecommunication Services 1.0%</b>               |                       |
| • Commonwealth Telephone<br>Enterprises, Inc. 99,600 | <b>4,627</b>          |
| <b>Transportation 2.2%</b>                           |                       |
| CNF, Inc. 112,800                                    | 4,822                 |
| CSX Corp. 119,900                                    | 4,812                 |
|  | <b>9,634</b>          |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
| <b>Utilities 3.1%</b>         |                       |
| • The AES Corp. 264,500       | 4,253                 |
| Duke Energy Corp. 166,800     | 4,869                 |
| PPL Corp. 82,300              | 4,466                 |
|                               | <b>13,588</b>         |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short-Term Investment**

2.1% of net assets

Wachovia Bank, Grand Cayman  
Time Deposit

|                 |       |              |
|-----------------|-------|--------------|
| 2.36%, 05/02/05 | 9,310 | <b>9,310</b> |
|-----------------|-------|--------------|

**U.S. Treasury Obligation**

0.0% of net assets

|                      |     |            |
|----------------------|-----|------------|
| ▲ U.S. Treasury Bill |     |            |
| 2.76%, 06/16/05      | 200 | <b>199</b> |

**End of investments.**

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

| <b>Futures Contracts</b>                        |                        |                   |                      |
|---|------------------------|-------------------|----------------------|
|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
| S&P 500 Index, e-mini, Long<br>Expires 06/17/05 | 50                     | 2,896             | <b>(49)</b>          |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                              |                |
|------------------------------|----------------|
| Investments, at value        | \$449,973      |
| Receivables:                 |                |
| Fund shares sold             | 1,442          |
| Interest                     | 1              |
| Dividends                    | 126            |
| Due from brokers for futures | 39             |
| Reimbursement from adviser   | 19             |
| Prepaid expenses             | + 68           |
| <b>Total assets</b>          | <b>451,668</b> |

**Liabilities**

|                          |              |
|--------------------------|--------------|
| Payables:                |              |
| Fund shares redeemed     | 402          |
| Investments bought       | 7,604        |
| Accrued expenses         | + 20         |
| <b>Total liabilities</b> | <b>8,026</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 451,668          |
| <b>Total liabilities</b> | – 8,026          |
| <b>Net assets</b>        | <b>\$443,642</b> |

**Net Assets by Source**

|   |          |
|---|----------|
| Capital received from investors           | 463,148  |
| Net investment income not yet distributed | 526      |
| Net realized capital losses               | (991)    |
| Net unrealized capital losses             | (19,041) |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV    |
|-----------------|------------|---|--------------------|---|--------|
| Investor Shares | \$186,378  |   | 19,551             |   | \$9.53 |
| Select Shares   | \$257,264  |   | 26,987             |   | \$9.53 |

Unless stated, all numbers x 1,000.

The fund paid \$468,965 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$466,992 |
| Sales/maturities | \$6,545   |

The fund's total security transactions with other Schwab Funds® during the period were \$19,928.

These derive from investments and futures.

**Federal Tax Data**

|   |                   |
|---|-------------------|
| <b>Portfolio cost</b>                   | \$468,965         |
| <b>Net unrealized gains and losses:</b> |                   |
| Gains                                   | \$6,239           |
| Losses                                  | + (25,231)        |
|   | <b>(\$18,992)</b> |

## Statement of

**Operations**

For March 21, 2005 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |            |
|--------------------------------|------------|
| Dividends                      | \$454      |
| Interest                       | + 72       |
| <b>Total investment income</b> | <b>526</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized losses on investments sold | <b>(991)</b> |
|---|--------------|

**Net Unrealized Gains and Losses**

|  |                 |
|--|-----------------|
| Net unrealized losses on investments       | (18,992)        |
| Net unrealized losses on futures contracts | + (49)          |
| <b>Net unrealized losses</b>               | <b>(19,041)</b> |

**Expenses**

|   |          |
|---|----------|
| Investment adviser and administrator fees   | 411      |
| Transfer agent and shareholder service fees |          |
| Investor Shares                             | 46       |
| Select Shares                               | 27       |
| Trustees' fees                              | 1        |
| Custodian fees                              | 3        |
| Portfolio accounting fees                   | 8        |
| Professional fees                           | 3        |
| Registration fees                           | 6        |
| Shareholder reports                         | + 4      |
| Total expenses                              | 509      |
| Expense reduction                           | - 509    |
| <b>Net expenses</b>                         | <b>-</b> |

**Decrease in Net Assets from Operations**

|   |                   |
|---|-------------------|
| <b>Total investment income</b>                | <b>526</b>        |
| <b>Net expenses</b>                           | <b>-</b>          |
| <b>Net investment income</b>                  | <b>526</b>        |
| <b>Net realized losses</b>                    | <b>(991)</b>      |
| <b>Net unrealized losses</b>                  | <b>+ (19,041)</b> |
| <b>Decrease in net assets from operations</b> | <b>(\$19,506)</b> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.91% of the first \$500 million; 0.885% of the next \$500 million; and 0.86% 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.

Includes \$411 from the investment adviser (CSIM) and \$73 from the transfer agent and shareholder service agent (Schwab). In addition, the total expenses reimbursed by the investment adviser was \$25. These reductions reflect a guarantee by CSIM and Schwab to limit the net operating expenses of this fund through June 30, 2005 at 0.00% for both Investor Shares and Select Shares. For the period July 1, 2005 through February 27, 2006, CSIM and Schwab have guaranteed to limit the annual operating expenses of this fund as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 1.30                                 |
| Select Shares      | 1.15                                 |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$20,032.

Statements of

**Changes in Net Assets**

For the current period only. Because the fund commenced operations on March 21, 2005, it has no prior report period. All numbers x 1,000. Figures for current period are unaudited.

**Operations**

|   | 3/21/05–4/30/05   |
|---|-------------------|
| Net investment income                         | \$526             |
| Net realized losses                           | (991)             |
| Net unrealized losses                         | + (19,041)        |
| <b>Decrease in net assets from operations</b> | <b>(\$19,506)</b> |

**Transactions in Fund Shares**

|  | 3/21/05–4/30/05 |                  |
|--|-----------------|------------------|
|  | SHARES          | VALUE            |
| <b>Shares Sold</b>                     |                 |                  |
| Investor Shares                        | 19,737          | \$196,173        |
| Select Shares                          | + 27,217        | 270,963          |
| <b>Total shares sold</b>               | <b>46,954</b>   | <b>\$467,136</b> |
| <b>Shares Redeemed</b>                 |                 |                  |
| Investor Shares                        | (186)           | (\$1,788)        |
| Select Shares                          | + (230)         | (2,200)          |
| <b>Total shares redeemed</b>           | <b>(416)</b>    | <b>(\$3,988)</b> |
| <b>Net transactions in fund shares</b> | <b>46,538</b>   | <b>\$463,148</b> |

**Shares Outstanding and Net Assets**

|                      | 3/21/05–4/30/05 |                  |
|----------------------|-----------------|------------------|
|                      | SHARES          | NET ASSETS       |
| Beginning of period  | —               | \$—              |
| Total increase       | + 46,538        | 443,642          |
| <b>End of period</b> | <b>46,538</b>   | <b>\$443,642</b> |

Unless stated, all numbers x 1,000.

The fund charges 2.00% of early withdrawal fees on shares redeemed 30 days or less after the purchase:

|                 | Current period |
|-----------------|----------------|
| Investor Shares | \$9            |
| Select Shares   | + 11           |
| <b>Total</b>    | <b>\$20</b>    |

Dollar amounts are net of the redemption proceeds.

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 distributable net investment income in the amount of \$526.

# Schwab Core Equity Fund™

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>04/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 11/1/99–<br>10/31/00 |
|---|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)<sup>1</sup></b>          |                       |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 13.81                 | 12.71                | 10.89                | 12.53                | 18.53                | 18.91                |
| Income or loss from investment operations:      |                       |                      |                      |                      |                      |                      |
| Net investment income                           | 0.10                  | 0.12                 | 0.10                 | 0.08                 | 0.08                 | 0.05                 |
| Net realized and unrealized gains or losses     | 0.93                  | 1.09                 | 1.79                 | (1.64)               | (4.57)               | 1.08                 |
| Total income or loss from investment operations | 1.03                  | 1.21                 | 1.89                 | (1.56)               | (4.49)               | 1.13                 |
| Less distributions:                             |                       |                      |                      |                      |                      |                      |
| Dividends from net investment income            | (0.16)                | (0.11)               | (0.07)               | (0.08)               | (0.07)               | (0.04)               |
| Distributions from net realized gains           | –                     | –                    | –                    | –                    | (1.44)               | (1.47)               |
| Total distributions                             | (0.16)                | (0.11)               | (0.07)               | (0.08)               | (1.51)               | (1.51)               |
| Net asset value at end of period                | 14.68                 | 13.81                | 12.71                | 10.89                | 12.53                | 18.53                |
| Total return (%)                                | 7.47 <sup>2</sup>     | 9.57                 | 17.54                | (12.58)              | (25.93)              | 5.75                 |
| <b>Ratios/Supplemental Data (%)<sup>1</sup></b> |                       |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                       |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.75 <sup>4</sup>     | 0.75                 | 0.75                 | 0.75                 | 0.75                 | 0.76 <sup>3</sup>    |
| Gross operating expenses                        | 0.85 <sup>4</sup>     | 0.88                 | 0.88                 | 0.91                 | 0.88                 | 0.87                 |
| Net investment income                           | 1.48 <sup>4</sup>     | 0.89                 | 0.94                 | 0.63                 | 0.55                 | 0.29                 |
| Portfolio turnover rate                         | 26 <sup>2</sup>       | 86                   | 73                   | 114                  | 106                  | 96                   |
| Net assets, end of period (\$ x 1,000,000)      | 332                   | 263                  | 237                  | 179                  | 210                  | 342                  |

\* Unaudited.

<sup>1</sup> Prior to June 1, 2002, the fund's day-to-day investment management was handled by a subadviser, Symphony Asset Management LLC.

<sup>2</sup> Not annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.75% if certain non-routine expenses (proxy fees) had not been included.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**1** Top ten holding

- Non-income producing security
- ▲ All or a portion of this security is held as collateral for open futures contracts
- All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>97.8%</b>         | <b>Common Stock</b>                               | 291,069            | 324,555             |
| <b>1.4%</b>          | <b>Short-Term Investment</b>                      | 4,632              | 4,632               |
| <b>0.1%</b>          | <b>U.S. Treasury Obligation</b>                   | 274                | 274                 |
| <b>99.3%</b>         | <b>Total Investments</b>                          | <b>295,975</b>     | <b>329,461</b>      |
| <b>4.7%</b>          | <b>Collateral Invested for Securities on Loan</b> | 15,521             | 15,521              |
| <b>(4.0)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (13,335)            |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>331,647</b>      |

|                               |                       |
|-------------------------------|-----------------------|
| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|

**Common Stock** 97.8% of net assets

**Automobiles & Components 0.3%**

|                  |         |       |
|------------------|---------|-------|
| ■ Ford Motor Co. | 120,300 | 1,096 |
|------------------|---------|-------|

|                               |                       |
|-------------------------------|-----------------------|
| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|

**Banks 3.7%**

|                     |         |        |
|---------------------|---------|--------|
| ⑧ UnionBanCal Corp. | 197,600 | 12,164 |
|---------------------|---------|--------|

**Capital Goods 9.2%**

|                                   |         |               |
|-----------------------------------|---------|---------------|
| ② The Boeing Co.                  | 281,200 | 16,737        |
| ▲ Cooper Industries Ltd., Class A | 9,000   | 573           |
| ▲ Emerson Electric Co.            | 88,800  | 5,565         |
| Goodrich Corp.                    | 25,500  | 1,028         |
| ▲ Lockheed Martin Corp.           | 20,000  | 1,219         |
| ▲ Raytheon Co.                    | 80,000  | 3,009         |
| ▲ Rockwell Automation, Inc.       | 34,000  | 1,572         |
| Textron, Inc.                     | 1,300   | 98            |
| ▲ W.W. Grainger, Inc.             | 16,000  | 884           |
|                                   |         | <b>30,685</b> |

**Commercial Services & Supplies 0.0%**

|                          |       |     |
|--------------------------|-------|-----|
| • Dun & Bradstreet Corp. | 2,900 | 181 |
|--------------------------|-------|-----|

**Consumer Durables & Apparel 1.4%**

|                      |        |              |
|----------------------|--------|--------------|
| Black & Decker Corp. | 24,900 | 2,082        |
| Nike, Inc., Class B  | 32,900 | 2,527        |
|                      |        | <b>4,609</b> |

**Diversified Financials 6.4%**

|                                 |         |               |
|---------------------------------|---------|---------------|
| ⑤ Franklin Resources, Inc.      | 202,600 | 13,914        |
| Moody's Corp.                   | 27,400  | 2,251         |
| ▲ Northern Trust Corp.          | 17,500  | 788           |
| Principal Financial Group, Inc. | 115,000 | 4,494         |
|                                 |         | <b>21,447</b> |

**Energy 7.6%**

|                            |         |               |
|----------------------------|---------|---------------|
| Burlington Resources, Inc. | 90,500  | 4,399         |
| ChevronTexaco Corp.        | 92,000  | 4,784         |
| ③ Exxon Mobil Corp.        | 279,600 | 15,946        |
|                            |         | <b>25,129</b> |

**Food & Staples Retailing 0.1%**

|                  |         |     |
|------------------|---------|-----|
| ▲ Rite Aid Corp. | 103,000 | 374 |
|------------------|---------|-----|

Portfolio Holdings continued

| Security and Number of Shares                        | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <b>Food Beverage &amp; Tobacco 4.5%</b>              |                       | <b>Media 4.4%</b>  |                       |
| ■ Archer-Daniels-Midland Co. 15,000                  | 270                   | • Gemstar — TV Guide International, Inc. 990,000         | 3,812                 |
| Kellogg Co. 26,700                                   | 1,200                 | The McGraw-Hill Cos., Inc. 19,100                        | 1,663                 |
| ⑥ UST, Inc. 293,200                                  | 13,429                | ▲•⑩ Time Warner, Inc. 538,250                            | 9,048                 |
|  | <b>14,899</b>         |  | <b>14,523</b>         |
| <b>Health Care Equipment &amp; Services 8.9%</b>     |                       | <b>Pharmaceuticals &amp; Biotechnology 5.5%</b>          |                       |
| ▲ Aetna, Inc. 50,000                                 | 3,668                 | ▲ Applied Biosystems Group — Applera Corp. 13,500        | 286                   |
| Becton Dickinson & Co. 122,300                       | 7,157                 | • Invitrogen Corp. 15,000                                | 1,099                 |
| • Coventry Health Care, Inc. 60,450                  | 4,137                 | ▲④ Johnson & Johnson 228,600                             | 15,689                |
| • Pacificare Health Systems, Inc. 51,400             | 3,072                 | • Kos Pharmaceuticals, Inc. 23,000                       | 1,108                 |
| PerkinElmer, Inc. 65,000                             | 1,202                 |  | <b>18,182</b>         |
| ■⑨ UnitedHealth Group, Inc. 108,414                  | 10,246                |  |                       |
|  | <b>29,482</b>         |  |                       |
| <b>Hotels Restaurants &amp; Leisure 1.4%</b>         |                       | <b>Retailing 1.8%</b>                                    |                       |
| ■• Caesars Entertainment, Inc. 37,000                | 738                   | ■ Circuit City Stores, Inc. 195,000                      | 3,081                 |
| Darden Restaurants, Inc. 15,000                      | 450                   | J.C. Penney Co., Inc. Holding Co. 60,000                 | 2,845                 |
| McDonald's Corp. 94,500                              | 2,770                 |  | <b>5,926</b>          |
| ▲ Yum! Brands, Inc. 14,000                           | 657                   |  |                       |
|  | <b>4,615</b>          |  |                       |
| <b>Household &amp; Personal Products 1.1%</b>        |                       | <b>Semiconductors &amp; Semiconductor Equipment 5.1%</b> |                       |
| ▲ The Gillette Co. 70,000                            | <b>3,615</b>          | ① Intel Corp. 718,000                                    | <b>16,887</b>         |
| <b>Insurance 8.1%</b>                                |                       | <b>Software &amp; Services 6.1%</b>                      |                       |
| ▲ AFLAC, Inc. 126,900                                | 5,159                 | Adobe Systems, Inc. 15,000                               | 892                   |
| ■• Allmerica Financial Corp. 14,000                  | 470                   | ▲ Autodesk, Inc. 79,000                                  | 2,515                 |
| AmerUs Group Co. 20,000                              | 940                   | ▲• Checkfree Corp. 16,000                                | 587                   |
| Chubb Corp. 28,100                                   | 2,298                 | ▲• Citrix Systems, Inc. 26,500                           | 596                   |
| ■• CNA Financial Corp. 48,500                        | 1,331                 | Computer Associates International, Inc. 56,100           | 1,509                 |
| Loews Corp. 5,000                                    | 354                   | • Compuware Corp. 155,000                                | 922                   |
| ▲⑦ Metlife, Inc. 315,500                             | 12,273                | Electronic Data Systems Corp. 80,200                     | 1,552                 |
| ▲ Nationwide Financial Services, Inc., Class A 5,000 | 177                   | ▲• Intuit, Inc. 35,000                                   | 1,411                 |
| Prudential Financial, Inc. 28,500                    | 1,629                 | • McAfee, Inc. 53,000                                    | 1,108                 |
| W.R. Berkley Corp. 67,500                            | 2,194                 | ▲ Microsoft Corp. 50,000                                 | 1,265                 |
|  | <b>26,825</b>         | • Oracle Corp. 213,500                                   | 2,468                 |
|  |                       | The Reynolds & Reynolds Co., Class A 65,000              | 1,714                 |
| <b>Materials 5.5%</b>                                |                       | ■• Sybase, Inc. 62,200                                   | 1,177                 |
| ▲ The Dow Chemical Co. 83,600                        | 3,839                 | ▲• Synopsys, Inc. 152,500                                | 2,507                 |
| PPG Industries, Inc. 115,600                         | 7,809                 |  | <b>20,223</b>         |
| Weyerhaeuser Co. 95,000                              | 6,518                 |  |                       |
|  | <b>18,166</b>         |  |                       |

| Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Technology Hardware &amp; Equipment 6.6%</b> |                       |
| • Apple Computer, Inc. 111,800                  | 4,032                 |
| • Avaya, Inc. 395,100                           | 3,429                 |
| International Business Machines Corp. 28,000    | 2,139                 |
| Motorola, Inc. 266,900                          | 4,094                 |
| • NCR Corp. 126,000                             | 4,158                 |
| ▲ Xerox Corp. 299,900                           | 3,974                 |
|   | <b>21,826</b>         |

**Telecommunication Services 3.7%**

|                                      |               |
|--------------------------------------|---------------|
| ■ Alltel Corp. 3,500                 | 200           |
| AT&T Corp. 58,020                    | 1,110         |
| BellSouth Corp. 81,500               | 2,159         |
| SBC Communications, Inc. 112,200     | 2,670         |
| Verizon Communications, Inc. 177,400 | 6,351         |
|                                      | <b>12,490</b> |

**Transportation 3.0%**

|                      |              |
|----------------------|--------------|
| ■▲ CNF, Inc. 113,500 | 4,852        |
| CSX Corp. 125,000    | 5,016        |
|                      | <b>9,868</b> |

**Utilities 3.4%**

|                               |               |
|-------------------------------|---------------|
| • The AES Corp. 556,900       | 8,955         |
| ▲ Duke Energy Corp. 9,000     | 263           |
| ▲ Edison International 36,800 | 1,336         |
| ▲ TXU Corp. 9,200             | 789           |
|                               | <b>11,343</b> |

**Short-Term Investment**  
 1.4% of net assets

|  |              |
|--|--------------|
| Provident Institutional TempFund 4,631,570 | <b>4,632</b> |
|--|--------------|

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**U.S. Treasury Obligation**  
 0.1% of net assets

|                      |     |            |
|----------------------|-----|------------|
| ▲ U.S. Treasury Bill |     |            |
| 2.75%, 06/16/05      | 275 | <b>274</b> |

**End of investments.**
**Collateral Invested for Securities on Loan**  
 4.7% of net assets
**Commercial Paper & Other Corporate Obligations 2.6%**

|                         |       |              |
|-------------------------|-------|--------------|
| Bank of America Corp.   |       |              |
| 2.80%, 05/02/05         | 195   | 195          |
| Skandinav Enskilda Bank |       |              |
| 2.94%, 05/17/05         | 8,316 | 8,316        |
|                         |       | <b>8,511</b> |

**Security and Number of Shares****Short-Term Investments 2.1%**

|                                  |  |       |
|----------------------------------|--|-------|
| Institutional Money Market Trust |  |       |
| 6,692,830                        |  | 6,693 |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |              |
|---------------------------------|-----------------------------|--------------|
| KBC Bank, Time Deposit          |                             |              |
| 2.95%, 05/02/05                 | 317                         | 317          |
|                                 |                             | <b>7,010</b> |

**End of collateral invested for securities on loan.**

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

**Futures Contracts**

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|---|------------------------|-------------------|----------------------|
| S&P 500 Index, e-mini, Long<br>Expires 06/17/05 | 53                     | 3,070             | <b>(72)</b>          |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|   |                |
|---|----------------|
| Investments, at value<br>(including \$15,219 of securities on loan) | \$329,461      |
| Collateral invested for securities on loan                          | 15,521         |
| Receivables:  |                |
| Fund shares sold  | 2,068          |
| Interest  | 14             |
| Dividends   | 204            |
| Due from brokers for futures  | 41             |
| Income from securities on loan                                      | 1              |
| Prepaid expenses  | + 24           |
| <b>Total assets</b>   | <b>347,334</b> |

**Liabilities**

|   |               |
|---|---------------|
| Collateral invested for securities on loan  | 15,521        |
| Payables:                                   |               |
| Fund shares redeemed                        | 89            |
| Investment adviser and administrator fees   | 12            |
| Transfer agent and shareholder service fees | 7             |
| Accrued expenses                            | + 58          |
| <b>Total liabilities</b>                    | <b>15,687</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 347,334          |
| <b>Total liabilities</b> | - 15,687         |
| <b>Net assets</b>        | <b>\$331,647</b> |

**Net Assets by Source**

|   |         |
|---|---------|
| Capital received from investors           | 303,230 |
| Net investment income not yet distributed | 948     |
| Net realized capital losses               | (5,945) |
| Net unrealized capital gains              | 33,414  |

**Net Asset Value (NAV)**

|                   |   |                           |   |            |
|-------------------|---|---------------------------|---|------------|
| <b>Net Assets</b> | ÷ | <b>Shares Outstanding</b> | = | <b>NAV</b> |
| \$331,647         |   | 22,589                    |   | \$14.68    |

Unless stated, all numbers x 1,000.

The fund paid \$295,975 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$127,321 |
| Sales/maturities | \$77,872  |

These derive from investments and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio cost</b>                   | \$296,067       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$43,056        |
| Losses                                  | + (9,662)       |
|   | <b>\$33,394</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$1,867 |
| Long-term capital gains | \$-     |

**Capital losses utilized** \$28,106**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2010              | \$7,255         |
| 2011              | + 11,171        |
|                   | <b>\$18,426</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |              |
|--------------------------------|--------------|
| Dividends                      | \$3,246      |
| Interest                       | 53           |
| Securities on loan             | + 7          |
| <b>Total investment income</b> | <b>3,306</b> |

**Net Realized Gains and Losses**

|   |               |
|---|---------------|
| Net realized gains on investments       | 12,411        |
| Net realized gains on futures contracts | + 226         |
| <b>Net realized gains</b>               | <b>12,637</b> |

**Net Unrealized Gains and Losses**

|  |              |
|--|--------------|
| Net unrealized gains on investments        | 3,771        |
| Net unrealized losses on futures contracts | + (98)       |
| <b>Net unrealized gains</b>                | <b>3,673</b> |

**Expenses**

|   |              |
|---|--------------|
| Investment adviser and administrator fees   | 802          |
| Transfer agent and shareholder service fees | 371          |
| Trustees' fees                              | 4            |
| Custodian fees                              | 16           |
| Portfolio accounting fees                   | 19           |
| Professional fees                           | 12           |
| Registration fees                           | 11           |
| Shareholder reports                         | 32           |
| Other expenses                              | + 3          |
| Total expenses                              | 1,270        |
| Expense reduction                           | - 157        |
| <b>Net expenses</b>                         | <b>1,113</b> |

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | <b>3,306</b>    |
| <b>Net expenses</b>                           | <b>- 1,113</b>  |
| <b>Net investment income</b>                  | <b>2,193</b>    |
| <b>Net realized gains</b>                     | <b>12,637</b>   |
| <b>Net unrealized gains</b>                   | <b>+ 3,673</b>  |
| <b>Increase in net assets from operations</b> | <b>\$18,503</b> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.54% of the first \$500 million and 0.49% 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 operating expenses of this fund through February 27, 2006, to 0.75% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$16,310.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$2,193         | \$2,298          |
| Net realized gains                            | 12,637          | 27,990           |
| Net unrealized gains or losses                | + 3,673         | (7,414)          |
| <b>Increase in net assets from operations</b> | <b>18,503</b>   | <b>22,874</b>    |

**Distributions Paid**

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | <b>\$3,112</b> | <b>\$2,074</b> |
|--------------------------------------|----------------|----------------|

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                 | 11/1/03-10/31/04 |                |
|--|-----------------|-----------------|------------------|----------------|
|  | SHARES          | VALUE           | SHARES           | VALUE          |
| Shares sold                            | 5,659           | \$84,655        | 4,444            | \$59,997       |
| Shares reinvested                      | 184             | 2,745           | 144              | 1,891          |
| Shares redeemed                        | + (2,277)       | (33,927)        | (4,213)          | (56,963)       |
| <b>Net transactions in fund shares</b> | <b>3,566</b>    | <b>\$53,473</b> | <b>375</b>       | <b>\$4,925</b> |

**Shares Outstanding and Net Assets**

|                      | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                  |
|----------------------|-----------------|------------------|------------------|------------------|
|                      | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period  | 19,023          | \$262,783        | 18,648           | \$237,058        |
| Total increase       | + 3,566         | 68,864           | 375              | 25,725           |
| <b>End of period</b> | <b>22,589</b>   | <b>\$331,647</b> | <b>19,023</b>    | <b>\$262,783</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$2,074 |
| Long-term capital gains | \$-     |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$948 and \$1,867 at the end of the current period and prior period, respectively.

# Schwab Dividend Equity Fund™

## Financial Statements

### Financial Highlights

| Investor Shares                            | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 9/2/03¹–<br>10/31/03 |
|--|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                 |                      |                      |                      |
| Net asset value at beginning of period     | 12.06                | 10.60                | 10.00                |
| Income from investment operations:         |                      |                      |                      |
| Net investment income                      | 0.15                 | 0.29                 | 0.05                 |
| Net realized and unrealized gains          | 0.62                 | 1.49                 | 0.55                 |
| Total income from investment operations    | 0.77                 | 1.78                 | 0.60                 |
| Less distributions:                        |                      |                      |                      |
| Dividends from net investment income       | (0.12)               | (0.32)               | —                    |
| Distributions from net realized gains      | (0.19)               | —                    | —                    |
| Total distributions                        | (0.31)               | (0.32)               | —                    |
| Net asset value at end of period           | 12.52                | 12.06                | 10.60                |
| Total return (%)                           | 6.42²                | 17.00                | 6.00²                |
| <b>Ratios/Supplemental Data (%)</b>        |                      |                      |                      |
| Ratios to average net assets:              |                      |                      |                      |
| Net operating expenses                     | 1.09³                | 0.65                 | —                    |
| Gross operating expenses                   | 1.12³                | 1.19                 | 1.34³                |
| Net investment income                      | 2.58³                | 2.71                 | 3.41³                |
| Portfolio turnover rate                    | 12²                  | 39                   | 2²                   |
| Net assets, end of period (\$ x 1,000,000) | 432                  | 267                  | 94                   |

\* Unaudited.

¹ Commencement of operations.

² Not annualized.

³ Annualized.

| Select Shares                              | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 9/2/03¹–<br>10/31/03 |
|--|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                 |                      |                      |                      |
| Net asset value at beginning of period     | 12.06                | 10.60                | 10.00                |
| Income from investment operations:         |                      |                      |                      |
| Net investment income                      | 0.15                 | 0.31                 | 0.05                 |
| Net realized and unrealized gains          | 0.63                 | 1.48                 | 0.55                 |
| Total income from investment operations    | 0.78                 | 1.79                 | 0.60                 |
| Less distributions:                        |                      |                      |                      |
| Dividends from net investment income       | (0.13)               | (0.33)               | —                    |
| Distributions from net realized gains      | (0.19)               | —                    | —                    |
| Total distributions                        | (0.32)               | (0.33)               | —                    |
| Net asset value at end of period           | 12.52                | 12.06                | 10.60                |
| Total return (%)                           | 6.52²                | 17.07                | 6.00²                |
| <b>Ratios/Supplemental Data (%)</b>        |                      |                      |                      |
| Ratios to average net assets:              |                      |                      |                      |
| Net operating expenses                     | 0.94³                | 0.54                 | —                    |
| Gross operating expenses                   | 0.97³                | 1.04                 | 1.19³                |
| Net investment income                      | 2.73³                | 2.83                 | 3.41³                |
| Portfolio turnover rate                    | 12²                  | 39                   | 2²                   |
| Net assets, end of period (\$ x 1,000,000) | 395                  | 252                  | 111                  |

\* Unaudited.

¹ Commencement of operations.

² Not annualized.

³ Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

① Top ten holding

▲ All or a portion of this security is held as collateral for open futures contracts

| Holdings by Category |  | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|--|--------------------|---------------------|
| <b>98.7%</b>         | <b>Common Stock</b>                      | 753,652            | 815,820             |
| <b>0.9%</b>          | <b>Short-Term Investment</b>             | 7,515              | 7,515               |
| <b>0.0%</b>          | <b>U.S. Treasury Obligation</b>          | 149                | 150                 |
| <b>99.6%</b>         | <b>Total Investments</b>                 | <b>761,316</b>     | <b>823,485</b>      |
| <b>0.4%</b>          | <b>Other Assets and Liabilities, Net</b> |                    | 3,337               |
| <b>100.0%</b>        | <b>Total Net Assets</b>                  |                    | <b>826,822</b>      |

Security and Number of Shares Value  
(\$ x 1,000)

**Common Stock** 98.7% of net assets

**Automobiles & Components 0.6%**

Ford Motor Co. 555,200 5,058

Security and Number of Shares Value  
(\$ x 1,000)

**Banks 12.0%**

|                                    |         |               |
|------------------------------------|---------|---------------|
| AmSouth Bancorp.                   | 207,900 | 5,472         |
| ▲ Bank of America Corp.            | 220,400 | 9,927         |
| ⑥ Comerica, Inc.                   | 177,500 | 10,164        |
| Huntington Bancshares, Inc.        | 163,000 | 3,832         |
| KeyCorp, Inc.                      | 297,500 | 9,865         |
| National City Corp.                | 191,400 | 6,500         |
| Peoples Bank-Bridgeport            | 135,000 | 5,607         |
| PNC Financial Services Group, Inc. | 187,400 | 9,975         |
| SunTrust Banks, Inc.               | 129,487 | 9,430         |
| ▲ U.S. Bancorp                     | 243,300 | 6,788         |
| UnionBanCal Corp.                  | 89,000  | 5,479         |
| Wachovia Corp.                     | 179,700 | 9,197         |
| Wells Fargo & Co.                  | 119,200 | 7,145         |
|                                    |         | <b>99,381</b> |

**Capital Goods 10.6%**

|                             |         |               |
|-----------------------------|---------|---------------|
| 3M Co.                      | 98,200  | 7,509         |
| ▲ The Boeing Co.            | 167,000 | 9,940         |
| Emerson Electric Co.        | 151,300 | 9,482         |
| GATX Corp.                  | 220,000 | 7,198         |
| ① Goodrich Corp.            | 258,000 | 10,397        |
| Harsco Corp.                | 87,200  | 4,678         |
| Hubbell, Inc., Class B      | 78,800  | 3,424         |
| Lockheed Martin Corp.       | 145,000 | 8,838         |
| Raytheon Co.                | 239,000 | 8,989         |
| ▲ Rockwell Automation, Inc. | 156,600 | 7,240         |
| Textron, Inc.               | 133,000 | 10,022        |
|                             |         | <b>87,717</b> |

**Commercial Services & Supplies 1.0%**

|                       |         |              |
|-----------------------|---------|--------------|
| Pitney Bowes, Inc.    | 140,700 | 6,292        |
| The ServiceMaster Co. | 167,800 | 2,153        |
|                       |         | <b>8,445</b> |

**Consumer Durables & Apparel 4.0%**

|                         |         |               |
|-------------------------|---------|---------------|
| Fortune Brands, Inc.    | 108,500 | 9,177         |
| Mattel, Inc.            | 160,000 | 2,888         |
| Newell Rubbermaid, Inc. | 369,000 | 8,018         |
| The Stanley Works       | 138,000 | 5,938         |
| VF Corp.                | 132,900 | 7,521         |
|                         |         | <b>33,542</b> |

## Portfolio Holdings continued

| Security and Number of Shares                    | Value<br>(\$ x 1,000) | Security and Number of Shares                            | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <b>Diversified Financials 2.3%</b>               |                       | <b>Insurance 6.8%</b>                                    |                       |
| A.G. Edwards, Inc. 35,000                        | 1,390                 | ③ The Allstate Corp. 183,200                             | 10,288                |
| ▲ JPMorgan Chase & Co. 268,584                   | 9,532                 | Arthur J. Gallagher & Co. 83,000                         | 2,311                 |
| Mellon Financial Corp. 283,000                   | 7,836                 | ② Chubb Corp. 126,000                                    | 10,304                |
|  | <b>18,758</b>         | Cincinnati Financial Corp. 109,982                       | 4,426                 |
| <b>Energy 7.6%</b>                               |                       | ▲ Fidelity National Financial, Inc. 211,000              | 6,775                 |
| ChevronTexaco Corp. 182,600                      | 9,495                 | Lincoln National Corp. 201,200                           | 9,048                 |
| ConocoPhillips 91,800                            | 9,625                 | Mercury General Corp. 82,100                             | 4,340                 |
| Exxon Mobil Corp. 164,800                        | 9,399                 | The St. Paul Travelers Cos., Inc. 160,000                | 5,728                 |
| Kerr-McGee Corp. 124,100                         | 9,630                 | Unitrin, Inc. 60,500                                     | 2,753                 |
| Kinder Morgan, Inc. 105,000                      | 8,028                 |  | <b>55,973</b>         |
| Marathon Oil Corp. 204,400                       | 9,519                 | <b>Materials 8.2%</b>                                    |                       |
| Unocal Corp. 130,000                             | 7,092                 | The Dow Chemical Co. 191,300                             | 8,787                 |
|  | <b>62,788</b>         | E.I. du Pont de Nemours & Co. 203,400                    | 9,582                 |
| <b>Food Beverage &amp; Tobacco 8.1%</b>          |                       | Eastman Chemical Co. 163,000                             | 8,802                 |
| Altria Group, Inc. 151,300                       | 9,833                 | International Paper Co. 135,000                          | 4,629                 |
| ④ The Coca-Cola Co. 235,000                      | 10,208                | MeadWestvaco Corp. 206,000                               | 6,067                 |
| ConAgra Foods, Inc. 110,000                      | 2,942                 | PPG Industries, Inc. 140,500                             | 9,491                 |
| General Mills, Inc. 179,000                      | 8,843                 | Rohm & Haas Co. 199,000                                  | 8,688                 |
| H.J. Heinz Co. 161,500                           | 5,951                 | Sonoco Products Co. 60,000                               | 1,625                 |
| Kellogg Co. 196,900                              | 8,851                 | ⑦ Weyerhaeuser Co. 147,000                               | 10,086                |
| ▲ Reynolds American, Inc. 95,000                 | 7,407                 |  | <b>67,757</b>         |
| Sara Lee Corp. 205,000                           | 4,385                 | <b>Media 0.6%</b>  |                       |
| ▲ UST, Inc. 185,500                              | 8,496                 | The McGraw-Hill Cos., Inc. 55,000                        | <b>4,789</b>          |
|  | <b>66,916</b>         | <b>Pharmaceuticals &amp; Biotechnology 5.0%</b>          |                       |
| <b>Health Care Equipment &amp; Services 1.7%</b> |                       | Abbott Laboratories 155,000                              | 7,620                 |
| Becton Dickinson & Co. 160,000                   | 9,363                 | Bristol-Myers Squibb Co. 311,200                         | 8,091                 |
| PerkinElmer, Inc. 250,500                        | 4,634                 | Johnson & Johnson 145,000                                | 9,951                 |
|  | <b>13,997</b>         | Merck & Co., Inc. 286,700                                | 9,719                 |
| <b>Household &amp; Personal Products 5.3%</b>    |                       | Pfizer, Inc. 220,000                                     | 5,978                 |
| Clorox Co. 151,500                               | 9,590                 |  | <b>41,359</b>         |
| Colgate-Palmolive Co. 150,000                    | 7,468                 | <b>Retailing 0.6%</b>                                    |                       |
| The Gillette Co. 170,000                         | 8,779                 | Genuine Parts Co. 111,000                                | <b>4,762</b>          |
| Kimberly-Clark Corp. 150,000                     | 9,367                 | <b>Semiconductors &amp; Semiconductor Equipment 1.2%</b> |                       |
| Procter & Gamble Co. 158,200                     | 8,567                 | Intel Corp. 421,000                                      | <b>9,902</b>          |
|  | <b>43,771</b>         |  |                       |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Software & Services 1.8%**

|   |               |
|---|---------------|
| Automatic Data Processing, Inc. 188,000 | 8,167         |
| Electronic Data Systems Corp. 360,000   | 6,966         |
|   | <b>15,133</b> |

**Technology Hardware & Equipment 1.9%**

|                             |               |
|-----------------------------|---------------|
| Hewlett-Packard Co. 445,000 | 9,109         |
| Motorola, Inc. 410,000      | 6,289         |
|                             | <b>15,398</b> |

**Telecommunication Services 6.9%**

|                                      |               |
|--------------------------------------|---------------|
| ▲ ⑧ Alltel Corp. 176,800             | 10,070        |
| AT&T Corp. 415,100                   | 7,941         |
| ⑩ BellSouth Corp. 379,600            | 10,056        |
| Citizens Communications Co. 465,000  | 5,929         |
| SBC Communications, Inc. 331,500     | 7,890         |
| Sprint Corp. (FON Group) 295,800     | 6,584         |
| Verizon Communications, Inc. 232,300 | 8,316         |
|                                      | <b>56,786</b> |

**Utilities 12.5%**

|   |        |
|---|--------|
| American Electric Power Co., Inc. 263,000 | 9,263  |
| Centerpoint Energy, Inc. 417,500          | 4,943  |
| Constellation Energy Group, Inc. 183,700  | 9,655  |
| ⑤ Duke Energy Corp. 344,814               | 10,065 |
| Duquesne Light Holdings, Inc. 120,000     | 2,111  |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

|                                     |                |
|-------------------------------------|----------------|
| Edison International 273,000        | 9,910          |
| Entergy Corp. 135,000               | 9,896          |
| Exelon Corp. 171,400                | 8,484          |
| ⑤ FirstEnergy Corp. 234,100         | 10,188         |
| National Fuel Gas Co. 139,300       | 3,793          |
| OGE Energy Corp. 149,200            | 4,118          |
| Pinnacle West Capital Corp. 118,000 | 4,944          |
| The Southern Co. 162,000            | 5,338          |
| UGI Corp. 119,800                   | 6,018          |
| Xcel Energy, Inc. 283,000           | 4,862          |
|                                     | <b>103,588</b> |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short-Term Investment**

0.9% of net assets

|   |       |              |
|---|-------|--------------|
| Bank of America, London Time Deposit<br>2.36%, 05/02/05 | 7,515 | <b>7,515</b> |
|---|-------|--------------|

**U.S. Treasury Obligation**

0.0% of net assets

|   |     |            |
|---|-----|------------|
| ▲ U.S. Treasury Bill<br>2.74%, 06/16/05 | 150 | <b>150</b> |
|---|-----|------------|

**End of investments.**

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

**Futures Contracts**

|   | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|---|------------------------|-------------------|----------------------|
| S&P 500 Index, e-mini, Long<br>expires 06/17/05 | 42                     | 2,433             | <b>(56)</b>          |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                              |                |
|------------------------------|----------------|
| Investments, at value        | \$823,485      |
| Receivables:                 |                |
| Fund shares sold             | 3,476          |
| Interest                     | 1              |
| Dividends                    | 1,492          |
| Due from brokers for futures | 32             |
| Prepaid expenses             | + 46           |
| <b>Total assets</b>          | <b>828,532</b> |

**Liabilities**

|   |              |
|---|--------------|
| Payables:                                   |              |
| Fund shares redeemed                        | 1,522        |
| Investment adviser and administrator fees   | 57           |
| Transfer agent and shareholder service fees | 12           |
| Accrued expenses                            | + 119        |
| <b>Total liabilities</b>                    | <b>1,710</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 828,532          |
| <b>Total liabilities</b> | - 1,710          |
| <b>Net assets</b>        | <b>\$826,822</b> |

**Net Assets by Source**

|   |         |
|---|---------|
| Capital received from investors           | 757,382 |
| Net investment income not yet distributed | 3,279   |
| Net realized capital gains                | 4,048   |
| Net unrealized capital gains              | 62,113  |

**Net asset value (NAV) by Share Class**

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$431,971  |   | 34,512             |   | \$12.52 |
| Select Shares   | \$394,851  |   | 31,548             |   | \$12.52 |

Unless stated, all numbers x 1,000.

The fund paid \$761,316 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$361,812 |
| Sales/maturities | \$82,341  |

These derive from investments and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio cost</b>                   | \$761,316       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$79,107        |
| Losses                                  | + (16,938)      |
|   | <b>\$62,169</b> |

**As of October 31, 2004:**

|                                    |              |
|------------------------------------|--------------|
| <b>Net undistributed earnings:</b> |              |
| Ordinary income                    | \$9,585      |
| Long-term capital gains            | \$707        |
| <b>Capital losses utilized</b>     | <b>\$268</b> |

## Statement of

## Operations

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

## Investment Income

|                                |               |
|--------------------------------|---------------|
| Dividends                      | \$12,354      |
| Interest                       | + 111         |
| <b>Total investment income</b> | <b>12,465</b> |

## Net Realized Gains and Losses

|  |              |
|--|--------------|
| Net realized gains on investments sold   | 4,049        |
| Net realized losses on futures contracts | + (1)        |
| <b>Net realized gains</b>                | <b>4,048</b> |

## Net Unrealized Gains and Losses

|  |               |
|--|---------------|
| Net unrealized gains on investments        | 20,642        |
| Net unrealized losses on futures contracts | + (56)        |
| <b>Net unrealized gains</b>                | <b>20,586</b> |

## Expenses

|  |              |
|--|--------------|
| Investment adviser and administrator fees    | 2,780        |
| Transfer agent and shareholder service fees: |              |
| Investor Shares                              | 444          |
| Select Shares                                | 162          |
| Trustees' fees                               | 5            |
| Custodian fees                               | 35           |
| Portfolio accounting fees                    | 51           |
| Professional fees                            | 15           |
| Registration fees                            | 38           |
| Shareholder reports                          | 42           |
| Other expenses                               | + 4          |
| Total expenses                               | 3,576        |
| Expense reduction                            | - 132        |
| <b>Net expenses</b>                          | <b>3,444</b> |

## Increase in Net Assets from Operations

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | <b>12,465</b>   |
| <b>Net expenses</b>                           | <b>- 3,444</b>  |
| <b>Net investment income</b>                  | <b>9,021</b>    |
| <b>Net realized gains</b>                     | <b>4,048</b>    |
| <b>Net unrealized gains</b>                   | <b>+ 20,586</b> |
| <b>Increase in net assets from operations</b> | <b>\$33,655</b> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.775% of the first \$500 million; 0.77% of the next \$500 million; and 0.76% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as 0.85% 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.

This reduction was made by the investment adviser (CSIM). This reduction reflects a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through February 27, 2006 as follows:

| Share Class     | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 1.10                          |
| Select Shares   | 0.95                          |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$24,634.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$9,021         | \$10,630         |
| Net realized gains                            | 4,048           | 9,619            |
| Net unrealized gains                          | + 20,586        | 31,897           |
| <b>Increase in net assets from operations</b> | <b>33,655</b>   | <b>52,146</b>    |

**Distributions paid****Dividends from net investment income**

|   |              |               |
|---|--------------|---------------|
| Investor Shares                                   | 3,400        | 5,107         |
| Select Shares                                     | + 3,410      | 5,389         |
| <b>Total dividends from net investment income</b> | <b>6,810</b> | <b>10,496</b> |

**Distributions from net realized gains**

|  |                 |                 |
|--|-----------------|-----------------|
| Investor Shares                                    | 4,838           | —               |
| Select Shares                                      | + 4,386         | —               |
| <b>Total distributions from net realized gains</b> | <b>9,224</b>    | <b>—</b>        |
| <b>Total distributions</b>                         | <b>\$16,034</b> | <b>\$10,496</b> |

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                   | 11/1/03–10/31/04 |                   |
|--|-----------------|-------------------|------------------|-------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                   |                  |                   |
| Investor Shares                        | 15,651          | \$197,237         | 16,485           | \$189,992         |
| Select Shares                          | + 12,498        | 157,793           | 13,314           | 153,084           |
| <b>Total shares sold</b>               | <b>28,149</b>   | <b>\$355,030</b>  | <b>29,799</b>    | <b>\$343,076</b>  |
| <b>Shares Reinvested</b>               |                 |                   |                  |                   |
| Investor Shares                        | 550             | \$6,870           | 331              | \$3,809           |
| Select Shares                          | + 480           | 5,989             | 307              | 3,531             |
| <b>Total shares reinvested</b>         | <b>1,030</b>    | <b>\$12,859</b>   | <b>638</b>       | <b>\$7,340</b>    |
| <b>Shares Redeemed</b>                 |                 |                   |                  |                   |
| Investor Shares                        | (3,875)         | (\$48,834)        | (3,492)          | (\$40,556)        |
| Select Shares                          | + (2,312)       | (29,100)          | (3,202)          | (37,066)          |
| <b>Total shares redeemed</b>           | <b>(6,187)</b>  | <b>(\$77,934)</b> | <b>(6,694)</b>   | <b>(\$77,622)</b> |
| <b>Net transactions in fund shares</b> | <b>22,992</b>   | <b>\$289,955</b>  | <b>23,743</b>    | <b>\$272,794</b>  |

**Shares Outstanding and Net Assets**

|                      | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                  |
|----------------------|-----------------|------------------|------------------|------------------|
|                      | SHARES          | NET ASSETS       | SHARES           | NET ASSETS       |
| Beginning of period  | 43,068          | \$519,246        | 19,325           | \$204,802        |
| Total increase       | + 22,992        | 307,576          | 23,743           | 314,444          |
| <b>End of period</b> | <b>66,060</b>   | <b>\$826,822</b> | <b>43,068</b>    | <b>\$519,246</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |          |
|-------------------------|----------|
| Ordinary income         | \$10,496 |
| Long-term capital gains | \$—      |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 distributable net investment income in the amount of \$3,279 and \$1,068 at the end of the current period and prior period, respectively.

# Schwab Small-Cap Equity Fund<sup>TM</sup>

## Financial Statements

### Financial Highlights

| Investor Shares                            | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 7/1/03 <sup>1</sup> –<br>10/31/03 |
|--|----------------------|----------------------|-----------------------------------|
| <b>Per-Share Data (\$)</b>                 |                      |                      |                                   |
| Net asset value at beginning of period     | 14.13                | 11.81                | 10.00                             |
| Income or loss from investment operations: |                      |                      |                                   |
| Net investment loss                        | (0.01)               | (0.04)               | (0.02)                            |
| Net realized and unrealized gains          | 0.57 <sup>2</sup>    | 2.58                 | 1.83                              |
| Total income from investment operations    | 0.56                 | 2.54                 | 1.81                              |
| Less distributions:                        |                      |                      |                                   |
| Distributions from net realized gains      | (1.54)               | (0.22)               | —                                 |
| Net asset value at end of period           | 13.15                | 14.13                | 11.81                             |
| Total return (%)                           | 3.44 <sup>3</sup>    | 21.74                | 18.10 <sup>3</sup>                |
| <b>Ratios/Supplemental Data (%)</b>        |                      |                      |                                   |
| Ratios to average net assets:              |                      |                      |                                   |
| Net operating expenses                     | 1.30 <sup>4</sup>    | 1.30                 | 1.30 <sup>4</sup>                 |
| Gross operating expenses                   | 1.49 <sup>4</sup>    | 1.61                 | 1.73 <sup>4</sup>                 |
| Net investment loss                        | (0.29) <sup>4</sup>  | (0.35)               | (0.54) <sup>4</sup>               |
| Portfolio turnover rate                    | 48 <sup>3</sup>      | 118                  | 39 <sup>3</sup>                   |
| Net assets, end of period (\$ x 1,000,000) | 76                   | 37                   | 26                                |

\* Unaudited.

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

<sup>2</sup> The per share amount does not correspond with the aggregate realized/unrealized losses in the Statement of Operations due to large fund share transactions at the time of market depreciation.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

| Select Shares                              | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 7/1/03¹–<br>10/31/03 |
|--|----------------------|----------------------|----------------------|
| <b>Per-share data (\$)</b>                 |                      |                      |                      |
| Net asset value at beginning of period     | 14.16                | 11.81                | 10.00                |
| Income or loss from investment operations: |                      |                      |                      |
| Net investment loss                        | (0.01)               | (0.02)               | (0.01)               |
| Net realized and unrealized gains          | 0.58²                | 2.59                 | 1.82                 |
| Total income from investment operations    | 0.57                 | 2.57                 | 1.81                 |
| Less distributions:                        |                      |                      |                      |
| Distributions from net realized gains      | (1.54)               | (0.22)               | —                    |
| Net asset value at end of period           | 13.19                | 14.16                | 11.81                |
| Total return (%)                           | 3.50³                | 22.00                | 18.10³               |
| <b>Ratios/Supplemental Data (%)</b>        |                      |                      |                      |
| Ratios to average net assets:              |                      |                      |                      |
| Net operating expenses                     | 1.12⁴                | 1.12                 | 1.12⁴                |
| Gross operating expenses                   | 1.34⁴                | 1.46                 | 1.58⁴                |
| Net investment loss                        | (0.10)⁴              | (0.16)               | (0.36)⁴              |
| Portfolio turnover rate                    | 48³                  | 118                  | 39³                  |
| Net assets, end of period (\$ x 1,000,000) | 26                   | 18                   | 14                   |

\* Unaudited.

¹ Commencement of operations.

² The per share amount does not correspond with the aggregate realized/unrealized losses in the Statement of Operations due to large fund share transactions at the time of market depreciation.

³ Not annualized.

⁴ Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**①** Top ten holding

- Non-income producing security

**▲** All or a portion of this security is held as collateral for open futures contracts

**■** All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>97.5%</b>         | <b>Common Stock</b>                               | 96,747             | 99,511              |
| <b>2.2%</b>          | <b>Short-Term Investment</b>                      | 2,254              | 2,254               |
| <b>0.1%</b>          | <b>U.S. Treasury Obligations</b>                  | 120                | 120                 |
| <b>99.8%</b>         | <b>Total Investments</b>                          | <b>99,121</b>      | <b>101,885</b>      |
| <b>1.8%</b>          | <b>Collateral Invested for Securities on Loan</b> | 1,859              | 1,859               |
| <b>(1.6)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (1,698)             |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>102,046</b>      |

Security and Number of Shares Value  
(\$ x 1,000)

**Common Stock** 97.5% of net assets

**Automobiles & Components 0.4%**

• Tenneco Automotive, Inc. 29,200 **375**

Security and Number of Shares Value  
(\$ x 1,000)

**Banks 2.9%**

|  |        |              |
|--|--------|--------------|
| Bancfirst Corp.                              | 11,100 | 782          |
| C&F Financial Corp.                          | 600    | 21           |
| Columbia Bancorp                             | 700    | 22           |
| Corus Bankshares, Inc.                       | 23,400 | 1,143        |
| Federal Agricultural Mortgage Corp., Class C | 6,100  | 106          |
| Hancock Holding Co.                          | 11,500 | 343          |
| Mid-State Bancshares                         | 8,500  | 207          |
| Santander BanCorp                            | 8,500  | 188          |
| TierOne Corp.                                | 5,700  | 133          |
|  |        | <b>2,945</b> |

**Capital Goods 6.2%**

|                             |        |              |
|-----------------------------|--------|--------------|
| • Alleghany Corp.           | 2,236  | 604          |
| • Aviall, Inc.              | 23,000 | 673          |
| CIRCOR International, Inc.  | 28,800 | 686          |
| ▲•4 ESCO Technologies, Inc. | 39,500 | 2,896        |
| ▲ Graco, Inc.               | 7,700  | 260          |
| Harsco Corp.                | 3,500  | 188          |
| • Quanta Services, Inc.     | 55,400 | 442          |
| • Thomas & Betts Corp.      | 9,100  | 283          |
| Walter Industries, Inc.     | 10,300 | 353          |
|                             |        | <b>6,385</b> |

**Commercial Services & Supplies 5.3%**

|   |         |              |
|---|---------|--------------|
| • Administaff, Inc.                           | 101,350 | 1,385        |
| • Consolidated Graphics, Inc.                 | 32,350  | 1,485        |
| • DiamondCluster International, Inc., Class A | 54,700  | 681          |
| G&K Services, Inc., Class A                   | 5,000   | 192          |
| • Heidrick & Struggles International, Inc.    | 26,700  | 691          |
| • Korn/Ferry International                    | 25,200  | 363          |
| • Portfolio Recovery Associates, Inc.         | 7,600   | 273          |
| Rollins, Inc.                                 | 9,800   | 193          |
| Steelcase, Inc., Class A                      | 9,400   | 124          |
|   |         | <b>5,387</b> |

**Consumer Durables & Apparel 2.9%**

|                                   |        |              |
|-----------------------------------|--------|--------------|
| American Greetings Corp., Class A | 11,000 | 249          |
| Cavco Industries, Inc.            | 36,000 | 954          |
| ▲ K-Swiss, Inc., Class A          | 59,800 | 1,794        |
|                                   |        | <b>2,997</b> |

## Portfolio Holdings continued

| Security and Number of Shares                    | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Diversified Financials 6.2%</b>               |                       |
| ▲⑦ Blackrock, Inc., Class A 31,600               | 2,369                 |
| • eSpeed, Inc., Class A 27,600                   | 238                   |
| •⑨ Instinet Group, Inc. 397,700                  | 2,088                 |
| • Investment Technology Group, Inc. 25,600       | 487                   |
| • Metris Cos., Inc. 77,500                       | 939                   |
| • World Acceptance Corp. 8,000                   | 204                   |
|  | <b>6,325</b>          |
| <b>Energy 6.5%</b>                               |                       |
| •⑩ CAL Dive International, Inc. 46,800           | 2,082                 |
| Frontier Oil Corp. 43,800                        | 1,843                 |
| ▲•⑧ Hydril Co. 42,900                            | 2,256                 |
| Overseas Shipholding Group 7,500                 | 423                   |
|  | <b>6,604</b>          |
| <b>Food &amp; Staples Retailing 0.9%</b>         |                       |
| • 7-Eleven, Inc. 20,300                          | 475                   |
| Ruddick Corp. 18,200                             | 409                   |
|  | <b>884</b>            |
| <b>Food Beverage &amp; Tobacco 1.6%</b>          |                       |
| • Boston Beer Co., Inc., Class A 39,800          | 796                   |
| Lancaster Colony Corp. 5,000                     | 208                   |
| Vector Group Ltd. 43,400                         | 682                   |
|  | <b>1,686</b>          |
| <b>Health Care Equipment &amp; Services 9.7%</b> |                       |
| • American Retirement Corp. 40,000               | 594                   |
| ▲• AMERIGROUP Corp. 36,800                       | 1,292                 |
| • Centene Corp. 15,600                           | 435                   |
| Computer Programs & Systems, Inc. 2,000          | 63                    |
| • Genesis HealthCare Corp. 46,684                | 1,863                 |
| ▲•① Haemonetics Corp. 75,200                     | 3,216                 |
| • PDI, Inc. 7,700                                | 142                   |
| • Sierra Health Services, Inc. 12,200            | 789                   |
| • SurModics, Inc. 8,400                          | 303                   |
| Vital Signs, Inc. 24,700                         | 1,008                 |
| • WellChoice, Inc. 2,800                         | 157                   |
|  | <b>9,862</b>          |

| Security and Number of Shares                   | Value<br>(\$ x 1,000) |
|---|-----------------------|
| <b>Hotels Restaurants &amp; Leisure 1.2%</b>    |                       |
| Ameristar Casinos, Inc. 15,700                  | 774                   |
| • California Pizza Kitchen, Inc. 15,400         | 351                   |
| • Luby's, Inc. 13,000                           | 98                    |
|   | <b>1,223</b>          |
| <b>Insurance 7.9%</b>                           |                       |
| • American Physicians Capital, Inc. 25,600      | 794                   |
| • CNA Surety Corp. 22,600                       | 297                   |
| ▲ Delphi Financial Group, Inc., Class A 50,050  | 2,078                 |
| Landamerica Financial Group, Inc. 11,950        | 593                   |
| ■ Odyssey Re Holdings Corp. 40,700              | 926                   |
| • Ohio Casualty Corp. 44,500                    | 1,044                 |
| Safety Insurance Group, Inc. 43,500             | 1,236                 |
| Selective Insurance Group, Inc. 5,900           | 260                   |
| Stancorp Financial Group, Inc. 3,300            | 252                   |
| Zenith National Insurance Corp. 9,800           | 564                   |
|   | <b>8,044</b>          |
| <b>Materials 2.3%</b>                           |                       |
| • AK Steel Holding Corp. 16,100                 | 117                   |
| Balchem Corp. 8,850                             | 212                   |
| • Buckeye Technologies, Inc. 46,700             | 369                   |
| • Crown Holdings, Inc. 25,000                   | 376                   |
| • FMC Corp. 2,600                               | 127                   |
| Greif, Inc., Class A 1,800                      | 125                   |
| Potlatch Corp. 1,200                            | 57                    |
| Silgan Holdings, Inc. 15,300                    | 936                   |
|   | <b>2,319</b>          |
| <b>Media 0.3%</b>                               |                       |
| John Wiley & Sons, Class A 9,900                | <b>358</b>            |
| <b>Pharmaceuticals &amp; Biotechnology 1.4%</b> |                       |
| CNS, Inc. 67,900                                | 1,276                 |
| • Kos Pharmaceuticals, Inc. 2,300               | 111                   |
|   | <b>1,387</b>          |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Real Estate 0.7%**

|   |       |            |
|---|-------|------------|
| Capital Automotive Real Estate Investment Trust | 3,000 | 102        |
| Essex Property Trust, Inc.                      | 1,500 | 114        |
| • Jones Lang LaSalle, Inc.                      | 3,900 | 146        |
| Kilroy Realty Corp.                             | 2,000 | 87         |
| New Century Financial Corp.                     | 3,000 | 137        |
| Shurgard Storage Centers, Inc., Class A         | 3,200 | 134        |
|   |       | <b>720</b> |

**Retailing 8.5%**

|                                   |         |              |
|-----------------------------------|---------|--------------|
| Books-A-Million, Inc.             | 31,500  | 237          |
| The Buckle, Inc.                  | 22,900  | 788          |
| The Cato Corp., Class A           | 48,700  | 1,252        |
| • Charming Shoppes, Inc.          | 188,300 | 1,401        |
| • Guess?, Inc.                    | 19,800  | 258          |
| • Hibbet Sporting Goods, Inc.     | 12,900  | 348          |
| • The Pantry, Inc.                | 9,200   | 295          |
| • Payless Shoesource, Inc.        | 133,400 | 1,822        |
| • Rent-Way, Inc.                  | 58,900  | 459          |
| • Shoe Carnival, Inc.             | 4,700   | 90           |
| • Too, Inc.                       | 15,800  | 364          |
| • Trans World Entertainment Corp. | 77,900  | 1,034        |
| • Wilsons The Leather Expert      | 71,200  | 358          |
|                                   |         | <b>8,706</b> |

**Semiconductors & Semiconductor Equipment 2.6%**

|                                |        |              |
|--------------------------------|--------|--------------|
| • Agere Systems, Inc., Class B | 94,400 | 111          |
| • DSP Group, Inc.              | 42,700 | 1,029        |
| • LSI Logic Corp.              | 89,600 | 480          |
| • Photronics, Inc.             | 66,200 | 1,053        |
|                                |        | <b>2,673</b> |

**Software & Services 10.1%**

|                            |         |       |
|----------------------------|---------|-------|
| • Advent Software, Inc.    | 15,700  | 280   |
| • Ansoft Corp.             | 2,586   | 60    |
| • Ansys, Inc.              | 46,800  | 1,425 |
| ▲•⑥ Earthlink, Inc.        | 306,000 | 2,809 |
| • Hyperion Solutions Corp. | 11,200  | 455   |
| • Intrado, Inc.            | 44,600  | 562   |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

|                               |         |               |
|-------------------------------|---------|---------------|
| • NetIQ Corp.                 | 38,700  | 415           |
| • Parametric Technology Corp. | 99,200  | 528           |
| • Progress Software Corp.     | 77,891  | 2,078         |
| SS&C Technologies, Inc.       | 14,700  | 374           |
| • SupportSoft, Inc.           | 44,700  | 212           |
| Talx Corp.                    | 4,600   | 114           |
| • United Online, Inc.         | 113,400 | 997           |
|                               |         | <b>10,309</b> |

**Technology Hardware & Equipment 5.9%**

|                            |         |              |
|----------------------------|---------|--------------|
| ▲ Agilysys, Inc.           | 100,000 | 1,322        |
| • Brightpoint, Inc.        | 29,400  | 621          |
| • Brooktrout, Inc.         | 25,900  | 255          |
| • Coherent, Inc.           | 38,200  | 1,225        |
| • Digi International, Inc. | 63,311  | 674          |
| • Emulex Corp.             | 38,300  | 595          |
| • Identix, Inc.            | 16,500  | 87           |
| Inter-Tel, Inc.            | 43,700  | 832          |
| • Quantum Corp.            | 157,300 | 378          |
|                            |         | <b>5,989</b> |

**Telecommunication Services 3.9%**

|  |        |              |
|--|--------|--------------|
| • Alaska Communications Systems Group, Inc.  | 1,154  | 11           |
| • Boston Communications Group                | 21,200 | 118          |
| ▲•⑥ Commonwealth Telephone Enterprises, Inc. | 59,900 | 2,783        |
| CT Communications, Inc.                      | 30,900 | 355          |
| North Pittsburgh Systems, Inc.               | 10,700 | 193          |
| • Premiere Global Services, Inc.             | 44,400 | 479          |
|  |        | <b>3,939</b> |

**Transportation 4.3%**

|                                       |        |              |
|---------------------------------------|--------|--------------|
| ▲ Alaska Air Group, Inc.              | 76,500 | 2,040        |
| ■ AMR Corp.                           | 20,900 | 219          |
| ■ Continental Airlines, Inc., Class B | 59,400 | 703          |
| • ExpressJet Holdings, Inc.           | 84,500 | 750          |
| ▲ Heartland Express, Inc.             | 39,250 | 728          |
|                                       |        | <b>4,440</b> |

**Portfolio Holdings** continued

| Security and Number of Shares   | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------|
| <b>Utilities 5.8%</b>           |                       |
| ▲③ Cleco Corp. 144,100          | 2,942                 |
| ② National Fuel Gas Co. 110,600 | 3,012                 |
|                                 | <b>5,954</b>          |

| Security<br>Rate, Maturity Date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short-Term Investment**  
 2.2% of net assets

|   |       |              |
|---|-------|--------------|
| Bank of America, London Time Deposit<br>2.36%, 05/02/05 | 2,254 | <b>2,254</b> |
|---|-------|--------------|

**U.S. Treasury Obligations**  
 0.1% of net assets

|  |     |            |
|--|-----|------------|
| ▲ U.S. Treasury Bills<br>2.72%-2.73%, 06/16/05 | 120 | <b>120</b> |
|--|-----|------------|

---

**End of investments.**

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Collateral Invested for Securities on Loan**  
 1.8% of net assets
**Short-Term Investment 1.8%**

|  |              |
|--|--------------|
| Securities Lending Investments<br>Fund 1,859,203 | <b>1,859</b> |
|--|--------------|

---

**End of collateral invested for securities on loan.**

*In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.*

**Futures Contracts**

|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|--|------------------------|-------------------|----------------------|
| Russell 2000 Index, e-mini, Long<br>expires 12/17/04 | 32                     | 1,859             | <b>(108)</b>         |

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|   |                |
|---|----------------|
| Investments, at value (including \$1,547 of securities on loan) | \$101,885      |
| Collateral held for securities on loan                          | 1,859          |
| Receivables:  |                |
| Fund shares sold  | 412            |
| Dividends   | 42             |
| Investments sold  | 726            |
| Due from brokers for futures                                    | 21             |
| Securities on loan  | 2              |
| Prepaid expenses  | + 28           |
| <b>Total assets</b>   | <b>104,975</b> |

**Liabilities**

|   |              |
|---|--------------|
| Collateral held for securities on loan      | 1,859        |
| Payables:                                   |              |
| Fund shares redeemed                        | 130          |
| Investments bought                          | 873          |
| Investment adviser and administrator fees   | 7            |
| Transfer agent and shareholder service fees | 2            |
| Trustee fees                                | 1            |
| Accrued expenses                            | + 57         |
| <b>Total liabilities</b>                    | <b>2,929</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 104,975          |
| <b>Total liabilities</b> | - 2,929          |
| <b>Net assets</b>        | <b>\$102,046</b> |

**Net Assets by Source**

|                                 |        |
|---------------------------------|--------|
| Capital received from investors | 95,697 |
| Net investment loss             | (101)  |
| Net realized capital gains      | 3,794  |
| Net unrealized capital gains    | 2,656  |

**Net asset value (NAV) by Share Class**

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$76,392   |   | 5,808              |   | \$13.15 |
| Select Shares   | \$25,654   |   | 1,945              |   | \$13.19 |

Unless stated, all numbers x 1,000.

The fund paid \$99,121 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$85,382 |
| Sales/maturities | \$39,108 |

The fund's total security transactions with other Schwab Funds® during the period were \$4,561.

These derive from investments and futures.

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$99,194       |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$8,196        |
| Losses                                  | + (5,505)      |
|   | <b>\$2,691</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$4,863 |
| Long-term capital gains | \$2,192 |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |   |            |
|--------------------------------|---|------------|
| Dividends                      |   | \$389      |
| Interest                       |   | 26         |
| Securities on loan             | + | 8          |
| <b>Total investment income</b> |   | <b>423</b> |

**Net Realized Gains and Losses**

|   |              |
|---|--------------|
| Net realized gains on investments sold  | 3,705        |
| Net realized gains on futures contracts | + 132        |
| <b>Net realized gains</b>               | <b>3,837</b> |

**Net Unrealized Gains and Losses**

|  |                       |
|--|-----------------------|
| Net unrealized losses on investments       | (3,874)               |
| Net unrealized losses on futures contracts | + (152)               |
| <b>Net unrealized losses</b>               | <b><u>(4,026)</u></b> |

**Expenses**

|  |                  |
|--|------------------|
| Investment adviser and administrator fees    | 427              |
| Transfer agent and shareholder service fees: |                  |
| Investor Shares                              | 75               |
| Select Shares                                | 12               |
| Trustees' fees                               | 3                |
| Custodian fees                               | 21               |
| Portfolio accounting fees                    | 13               |
| Professional fees                            | 15               |
| Registration fees                            | 12               |
| Shareholder reports                          | 27               |
| Other expenses                               | + 1              |
| Total expenses                               | <hr/> 606        |
| Expense reduction                            | - 82             |
| <b>Net expenses</b>                          | <hr/> <b>524</b> |

**Decrease in Net Assets from Operations**

|  |           |
|--|-----------|
| Total investment income                | 423       |
| Net expenses                           | — 524     |
| Net investment loss                    | (101)     |
| Net realized gains                     | 3,837     |
| Net unrealized losses                  | + (4,026) |
| Decrease in net assets from operations | (\$290)   |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.975% of the first \$500 million; 0.93% of the next \$500 million; and 0.91% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as 1.05% 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 \$79 from the investment adviser (CSIM) and \$3 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 27, 2006, as follows:

| Share Class     | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 1.30                          |
| Select Shares   | 1.12                          |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$189.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment loss                                       | (\$101)         | (\$143)          |
| Net realized gains  | 3,837           | 7,183            |
| Net unrealized gains or losses                            | + (4,026)       | 2,253            |
| <b>Increase or decrease in net assets from operations</b> | <b>(290)</b>    | <b>9,293</b>     |

**Distributions Paid****Distributions from net realized gains**

|  |                |              |
|--|----------------|--------------|
| Investor Shares                                    | 4,802          | 499          |
| Select Shares                                      | + 2,252        | 266          |
| <b>Total distributions from net realized gains</b> | <b>\$7,054</b> | <b>\$765</b> |

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                   | 11/1/03–10/31/04 |                   |
|--|-----------------|-------------------|------------------|-------------------|
|  | SHARES          | VALUE             | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                   |                  |                   |
| Investor Shares                        | 3,699           | \$51,875          | 1,153            | \$15,053          |
| Select Shares                          | + 946           | 13,429            | 301              | 3,944             |
| <b>Total shares sold</b>               | <b>4,645</b>    | <b>\$65,304</b>   | <b>1,454</b>     | <b>\$18,997</b>   |
| <b>Shares Reinvested</b>               |                 |                   |                  |                   |
| Investor Shares                        | 313             | \$4,324           | 37               | \$453             |
| Select Shares                          | + 118           | 1,635             | 17               | 204               |
| <b>Total shares reinvested</b>         | <b>431</b>      | <b>\$5,959</b>    | <b>54</b>        | <b>\$657</b>      |
| <b>Shares Redeemed</b>                 |                 |                   |                  |                   |
| Investor Shares                        | (798)           | (\$11,125)        | (763)            | (\$10,029)        |
| Select Shares                          | + (423)         | (5,867)           | (221)            | (2,885)           |
| <b>Total shares redeemed</b>           | <b>(1,221)</b>  | <b>(\$16,992)</b> | <b>(984)</b>     | <b>(\$12,914)</b> |
| <b>Net transactions in fund shares</b> | <b>3,855</b>    | <b>\$54,271</b>   | <b>524</b>       | <b>\$6,740</b>    |

**Shares Outstanding and Net Assets**

|                      | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                 |
|----------------------|-----------------|------------------|------------------|-----------------|
|                      | SHARES          | NET ASSETS       | SHARES           | NET ASSETS      |
| Beginning of period  | 3,898           | \$55,119         | 3,374            | \$39,851        |
| Total increase       | + 3,855         | 46,927           | 524              | 15,268          |
| <b>End of period</b> | <b>7,753</b>    | <b>\$102,046</b> | <b>3,898</b>     | <b>\$55,119</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |       |
|-------------------------|-------|
| Ordinary income         | \$642 |
| Long-term capital gains | \$123 |

For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

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 loss in the amount of \$101 at the end of the current period.

# Schwab Hedged Equity Fund<sup>TM</sup>

## Financial Statements

### Financial Highlights

| Investor Shares  | 3/1/05 <sup>1</sup> –<br>4/30/05 <sup>*</sup> |
|--|---|
| <b>Per-Share Data (\$)</b>   |   |
| Net asset value at beginning of period                             | 13.51   |
| Income or loss from investment operations:                         |   |
| Net investment loss  | (0.00) <sup>2</sup>                           |
| Net realized and unrealized gains                                  | 0.04  |
| Total income from investment operations                            | 0.04  |
| Net asset value at end of period                                   | 13.55   |
| Total return (%)   | 0.30 <sup>3</sup>                             |
| <b>Ratios/Supplemental Data (%)</b>                                |   |
| Ratios to average net assets:                                      |   |
| Net operating expenses (including dividend expense on short sales) | 2.44 <sup>4</sup>                             |
| Net operating expenses (excluding dividend expense on short sales) | 2.13 <sup>4,5</sup>                           |
| Gross operating expenses   | 2.61 <sup>4</sup>                             |
| Net investment loss  | (0.35) <sup>4</sup>                           |
| Portfolio turnover rate  | 65 <sup>3</sup>                               |
| Net assets, end of period (\$ x 1,000,000)                         | 2   |

\* Unaudited.

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

<sup>2</sup> Per share amount was less than \$0.01.

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

<sup>5</sup> The ratio of net operating expenses would have been 2.00% if interest expense had not been included.

| Select Shares  | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 9/3/02–<br>10/31/02 |
|--|----------------------|----------------------|----------------------|---------------------|
| <b>Per-Share Data (\$)</b>   |                      |                      |                      |                     |
| Net asset value at beginning of period                             | 13.01                | 11.53                | 9.84                 | 10.00               |
| Income or loss from investment operations:                         |                      |                      |                      |                     |
| Net investment loss  | (0.03)               | (0.09)               | (0.09)               | (0.01)              |
| Net realized and unrealized gains or losses                        | 1.21                 | 1.57                 | 1.78                 | (0.15)              |
| Total income or loss from investment operations                    | 1.18                 | 1.48                 | 1.69                 | (0.16)              |
| Less distributions:  |                      |                      |                      |                     |
| Distributions from net realized gains                              | (0.64)               | —                    | —                    | —                   |
| Net asset value at end of period                                   | 13.55                | 13.01                | 11.53                | 9.84                |
| Total return (%)   | 9.19 <sup>2</sup>    | 12.84                | 17.17                | (1.60) <sup>2</sup> |
| <b>Ratios/Supplemental Data (%)</b>                                |                      |                      |                      |                     |
| Ratios to average net assets:                                      |                      |                      |                      |                     |
| Net operating expenses (including dividend expense on short sales) | 2.52 <sup>3</sup>    | 2.43                 | 2.37                 | 2.39 <sup>3</sup>   |
| Net operating expenses (excluding dividend expense on short sales) | 2.10 <sup>3,4</sup>  | 2.10 <sup>5</sup>    | 2.00                 | 2.00 <sup>3</sup>   |
| Gross operating expenses   | 2.71 <sup>3</sup>    | 2.71                 | 2.77                 | 3.33 <sup>3</sup>   |
| Net investment loss  | (0.48) <sup>3</sup>  | (0.86)               | (0.90)               | (0.79) <sup>3</sup> |
| Portfolio turnover rate  | 65 <sup>2</sup>      | 99                   | 114                  | 68 <sup>2</sup>     |
| Net assets, end of period (\$ x 1,000,000)                         | 105                  | 68                   | 44                   | 32                  |

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 1.91% if interest expense had not been included.

<sup>5</sup> The ratio of net operating expenses would have been 2.00% if interest expense had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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 security.

- ① Top five long holdings/top five short positions
  - Non-income producing security
- All or a portion of this security is held as collateral for short sales

| Holdings by Category |                                   | Cost/Proceeds<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|-----------------------------------|-----------------------------|---------------------|
| 93.8%                | Common Stock                      | 95,030                      | 100,136             |
| 7.0%                 | Short-Term Investments            | 7,479                       | 7,479               |
| 100.8%               | <b>Total Investments</b>          | <b>102,509</b>              | <b>107,615</b>      |
| (45.7)%              | Short Sales                       | (53,918)                    | (48,845)            |
| 44.9%                | Other Assets and Liabilities, Net |                             | 47,963              |
| 100.0%               | <b>Total Net Assets</b>           |                             | <b>106,733</b>      |

|                               |                       |
|-------------------------------|-----------------------|
| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|

**Common Stock** 93.8% of net assets

**Automobiles & Components 0.6%**

|                |        |     |
|----------------|--------|-----|
| Ford Motor Co. | 74,600 | 680 |
|----------------|--------|-----|

**Banks 2.6%**

|                      |        |     |
|----------------------|--------|-----|
| Associated Bancorp.  | 10,300 | 319 |
| Bank of Hawaii Corp. | 4,800  | 227 |

|  |                       |
|--|-----------------------|
| Security and Number of Shares                | Value<br>(\$ x 1,000) |
| ■ Comerica, Inc. 14,500                      | 830                   |
| ■ Countrywide Credit Industries, Inc. 16,700 | 605                   |
| Santander Bancorp 330                        | 7                     |
| ■ UnionBanCal Corp. 12,300                   | 757                   |
|  | <b>2,745</b>          |

**Capital Goods 5.2%**

|                                      |              |
|--------------------------------------|--------------|
| Ametek Inc. 6,300                    | 238          |
| ■ Cooper Industries, Inc. 17,900     | 1,139        |
| Emerson Electric Co. 2,100           | 132          |
| Grainger, Inc. 4,400                 | 243          |
| ITT Industries, Inc. 300             | 27           |
| ■ Lockheed Martin Corp. 13,500       | 823          |
| ■ Raytheon Co. 13,100                | 493          |
| ■ Rockwell International Corp. 9,600 | 444          |
| ■ Textron, Inc. 10,900               | 821          |
| ■ The Boeing Co. 12,900              | 768          |
| • Thomas & Betts Corp. 15,000        | 467          |
|                                      | <b>5,595</b> |

**Commercial Services & Supplies 0.5%**

|   |            |
|---|------------|
| ■ Cendant Corp. 16,400                  | 327        |
| ■ Robert Half International, Inc. 8,700 | 216        |
|   | <b>543</b> |

**Consumer Durables & Apparel 3.2%**

|  |              |
|--|--------------|
| ■ American Greetings Corp., Class A 23,600 | 535          |
| ■ Black & Decker Corp. 5,300               | 443          |
| ■ Eastman Kodak Co. 17,500                 | 437          |
| K-Swiss, Inc., Class A 600                 | 18           |
| • Marvel Enterprises, Inc. 10,600          | 208          |
| ■ Newell Rubbermaid, Inc. 30,400           | 661          |
| Nike, Inc., Class B 4,700                  | 361          |
| The Stanley Works 600                      | 26           |
| ■ VF Corp. 13,100                          | 741          |
|  | <b>3,430</b> |

**Consumer Services 3.6%**

|                                    |              |
|------------------------------------|--------------|
| ■ ⑤ Ameristar Casinos, Inc. 39,717 | 1,958        |
| ■ Darden Restaurants, Inc. 47,400  | 1,422        |
| ■ Yum! Brands, Inc. 9,800          | 460          |
|                                    | <b>3,840</b> |

| Security and Number of Shares            | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Diversified Financials 6.2%</b>       |                       |
| American Express Co. 5,600               | 295                   |
| ■ Americredit Co. 50,200                 | 1,175                 |
| • Ameritrade Holding Corp. 70,000        | 734                   |
| ■ Blackrock, Inc. 10,600                 | 794                   |
| ■ Capital One Financial Corp. 5,500      | 390                   |
| ■ Franklin Resources, Inc. 5,300         | 364                   |
| • Instinet Group Corp. 67,400            | 354                   |
| ■ Mellon Financial Corp. 70,200          | 1,944                 |
| ■ Principal Financial Group, Inc. 15,100 | 590                   |
|  | <b>6,640</b>          |
| <b>Energy 8.5%</b>                       |                       |
| ■ Burlington Resources, Inc. 39,600      | 1,925                 |
| ■ Cal Dive International, Inc. 15,241    | 678                   |
| ChevronTexaco Corp. 15,100               | 785                   |
| Devon Energy Corp. 2,600                 | 117                   |
| ■ ② Exxon Mobil Corp. 67,900             | 3,872                 |
| ■ Hydril Co. 13,318                      | 701                   |
| ■ Occidental Petroleum Corp. 4,600       | 317                   |
| Sunoco, Inc. 3,000                       | 298                   |
| ■ Tesoro Petroleum Corp. 8,000           | 304                   |
| Valero Energy Corp. 1,600                | 110                   |
|  | <b>9,107</b>          |
| <b>Food &amp; Staples Retailing 1.2%</b> |                       |
| • 7-Eleven, Inc. 25,600                  | 599                   |
| • Rite Aid Corp. 165,200                 | 600                   |
| Ruddick Corp. 5,000                      | 112                   |
|  | <b>1,311</b>          |
| <b>Food Beverage &amp; Tobacco 4.9%</b>  |                       |
| ■ Archer-Daniels-Midland Co. 74,300      | 1,337                 |
| Brown-Forman Corp., Class B 2,300        | 128                   |
| Coca-Cola Co. 44,800                     | 1,946                 |
| ■ Kellogg Co. 16,300                     | 733                   |
| PepsiAmericas, Inc. 16,100               | 397                   |
| ■ UST, Inc. 15,100                       | 691                   |
|  | <b>5,232</b>          |

| Security and Number of Shares                    | Value<br>(\$ x 1,000) |
|--|-----------------------|
| <b>Health Care Equipment &amp; Services 5.7%</b> |                       |
| ■ Aetna, Inc. 9,400                              | 690                   |
| • Amerigroup Corp. 2,000                         | 70                    |
| ■ Bausch & Lomb, Inc. 6,200                      | 465                   |
| ■ Becton Dickinson & Co. 22,000                  | 1,287                 |
| ■ Cerner Corp. 10,445                            | 606                   |
| • Haemonetics Corp. 16,300                       | 697                   |
| • Humana, Inc. 4,600                             | 159                   |
| ■ Pacificare Health Systems, Inc. 1,900          | 114                   |
| ■ PerkinElmer, Inc. 26,600                       | 492                   |
| ■ Sierra Health Services, Inc. 8,900             | 576                   |
| ■ United Healthcare Corp. 4,800                  | 454                   |
| • Wellchoice, Inc. 2,400                         | 135                   |
| • Wellpoint, Inc. 2,200                          | 281                   |
|  | <b>6,026</b>          |
| <b>Insurance 4.3%</b>                            |                       |
| ■ AFLAC, Inc. 7,300                              | 297                   |
| ■ Allmerica Financial Corp. 7,900                | 265                   |
| ■ Allstate Corp. 5,300                           | 297                   |
| ■ Amerus Group Co. 10,800                        | 508                   |
| • CNA Financial Corp. 8,500                      | 233                   |
| Lincoln National Corp. 6,400                     | 288                   |
| Loews Corp. 7,800                                | 553                   |
| Mercury General Corp. 5,900                      | 312                   |
| ■ Nationwide Financial Services, Inc. 14,000     | 496                   |
| Odyssey Re Holdings Corp. 4,800                  | 109                   |
| • Ohio Casualty Corp. 3,401                      | 80                    |
| Reinsurance Group of America, Inc. 2,100         | 94                    |
| StanCorp. Financial Group, Inc. 3,200            | 245                   |
| Transatlantic Holdings, Inc. 925                 | 53                    |
| ■ W.R. Berkley Corp. 21,975                      | 714                   |
|  | <b>4,544</b>          |
| <b>Materials 5.7%</b>                            |                       |
| • AK Steel Holding Corp. 31,700                  | 230                   |
| ■ Carpenter Technology Corp. 9,700               | 537                   |
| • Crown Holdings, Inc. 22,000                    | 331                   |
| Dow Chemical Co. 9,300                           | 427                   |

**Portfolio Holdings** continued

| Security and Number of Shares  | Value<br>(\$ x 1,000) | Security and Number of Shares  | Value<br>(\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| <ul style="list-style-type: none"> <li>■ FMC Corp. 8,100 397</li> <li>■ Martin Marietta Materials, Inc. 20,400 1,122</li> <li>■ Monsanto Co. 12,500 733</li> <li>■ Phelps Dodge Corp. 4,000 343</li> <li>■ PPG Industries, Inc. 12,500 844</li> <li>■ Rohm &amp; Haas Co. 4,700 205</li> <li>■ Sigma Aldrich Corp. 6,316 369</li> <li>■ United States Steel Corp. 11,700 500</li> </ul>  | <b>6,038</b>          | <b>Semiconductors &amp; Semiconductor Equipment 2.6%</b> <ul style="list-style-type: none"> <li>• Agere Systems, Inc., Class B 165,700 195</li> <li>■ ④ Intel Corp. 92,500 2,176</li> <li>• LSI Logic Corp. 76,500 410</li> </ul>  | <b>2,781</b>          |
| <b>Media 3.6%</b>  |                       | <b>Software &amp; Services 7.4%</b>  |                       |
| <ul style="list-style-type: none"> <li>■ Catalina Marketing Corp. 19,400 451</li> <li>■ Gemstar TV Guide International, Inc. 126,900 488</li> <li>■ Getty Images, Inc. 7,100 508</li> <li>■ John Wiley &amp; Sons, Inc. 18,500 669</li> <li>■ McGraw Hill Cos., Inc. 5,100 444</li> <li>■ R.H. Donnelley Corp. 14,800 843</li> <li>• Time Warner, Inc. 28,000 471</li> </ul>   | <b>3,874</b>          | <ul style="list-style-type: none"> <li>■ Accxiom Corp. 14,884 283</li> <li>■ Adobe Systems, Inc. 1,700 101</li> <li>• Ansys, Inc. 7,360 224</li> <li>■ Autodesk, Inc. 16,262 518</li> <li>• Bea Systems, Inc. 24,000 166</li> <li>■ CheckFree Corp. 19,800 726</li> <li>■ Citrix Systems, Inc. 21,716 489</li> <li>• Computer Sciences Corp. 9,100 396</li> <li>• Earthlink, Inc. 183,900 1,688</li> <li>• Electronic Data Systems Corp. 19,400 375</li> <li>• Fair, Isaac &amp; Co., Inc. 18,400 605</li> <li>■ Hyperion Solutions Corp. 10,217 416</li> <li>• McAfee, Inc. 16,800 351</li> <li>• Oracle Systems Corp. 10,500 121</li> <li>• Siebel Systems, Inc. 12,900 116</li> <li>■ Sybase, Inc. 31,500 596</li> <li>■ Synopsys, Inc. 30,700 505</li> <li>■ United Online, Inc. 21,944 193</li> </ul> | <b>7,869</b>          |
| <b>Pharmaceuticals &amp; Biotechnology 7.2%</b>  |                       | <b>Technology Hardware &amp; Equipment 3.1%</b>  |                       |
| <ul style="list-style-type: none"> <li>■ Applied Biosystems Group 20,900 443</li> <li>■ Invitrogen Corp. 4,100 300</li> <li>■ ① Johnson &amp; Johnson 58,500 4,015</li> <li>■ KOS Pharmaceuticals 24,900 1,200</li> <li>■ Merck &amp; Co., Inc. 51,300 1,739</li> </ul>  | <b>7,697</b>          | <ul style="list-style-type: none"> <li>■ Apple Computer, Inc. 23,800 858</li> <li>• Aspect Telecommunications Corp. 1,200 10</li> <li>■ Comverse Technology, Inc. 23,100 527</li> <li>• Emulex Corp. 20,300 315</li> <li>■ NCR Corp. 19,400 640</li> <li>■ Scientific Atlanta, Inc. 4,600 141</li> <li>■ Storage Technology Corp. 16,800 467</li> <li>• Xerox Corp. 25,000 331</li> </ul>  | <b>3,289</b>          |
| <b>Real Estate 1.0%</b>  |                       | <b>Telecommunication Services 0.6%</b>   |                       |
| <ul style="list-style-type: none"> <li>• CB Richard Ellis 30,900 1,074</li> </ul>  |                       | <ul style="list-style-type: none"> <li>Alltel Corp. 3,600 205</li> <li>Commonwealth Telephone Enterprises, Inc. 9,972 463</li> </ul>   | <b>668</b>            |
| <b>Retailing 7.8%</b>  |                       |  |                       |
| <ul style="list-style-type: none"> <li>■ Abercrombie &amp; Fitch Co., Class A 11,400 615</li> <li>■ American Eagle Outfitters, Inc. 13,000 341</li> <li>■ Charming Shoppes, Inc. 72,355 538</li> <li>■ Circuit City Stores, Inc. 103,800 1,640</li> <li>■ J.C. Penny Co., Inc. 39,800 1,887</li> <li>■ Michael's Stores, Inc. 41,100 1,365</li> <li>■ Nordstrom, Inc. 17,400 884</li> <li>■ Payless Shoesource, Inc. 77,100 1,053</li> </ul> | <b>8,323</b>          |  |                       |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Transportation 3.2%**

|                                    |        |              |
|------------------------------------|--------|--------------|
| • AMR Corp.                        | 2,600  | 27           |
| ■ CNF, Inc.                        | 15,600 | 667          |
| ■ CSX Corp.                        | 38,200 | 1,533        |
| Heartland Express, Inc.            | 10,845 | 201          |
| J.B. Hunt Transport Services, Inc. | 10,300 | 403          |
| ■ Norfolk Southern Corp.           | 18,400 | 578          |
|                                    |        | <b>3,409</b> |

**Utilities 5.1%**

|                                  |         |              |
|----------------------------------|---------|--------------|
| ■ AES Corp.                      | 30,000  | 482          |
| Constellation Energy Group, Inc. | 8,700   | 457          |
| ■ ③ Duke Energy Corp.            | 128,400 | 3,748        |
| FirstEnergy Corp.                | 7,100   | 309          |
| National Fuel Gas Co.            | 15,400  | 419          |
| PPL Corp.                        | 100     | 6            |
|                                  |         | <b>5,421</b> |

**Short-Term Investments 7.0% of net assets****Other Investment Companies 7.0%**

|  |           |              |
|--|-----------|--------------|
| Provident Institutional Funds – TempFund | 7,479,341 | <b>7,479</b> |
|--|-----------|--------------|

**End of investments.****Short Sales 45.7% of net assets****Automobiles & Components 0.8%**

|  |        |            |
|--|--------|------------|
| American Axle & Manufacturing Holdings, Inc. | 5,200  | 104        |
| Arvin Meritor, Inc.                          | 32,900 | 391        |
| Superior Industries International, Inc.      | 4,000  | 81         |
| Thor Industries, Inc.                        | 11,400 | 307        |
|  |        | <b>883</b> |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Banks 0.8%**

|                                     |        |            |
|-------------------------------------|--------|------------|
| Accredited Home Lenders Holding Co. | 2,800  | 111        |
| IndyMac Bankcorp., Inc.             | 6,000  | 231        |
| Queens County Bancorp, Inc.         | 28,300 | 501        |
|                                     |        | <b>843</b> |

**Capital Goods 7.5%**

|                                 |        |              |
|---------------------------------|--------|--------------|
| Carlisle Cos., Inc.             | 3,700  | 266          |
| Curtiss-Wright Corp.            | 29,500 | 1,599        |
| Fastenal Co.                    | 9,600  | 514          |
| Fluor Corp.                     | 19,000 | 980          |
| Lincoln Electric Holdings, Inc. | 28,500 | 871          |
| Mueller Industries, Inc.        | 47,200 | 1,222        |
| Trinity Industries, Inc.        | 56,900 | 1,329        |
| United Rentals, Inc.            | 2,300  | 42           |
| York International Corp.        | 32,600 | 1,276        |
|                                 |        | <b>8,099</b> |

**Commercial Services & Supplies 1.1%**

|                               |        |              |
|-------------------------------|--------|--------------|
| Allied Waste Industries, Inc. | 32,000 | 256          |
| Mine Safety Appliances Co.    | 19,300 | 689          |
| Resources Connection, Inc.    | 4,800  | 92           |
| United Stationers, Inc.       | 2,000  | 84           |
|                               |        | <b>1,121</b> |

**Consumer Durables & Apparel 1.2%**

|                             |        |              |
|-----------------------------|--------|--------------|
| Beazer Homes USA, Inc.      | 22,700 | 1,035        |
| Callaway Golf Co.           | 4,600  | 50           |
| Ethan Allen Interiors, Inc. | 3,300  | 99           |
| Leapfrog Enterprises, Inc.  | 2,100  | 21           |
| Mohawk Industries, Inc.     | 800    | 62           |
|                             |        | <b>1,267</b> |

**Consumer Services 3.3%**

|                              |        |              |
|------------------------------|--------|--------------|
| Aztar Corp.                  | 15,900 | 434          |
| Krispy Kreme Doughnuts, Inc. | 3,500  | 21           |
| Outback Steakhouse, Inc.     | 25,400 | 1,026        |
| Panera Bread Co., Class A    | 600    | 30           |
| Wendy's International, Inc.  | 4,000  | 172          |
| ④ Wynn Resorts Ltd.          | 34,600 | 1,832        |
|                              |        | <b>3,515</b> |

**Portfolio Holdings** continued

| Security and Number of Shares                    |        | Value<br>(\$ x 1,000) |
|--|--------|-----------------------|
| <b>Diversified Financials 0.2%</b>               |        |                       |
| First Marblehead Corp. (The)                     | 5,100  | 197                   |
| <b>Energy 4.8%</b>                               |        |                       |
| Encore Acquisition Co.                           | 4,600  | 169                   |
| 1 Quicksilver Resources, Inc.                    | 41,200 | 2,115                 |
| Spinnaker Exploration Co.                        | 40,600 | 1,300                 |
| Whiting Petroleum Corp.                          | 50,000 | 1,514                 |
|  |        | <b>5,097</b>          |
| <b>Food &amp; Staples Retailing 2.5%</b>         |        |                       |
| Sysco Corp.                                      | 7,900  | 273                   |
| 3 United Natural Foods, Inc.                     | 69,322 | 1,858                 |
| Walgreen Co.                                     | 2,300  | 99                    |
| Whole Foods Market, Inc.                         | 4,312  | 430                   |
|  |        | <b>2,660</b>          |
| <b>Food Beverage &amp; Tobacco 0.9%</b>          |        |                       |
| Anheuser-Busch Co., Inc.                         | 4,700  | 220                   |
| J.M. Smucker Co.                                 | 8,500  | 422                   |
| Tootsie Roll Industries, Inc.                    | 2,500  | 77                    |
| Universal Corp.                                  | 4,900  | 224                   |
|  |        | <b>943</b>            |
| <b>Health Care Equipment &amp; Services 0.5%</b> |        |                       |
| Fisher Scientific International, Inc.            | 2,400  | 143                   |
| Health Management Associates, Inc.,<br>Class A   | 9,500  | 235                   |
| Health Net, Inc.                                 | 2,000  | 68                    |
| Invacare Corp.                                   | 3,100  | 127                   |
|  |        | <b>572</b>            |
| <b>Materials 2.5%</b>                            |        |                       |
| 5 Airgas, Inc.                                   | 82,700 | 1,813                 |
| Arch Coal, Inc.                                  | 6,900  | 306                   |
| GrafTech International Ltd.                      | 63,000 | 240                   |
| Valspar Corp.                                    | 7,300  | 302                   |
|  |        | <b>2,660</b>          |
| <b>Media 0.4%</b>                                |        |                       |
| Sirius Satellite Radio, Inc.                     | 96,000 | 457                   |

| Security and Number of Shares                            |        | Value<br>(\$ x 1,000) |
|--|--------|-----------------------|
| <b>Pharmaceuticals &amp; Biotechnology 4.1%</b>          |        |                       |
| Amylin Pharmaceuticals, Inc.                             | 23,800 | 405                   |
| Atherogenics, Inc.                                       | 500    | 5                     |
| Chiron Corp.   | 12,000 | 410                   |
| Eli Lilly & Co.  | 7,500  | 439                   |
| Eyetech Pharmaceuticals, Inc.                            | 1,100  | 25                    |
| Human Genome Sciences, Inc.                              | 8,800  | 91                    |
| Imvax Laboratories, Inc.                                 | 74,800 | 1,217                 |
| Ivax Corp.   | 25,425 | 481                   |
| Martek Biosciences Corp.                                 | 15,084 | 577                   |
| Medimmune, Inc.  | 7,200  | 183                   |
| MGI Pharmaceuticals, Inc.                                | 5,621  | 124                   |
| Neurocrine Biosciences, Inc.                             | 2,963  | 104                   |
| Onyx Pharmacueticals, Inc.                               | 900    | 28                    |
| Par Pharmaceutical Cos., Inc.                            | 6,700  | 201                   |
| Perrigo Co.  | 3,800  | 70                    |
|  |        | <b>4,358</b>          |
| <b>Retailing 6.2%</b>                                    |        |                       |
| Ann Taylor Stores Corp.                                  | 15,700 | 384                   |
| Big Lots, Inc.   | 35,000 | 356                   |
| Dick's Sporting Goods, Inc.                              | 26,600 | 818                   |
| Dollar Tree Stores, Inc.                                 | 3,300  | 81                    |
| Family Dollar Stores, Inc.                               | 8,400  | 227                   |
| Kohls Corp.  | 3,800  | 181                   |
| Petsmart, Inc.   | 8,005  | 213                   |
| Saks, Inc.   | 29,100 | 496                   |
| The Neiman-Marcus Group, Inc., Class A                   | 21,100 | 2,075                 |
| The TJX Max Cos., Inc.                                   | 4,800  | 109                   |
| Tiffany & Co.  | 31,800 | 959                   |
| Tractor Supply Co.                                       | 13,094 | 527                   |
| Tuesday Morning Corp.                                    | 6,812  | 179                   |
| Zale Corp.   | 1,000  | 27                    |
|  |        | <b>6,631</b>          |
| <b>Semiconductors &amp; Semiconductor Equipment 0.1%</b> |        |                       |
| Amkor Technology, Inc.                                   | 31,020 | 100                   |

| Security and Number of Shares | Value<br>(\$ x 1,000) |
|-------------------------------|-----------------------|
|-------------------------------|-----------------------|

**Software & Services 3.8%**

|  |              |
|--|--------------|
| Bearingpoint, Inc. 192,400             | 1,191        |
| CNET Networks, Inc. 112,400            | 1,114        |
| Electronic Arts, Inc. 3,500            | 187          |
| Henry Jack and Associates, Inc. 24,700 | 425          |
| Realnetworks, Inc. 168,400             | 1,037        |
| Red Hat, Inc. 5,000                    | 54           |
|  | <b>4,008</b> |

**Technology Hardware & Equipment 1.7%**

|                             |              |
|-----------------------------|--------------|
| CDW Corp. 2,000             | 109          |
| Diebold, Inc. 20,900        | 1,011        |
| Sonus Networks, Inc. 20,300 | 70           |
| Tekelec 33,400              | 455          |
| UTStarcom, Inc. 23,545      | 224          |
|                             | <b>1,869</b> |

**Transportation 0.9%**

|  |            |
|--|------------|
| AirTran Holdings, Inc. 800                         | 7          |
| Alexander & Baldwin, Inc. 12,878                   | 525        |
| Expeditors International of Washington, Inc. 1,500 | 74         |
| Jetblue Airways Corp. 13,756                       | 276        |
| Sirva, Inc. 10,600                                 | 74         |
|  | <b>955</b> |

**Utilities 2.4%**

|                                   |              |
|-----------------------------------|--------------|
| Calpine Corp. 504,400             | 903          |
| Equitable Resources, Inc. 3,300   | 190          |
| New Jersey Resources Corp. 33,500 | 1,453        |
| Southern Union Co. 2,700          | 65           |
|                                   | <b>2,610</b> |

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**End of short sale positions.**

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|                                      |                |
|--------------------------------------|----------------|
| Investments, at value                | \$107,615      |
| Deposits with broker for short sales | 47,545         |
| Receivables:                         |                |
| Fund shares sold                     | 435            |
| Interest                             | 87             |
| Dividends                            | 54             |
| Prepaid expenses                     | + 14           |
| <b>Total assets</b>                  | <b>155,750</b> |

**Liabilities**

|   |               |
|---|---------------|
| Securities sold short, at value           | 48,845        |
| Payables:                                 |               |
| Fund shares redeemed                      | 102           |
| Dividends on short sales                  | 13            |
| Investment adviser and administrator fees | 14            |
| Accrued expenses                          | + 43          |
| <b>Total liabilities</b>                  | <b>49,017</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 155,750          |
| <b>Total liabilities</b> | – 49,017         |
| <b>Net assets</b>        | <b>\$106,733</b> |

**Net Assets by Source**

|                                 |        |
|---------------------------------|--------|
| Capital received from investors | 90,898 |
| Net investment loss             | (212)  |
| Net realized capital gains      | 5,868  |
| Net unrealized capital gains    | 10,179 |

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

| Share Class     | Net Assets | ÷ | Shares Outstanding | = | NAV     |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$ 2,198   |   | 162                |   | \$13.55 |
| Select Shares   | \$104,535  |   | 7,716              |   | \$13.55 |

Unless stated, all numbers x 1,000.

The fund paid \$102,509 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$86,814 |
| Sales/maturities | \$56,897 |

The proceeds for securities sold short is \$53,918.

These derive from investments and short sales.

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$102,661      |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$8,311        |
| Losses                                  | + (3,357)      |
|   | <b>\$4,954</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |         |
|-------------------------|---------|
| Ordinary income         | \$–     |
| Long-term capital gains | \$3,789 |

|                                |              |
|--------------------------------|--------------|
| <b>Capital losses utilized</b> | <b>\$260</b> |
|--------------------------------|--------------|

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |            |
|--------------------------------|------------|
| Dividends                      | \$601      |
| Interest                       | + 300      |
| <b>Total investment income</b> | <b>901</b> |

**Net Realized Gains and Losses**

|                                    |              |
|------------------------------------|--------------|
| Net realized gains on investments  | 7,368        |
| Net realized losses on short sales | + (1,274)    |
| <b>Net realized gains</b>          | <b>6,094</b> |

**Net Unrealized Gains and Losses**

|                                      |              |
|--------------------------------------|--------------|
| Net unrealized losses on investments | (4,114)      |
| Net unrealized gains on short sales  | + 5,164      |
| <b>Net unrealized gains</b>          | <b>1,050</b> |

**Expenses**

|  |              |
|--|--------------|
| Investment adviser and administrator fees    | 759          |
| Transfer agent and shareholder service fees: |              |
| Investor Shares                              | —            |
| Select Shares                                | 85           |
| Trustees' fees                               | 2            |
| Custodian and portfolio accounting fees      | 42           |
| Professional fees                            | 22           |
| Registration fees                            | 10           |
| Interest expense                             | 85           |
| Other expenses                               | + 3          |
| Total expenses before short sales            | 1,008        |
| Dividends on short sales                     | 185          |
| Expense reduction                            | + (80)       |
| <b>Net expenses</b>                          | <b>1,113</b> |

**Increase in Net Assets from Operations**

|   |                |
|---|----------------|
| <b>Total investment income</b>                | 901            |
| <b>Net expenses</b>                           | — 1,113        |
| <b>Net investment loss</b>                    | <b>(212)</b>   |
| <b>Net realized gains</b>                     | 6,094          |
| <b>Net unrealized gains</b>                   | + 1,050        |
| <b>Increase in net assets from operations</b> | <b>\$6,932</b> |

Unless stated, all numbers x 1,000.

Net of \$1 foreign withholding tax.

Calculated as a percentage of average daily net assets: 1.675% of the first \$500 million, 1.65% of the next \$500 million, and 1.63% over \$1 billion. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as 1.75% 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 \$70 from the Investment Adviser (CSIM) and \$10 from the transfer agent and shareholder servicing agent (Schwab). The reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through February 27, 2006 as follows:

| <b>Share Class</b> | <b>% of Average Daily Net Assets</b> |
|--------------------|--------------------------------------|
| Investor Shares    | 2.00%                                |
| Select Shares      | 1.77%                                |

These limits exclude interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$7,144.

## Statement of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for the current period are unaudited.

**Operations**

|   | 11/1/04–4/30/05 | 11/1/03–10/31/04 |
|---|-----------------|------------------|
| Net investment loss                           | (\$212)         | (\$455)          |
| Net realized gains                            | 6,094           | 4,186            |
| Net unrealized gains                          | + 1,050         | 2,597            |
| <b>Increase in net assets from operations</b> | <b>6,932</b>    | <b>6,328</b>     |

**Distributions Paid****Distributions from net realized gains**

|  |                |             |
|--|----------------|-------------|
| Investor Shares                                    | —              | —           |
| Select Shares                                      | + 3,789        | —           |
| <b>Total distributions from net realized gains</b> | <b>\$3,789</b> | <b>\$ —</b> |

**Transactions in Fund Shares**

|  | 11/1/04–4/30/05 |                  | 11/1/03–10/31/04 |                   |
|--|-----------------|------------------|------------------|-------------------|
|  | SHARES          | VALUE            | SHARES           | VALUE             |
| <b>Shares Sold</b>                     |                 |                  |                  |                   |
| Investor Shares                        | 169             | \$2,276          | —                | \$ —              |
| Select Shares                          | + 2,786         | 37,414           | 2,509            | 31,194            |
| <b>Total shares sold</b>               | <b>2,955</b>    | <b>\$39,690</b>  | <b>2,509</b>     | <b>\$31,194</b>   |
| <b>Shares Reinvested</b>               |                 |                  |                  |                   |
| Investor Shares                        | —               | \$ —             | —                | \$ —              |
| Select Shares                          | + 255           | 3,389            | —                | —                 |
| <b>Total shares reinvested</b>         | <b>255</b>      | <b>\$3,389</b>   | <b>—</b>         | <b>\$ —</b>       |
| <b>Shares Redeemed</b>                 |                 |                  |                  |                   |
| Investor Shares                        | (7)             | (\$94)           | —                | \$ —              |
| Select Shares                          | + (576)         | (7,686)          | (1,073)          | (13,199)          |
| <b>Total shares redeemed</b>           | <b>(583)</b>    | <b>(\$7,780)</b> | <b>(1,073)</b>   | <b>(\$13,199)</b> |
| <b>Net transactions in fund shares</b> | <b>2,627</b>    | <b>\$35,299</b>  | <b>1,436</b>     | <b>\$17,995</b>   |

**Shares Outstanding and Net Assets**

|                      | 11/1/04–4/30/05 |                | 11/1/03–10/31/04 |                 |
|----------------------|-----------------|----------------|------------------|-----------------|
|                      | SHARES          | NET ASSETS     | SHARES           | NET ASSETS      |
| Beginning of period  | 5,251           | \$68,291       | 3,815            | \$43,968        |
| Total increase       | + 2,627         | 38,442         | 1,436            | 24,323          |
| <b>End of period</b> | <b>7,878</b>    | <b>106,733</b> | <b>5,251</b>     | <b>\$68,291</b> |

Unless stated, all numbers x 1,000.

The fund started offering Investor Shares on March 1, 2005 and the fund shares in existence prior to March 1, 2005 were designated as Select Shares.

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 1.50% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

**Current period**

|                 |             |
|-----------------|-------------|
| Investor Shares | \$ 1        |
| Select Shares   | + \$19      |
| <b>Total</b>    | <b>\$20</b> |

**Prior period**

|               |      |
|---------------|------|
| Select Shares | \$41 |
|---------------|------|

Dollar amounts are net of the redemption proceeds.

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 loss in the amount of \$212 at the end of the current period.

# Schwab Financial Services Fund™

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 7/3/00 <sup>1</sup> –<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                                   |
| Net asset value at beginning of period          | 13.12                | 11.77                | 9.44                 | 9.75                 | 11.86                | 10.00                             |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                                   |
| Net investment income                           | 0.11                 | 0.08                 | 0.11                 | 0.12                 | 0.09                 | 0.04                              |
| Net realized and unrealized gains or losses     | 0.35                 | 1.37                 | 2.37                 | (0.28)               | (1.76)               | 1.82                              |
| Total income or loss from investment operations | 0.46                 | 1.45                 | 2.48                 | (0.16)               | (1.67)               | 1.86                              |
| Less distributions:                             |                      |                      |                      |                      |                      |                                   |
| Dividends from net investment income            | (0.09)               | (0.10)               | (0.15)               | (0.09)               | (0.06)               | —                                 |
| Distributions from net realized gains           | (0.94)               | —                    | —                    | (0.06)               | (0.38)               | —                                 |
| Total distributions                             | (1.03)               | (0.10)               | (0.15)               | (0.15)               | (0.44)               | —                                 |
| Net asset value at end of period                | 12.55                | 13.12                | 11.77                | 9.44                 | 9.75                 | 11.86                             |
| Total return (%)                                | 3.24 <sup>2</sup>    | 12.39                | 26.68                | (1.78)               | (14.51)              | 18.60 <sup>2</sup>                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                                   |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                                   |
| Net operating expenses                          | 1.06 <sup>3</sup>    | 1.05                 | 1.04 <sup>4</sup>    | 0.89                 | 0.89                 | 0.89 <sup>3</sup>                 |
| Gross operating expenses                        | 1.16 <sup>3</sup>    | 1.25                 | 1.49                 | 1.32                 | 1.23                 | 1.99 <sup>3</sup>                 |
| Net investment income                           | 1.69 <sup>3</sup>    | 0.62                 | 1.05                 | 1.20                 | 0.75                 | 1.04 <sup>3</sup>                 |
| Portfolio turnover rate                         | 50 <sup>2</sup>      | 85                   | 181                  | 131                  | 151                  | 40 <sup>2</sup>                   |
| Net assets, end of period (\$ x 1,000,000)      | 20                   | 20                   | 18                   | 17                   | 21                   | 24                                |

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 1.03% if interest expense had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**①** Top ten holding

- Non-income producing security
- All or a portion of this security is on loan

| Holdings by Category                                   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|--|--------------------|---------------------|
| <b>100.1% Common Stock</b>                             | <b>18,615</b>      | <b>20,114</b>       |
| <b>0.2% Short-Term Investment</b>                      | <b>42</b>          | <b>42</b>           |
| <b>100.3% Total Investments</b>                        | <b>18,657</b>      | <b>20,156</b>       |
| <b>1.8% Collateral Invested for Securities on Loan</b> | <b>355</b>         | <b>355</b>          |
| <b>(2.1)% Other Assets and Liabilities, Net</b>        |                    | <b>(414)</b>        |
| <b>100.0% Total Net Assets</b>                         |                    | <b>20,097</b>       |

Security and Number of Shares

Value  
(\$ x 1,000)

**Common Stock** 100.1% of net assets

**Banks 32.6%**

|                       |        |       |
|-----------------------|--------|-------|
| Bancfirst Corp.       | 2,500  | 176   |
| Bank of America Corp. | 3,160  | 142   |
| Bank of Hawaii Corp.  | 8,100  | 384   |
| ② City National Corp. | 15,100 | 1,065 |

**Security and Number of Shares**

Value  
(\$ x 1,000)

|                             |        |       |
|-----------------------------|--------|-------|
| ④ Comerica, Inc.            | 18,000 | 1,031 |
| Corus Bankshares, Inc.      | 6,700  | 327   |
| Countrywide Financial Corp. | 24,198 | 876   |
| ⑥ KeyCorp, Inc.             | 29,900 | 991   |
| Santander BanCorp           | 1,900  | 42    |
| SunTrust Banks, Inc.        | 2,900  | 211   |
| ⑦ UnionBanCal Corp.         | 15,700 | 966   |
| Wachovia Corp.              | 6,500  | 333   |

**6,544**

**Diversified Financials 38.3%**

|                                     |        |       |
|-------------------------------------|--------|-------|
| A.G. Edwards, Inc.                  | 10,000 | 397   |
| ⑤ American Express Co.              | 19,000 | 1,001 |
| ■ AmeriCredit Corp.                 | 12,500 | 292   |
| • Ameritrade Holding Corp.          | 17,000 | 178   |
| Blackrock, Inc., Class A            | 3,400  | 255   |
| Capital One Financial Corp.         | 9,700  | 688   |
| • E*TRADE Financial Corp.           | 25,800 | 287   |
| ③ Franklin Resources, Inc.          | 15,100 | 1,037 |
| • Instinet Group, Inc.              | 62,400 | 328   |
| • Investment Technology Group, Inc. | 2,100  | 40    |
| ⑩ Mellon Financial Corp.            | 32,900 | 911   |
| Merrill Lynch & Co., Inc.           | 14,300 | 771   |
| • Metris Cos., Inc.                 | 1,100  | 13    |
| Moody's Corp.                       | 2,300  | 189   |
| Northern Trust Corp.                | 3,800  | 171   |
| Nuveen Investments, Inc., Class A   | 5,600  | 190   |
| ⑧ Principal Financial Group, Inc.   | 24,200 | 946   |

**7,694**

**Insurance 27.7%**

|                                       |        |       |
|---------------------------------------|--------|-------|
| ① AFLAC, Inc.                         | 28,200 | 1,146 |
| • American Physicians Capital, Inc.   | 5,500  | 171   |
| Chubb Corp.                           | 9,200  | 752   |
| • CNA Financial Corp.                 | 7,300  | 200   |
| Delphi Financial Group, Inc., Class A | 3,900  | 162   |
| Loews Corp.                           | 1,800  | 128   |
| ⑨ Metlife, Inc.                       | 24,100 | 938   |

| Security and Number of Shares                         | Value<br>(\$ x 1,000) |
|---|-----------------------|
| Nationwide Financial Services, Inc.,<br>Class A 9,900 | 351                   |
| ■ Odyssey Re Holdings Corp. 2,900                     | 66                    |
| Prudential Financial, Inc. 15,100                     | 863                   |
| Reinsurance Group of America,<br>Inc. 8,500           | 380                   |
| W.R. Berkley Corp. 12,750                             | 414                   |
|   | <b>5,571</b>          |

**Real Estate 1.5%**

|                              |            |
|------------------------------|------------|
| • Trammell Crow Co. 12,200   | 260        |
| • United Capital Corp. 2,100 | 45         |
|                              | <b>305</b> |

| Security<br>Rate, maturity date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short Term Investment**  
0.2% of net assets

|  |    |           |
|--|----|-----------|
| Brown Brothers Harriman,<br>Grand Cayman Time Deposit<br>2.36%, 05/02/05 | 42 | <b>42</b> |
|--|----|-----------|

End of investments.

**Security and Number of Shares**

**Collateral Invested for Securities on Loan**  
1.8% of net assets

**Short-Term Investment 1.8%**

|  |            |
|--|------------|
| Securities Lending Investments<br>Fund 354,944 | <b>355</b> |
|--|------------|

End of collateral invested for securities on loan.

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|  |               |
|--|---------------|
| Investments, at value<br>(including \$341 of securities on loan) | \$20,156      |
| Collateral held for securities on loan                           | 355           |
| Receivables:   |               |
| Fund shares sold   | 14            |
| Dividends  | 9             |
| Investments sold   | 5             |
| Prepaid expenses   | + 11          |
| <b>Total assets</b>  | <b>20,550</b> |

**Liabilities**

|   |            |
|---|------------|
| Collateral held for securities on loan    | 355        |
| Payables:                                 |            |
| Fund shares redeemed                      | 10         |
| Investments bought                        | 69         |
| Investment adviser and administrator fees | 1          |
| Trustees' fees                            | 1          |
| Accrued expenses                          | + 17       |
| <b>Total liabilities</b>                  | <b>453</b> |

**Net Assets**

|                          |                 |
|--------------------------|-----------------|
| <b>Total assets</b>      | 20,550          |
| <b>Total liabilities</b> | - 453           |
| <b>Net assets</b>        | <b>\$20,097</b> |

**Net Assets by Source**

|   |        |
|---|--------|
| Capital received from investors           | 17,483 |
| Net investment income not yet distributed | 119    |
| Net realized capital gains                | 996    |
| Net unrealized capital gains              | 1,499  |

**Net Asset Value (NAV)**

|                   |          |                           |          |            |
|-------------------|----------|---------------------------|----------|------------|
| <b>Net Assets</b> | <b>÷</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
| \$20,097          |          | 1,601                     |          | \$12.55    |

Unless stated, all numbers x 1,000.

The fund paid \$18,657 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$10,301 |
| Sales/maturities | \$10,172 |

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$18,662       |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$1,794        |
| Losses                                  | + (300)        |
|   | <b>\$1,494</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                                |              |
|--------------------------------|--------------|
| Ordinary income                | \$87         |
| Long-term capital gains        | \$1,402      |
| <b>Capital losses utilized</b> | <b>\$911</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |            |
|--------------------------------|------------|
| Dividends                      | \$278      |
| Securities on loan             | + 1        |
| <b>Total investment income</b> | <b>279</b> |

**Net Realized Gains and Losses**

|  |              |
|--|--------------|
| Net realized gains on investments sold | <b>1,004</b> |
|--|--------------|

**Net Unrealized Gains and Losses**

|                                      |              |
|--------------------------------------|--------------|
| Net unrealized losses on investments | <b>(537)</b> |
|--------------------------------------|--------------|

**Expenses**

|   |            |
|---|------------|
| Investment adviser and administrator fees   | 55         |
| Transfer agent and shareholder service fees | 25         |
| Trustees' fees                              | 3          |
| Custodian fees                              | 13         |
| Portfolio accounting fees                   | 2          |
| Professional fees                           | 12         |
| Registration fees                           | 5          |
| Shareholder reports                         | 2          |
| Other expenses                              | + 1        |
| Total expenses                              | 118        |
| Expense reduction                           | - 10       |
| <b>Net expenses</b>                         | <b>108</b> |

**Increase in Net Assets from Operations**

|  |              |
|--|--------------|
| Total investment income                | 279          |
| Net expenses                           | — 108        |
| Net investment income                  | <u>171</u>   |
| Net realized gains                     | 1,004        |
| Net unrealized losses                  | + (537)      |
| Increase in net assets from operations | <u>\$638</u> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.54% of the first \$500 million; 0.515% of the next \$500 million; and 0.49% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as 0.54% 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% 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 operating expenses of this fund through February 27, 2006, to 1.10% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$467.

## Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment income                         | \$171           | \$123            |
| Net realized gains                            | 1,004           | 2,314            |
| Net unrealized losses                         | + (537)         | (253)            |
| <b>Increase in net assets from operations</b> | <b>638</b>      | <b>2,184</b>     |

**Distributions Paid**

|   |                |              |
|---|----------------|--------------|
| Dividends from net investment income          | 139            | 158          |
| Distributions from net realized gains         | + 1,403        | —            |
| <b>Total dividends and distributions paid</b> | <b>\$1,542</b> | <b>\$158</b> |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                | 11/1/03-10/31/04 |                |
|--|-----------------|----------------|------------------|----------------|
|  | SHARES          | VALUE          | SHARES           | VALUE          |
| Shares sold                            | 297             | \$3,839        | 369              | \$4,651        |
| Shares reinvested                      | 104             | 1,356          | 12               | 142            |
| Shares redeemed                        | + (291)         | (3,754)        | (457)            | (5,709)        |
| <b>Net transactions in fund shares</b> | <b>110</b>      | <b>\$1,441</b> | <b>(76)</b>      | <b>(\$916)</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                 | 11/1/03-10/31/04 |                 |
|----------------------------|-----------------|-----------------|------------------|-----------------|
|                            | SHARES          | NET ASSETS      | SHARES           | NET ASSETS      |
| Beginning of period        | 1,491           | \$19,560        | 1,567            | \$18,450        |
| Total increase or decrease | + 110           | 537             | (76)             | 1,110           |
| <b>End of period</b>       | <b>1,601</b>    | <b>\$20,097</b> | <b>1,491</b>     | <b>\$19,560</b> |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/04 are:

|                         |       |
|-------------------------|-------|
| Ordinary income         | \$158 |
| Long-term capital gains | \$—   |

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

|                       |     |
|-----------------------|-----|
| <b>Current period</b> | \$4 |
| <b>Prior period</b>   | \$5 |

Dollar amounts are net of the redemption proceeds.

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 distributable net investment income in the amount of \$119 and \$87 at the end of the current period and prior period, respectively.

# Schwab Health Care Fund™

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 7/3/00¹–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 10.78                | 8.43                 | 7.12                 | 9.00                 | 10.27                | 10.00                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment income or loss                   | (0.01)               | (0.06)               | 0.01                 | 0.03                 | 0.00²                | (0.00)²              |
| Net realized and unrealized gains or losses     | 1.83                 | 2.41                 | 1.33                 | (1.90)               | (1.10)               | 0.27                 |
| Total income or loss from investment operations | 1.82                 | 2.35                 | 1.34                 | (1.87)               | (1.10)               | 0.27                 |
| Less distributions:                             |                      |                      |                      |                      |                      |                      |
| Dividends from net investment income            | —                    | —                    | (0.03)               | (0.01)               | (0.00)²              | —                    |
| Distributions from net realized gains           | —                    | —                    | —                    | —                    | (0.17)               | —                    |
| Total distributions                             | —                    | —                    | (0.03)               | (0.01)               | (0.17)               | —                    |
| Net asset value at end of period                | 12.60                | 10.78                | 8.43                 | 7.12                 | 9.00                 | 10.27                |
| Total return (%)                                | 16.88³               | 27.88                | 18.96                | (20.84)              | (10.94)              | 2.70³                |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.91⁴                | 1.04                 | 1.04                 | 0.89                 | 0.89                 | 0.89⁴                |
| Gross operating expenses                        | 0.91⁴                | 1.07                 | 1.34                 | 1.18                 | 1.17                 | 2.04⁴                |
| Net investment income or loss                   | (0.34)⁴              | (0.73)               | 0.13                 | 0.25                 | 0.06                 | (0.02)⁴              |
| Portfolio turnover rate                         | 30³                  | 105                  | 200                  | 99                   | 92                   | 41³                  |
| Net assets, end of period (\$ x 1,000,000)      | 159                  | 54                   | 25                   | 21                   | 32                   | 28                   |

\* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**1** Top ten holding

- Non-income producing security

**▲** All or a portion of this security is held as collateral for open futures contracts

**■** All or a portion of this security is on loan

| Holdings by Category                                   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|--|--------------------|---------------------|
| <b>96.7% Common Stock</b>                              | 136,152            | 153,315             |
| <b>4.3% Short-Term Investments</b>                     | 6,807              | 6,807               |
| <b>0.2% U.S. Treasury Obligations</b>                  | 339                | 339                 |
| <b>0.0% Rights</b>                                     | —                  | —                   |
| <b>101.2% Total Investments</b>                        | <b>143,298</b>     | <b>160,461</b>      |
| <b>3.2% Collateral Invested for Securities on Loan</b> | 5,082              | 5,082               |
| <b>(4.4)% Other Assets and Liabilities, Net</b>        |                    | (6,942)             |
| <b>100.0% Total Net Assets</b>                         |                    | <b>158,601</b>      |

Security and Number of Shares

Value  
(\$ x 1,000)

**Common Stock** 96.7% of net assets

**Health Care Equipment & Services 71.3%**

|                             |        |       |
|-----------------------------|--------|-------|
| <b>1</b> Aetna, Inc.        | 75,600 | 5,547 |
| • American Retirement Corp. | 53,000 | 787   |

**Security and Number of Shares**

Value  
(\$ x 1,000)

|  |         |       |
|--|---------|-------|
| • AMERIGROUP Corp.                         | 85,100  | 2,989 |
| Bausch & Lomb, Inc.                        | 68,300  | 5,122 |
| <b>5</b> Becton Dickinson & Co.            | 92,400  | 5,407 |
| • Caremark Rx, Inc.                        | 33,000  | 1,322 |
| • Centene Corp.                            | 89,700  | 2,498 |
| <b>■</b> • Cerner Corp.                    | 87,000  | 5,051 |
| <b>2</b> CIGNA Corp.                       | 60,000  | 5,519 |
| • Coventry Health Care, Inc.               | 55,900  | 3,825 |
| • DaVita, Inc.                             | 27,025  | 1,089 |
| Dentsply International, Inc.               | 30,000  | 1,640 |
| <b>9</b> • Express Scripts, Inc.           | 59,000  | 5,289 |
| • Genesis HealthCare Corp.                 | 104,900 | 4,185 |
| • Gentiva Health Services, Inc.            | 19,000  | 372   |
| • Haemonetics Corp.                        | 112,300 | 4,803 |
| <b>▲</b> • Humana, Inc.                    | 149,600 | 5,184 |
| IMS Health, Inc.                           | 80,100  | 1,921 |
| • Laboratory Corp. of America Holdings     | 45,600  | 2,257 |
| • Lincare Holdings, Inc.                   | 111,300 | 4,750 |
| Matthews International Corp., Class A      | 23,800  | 847   |
| <b>▲</b> • Medco Health Solutions, Inc.    | 99,500  | 5,071 |
| <b>6</b> • Pacificare Health Systems, Inc. | 89,400  | 5,343 |
| • PDI, Inc.                                | 35,892  | 660   |
| PerkinElmer, Inc.                          | 248,900 | 4,605 |
| • Sierra Health Services, Inc.             | 67,400  | 4,360 |
| • SurModics, Inc.                          | 15,000  | 541   |
| • Thermo Electron Corp.                    | 148,600 | 3,712 |
| <b>3</b> • UnitedHealth Group, Inc.        | 57,900  | 5,472 |
| • Ventiv Health, Inc.                      | 92,000  | 1,918 |
| • Visx, Inc.                               | 70,000  | 1,669 |
| Vital Signs, Inc.                          | 10,800  | 441   |
| • WellChoice, Inc.                         | 66,000  | 3,709 |
| • WellPoint, Inc.                          | 40,000  | 5,110 |

**113,015**

**Pharmaceuticals & Biotechnology 25.4%**

|   |         |       |
|---|---------|-------|
| Abbott Laboratories                                 | 44,500  | 2,188 |
| <b>7</b> • Applied Biosystems Group — Applera Corp. | 249,800 | 5,296 |
| Bristol-Myers Squibb Co.                            | 91,900  | 2,389 |
| • Celera Genomics Group — Applera Corp.             | 95,800  | 881   |

| Security and Number of Shares           | Value<br>(\$ x 1,000) |
|---|-----------------------|
| CNS, Inc. 57,717                        | 1,084                 |
| • Enzon Pharmaceuticals, Inc. 65,000    | 504                   |
| • InterMune, Inc. 55,000                | 594                   |
| • 10 Invitrogen Corp. 71,200            | 5,217                 |
| • 8 Johnson & Johnson 77,100            | 5,291                 |
| ▲ • 4 Kos Pharmaceuticals, Inc. 113,500 | 5,467                 |
| ▲ Merck & Co., Inc. 152,200             | 5,160                 |
| Pfizer, Inc. 121,600                    | 3,304                 |
| • Techne Corp. 70,000                   | 2,925                 |
|   | <b>40,300</b>         |

**Rights**

0.0% of net assets

**Pharmaceuticals & Biotechnology 0.0%**

- OSI Pharmaceuticals, Inc.  
expires 01/18/05 458 —

| Security<br>Rate, maturity date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short-Term Investments**

4.3% of net assets

|   |       |              |
|---|-------|--------------|
| Brown Brothers Harriman,<br>Grand Cayman Time Deposit |       |              |
| 2.36%, 05/02/05                                       | 3,807 | 3,807        |
| Citibank NA, Nassau<br>Time Deposit                   |       |              |
| 2.36%, 05/02/05                                       | 1,500 | 1,500        |
| Wells Fargo, Grand Cayman<br>Time Deposit             |       |              |
| 2.36%, 05/02/05                                       | 1,500 | 1,500        |
|   |       | <b>6,807</b> |

In addition to the above, the fund held the following at 4/30/05. All numbers x \$1,000 except number of contracts.

**Futures Contracts**

|  | Number of<br>Contracts | Contract<br>Value | Unrealized<br>Losses |
|--|------------------------|-------------------|----------------------|
| Russell 2000 Index, e-mini, Long<br>Expires 06/17/05 | 30                     | 1,743             | <b>(102)</b>         |
| S&P 500 Index, e-mini, Long<br>Expires 06/17/05      | 33                     | 1,912             | <b>(43)</b>          |
|  |                        |                   | <b>(145)</b>         |

| Security<br>Rate, maturity date | Face Amount<br>(\$ x 1,000) | Value<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

**U.S. Treasury Obligations**

0.2% of net assets

|                       |     |            |
|-----------------------|-----|------------|
| ▲ U.S. Treasury Bills |     |            |
| 2.72%-2.75%, 06/16/05 | 340 | <b>339</b> |

**End of investments.****Security and Number of Shares****Collateral Invested for Securities on Loan**

3.2% of net assets

**Short-Term Investment 3.2%**

|  |              |
|--|--------------|
| Securities Lending Investments<br>Fund 5,081,562 | <b>5,082</b> |
|--|--------------|

**End of collateral invested for securities on loan.**

## Statement of

**Assets and Liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|   |                |
|---|----------------|
| Investments, at value (including \$4,522 of securities on loan) | \$160,461      |
| Collateral invested for securities on loan                      | 5,082          |
| Receivables:  |                |
| Fund shares sold  | 1,478          |
| Dividends   | 47             |
| Due from brokers for futures                                    | 45             |
| Income from securities lending                                  | 1              |
| Prepaid expenses  | + 19           |
| <b>Total assets</b>   | <b>167,133</b> |

**Liabilities**

|   |              |
|---|--------------|
| Collateral invested for securities on loan  | 5,082        |
| Payables:                                   |              |
| Fund shares redeemed                        | 76           |
| Investments bought                          | 3,332        |
| Investment adviser and administrator fees   | 7            |
| Transfer agent and shareholder service fees | 3            |
| Trustee fees                                | 1            |
| Accrued expenses                            | + 31         |
| <b>Total liabilities</b>                    | <b>8,532</b> |

**Net Assets**

|                          |                  |
|--------------------------|------------------|
| <b>Total assets</b>      | 167,133          |
| <b>Total liabilities</b> | - 8,532          |
| <b>Net assets</b>        | <b>\$158,601</b> |

**Net Assets by Source**

|                                 |         |
|---------------------------------|---------|
| Capital received from investors | 146,100 |
| Net investment loss             | (160)   |
| Net realized capital losses     | (4,357) |
| Net unrealized capital gains    | 17,018  |

**Net Asset Value (NAV)**

| <b>Net Assets</b> | <b>÷</b> | <b>Shares Outstanding</b> | <b>=</b> | <b>NAV</b> |
|-------------------|----------|---------------------------|----------|------------|
| \$158,601         |          | 12,589                    |          | \$12.60    |

Unless stated, all numbers x 1,000.

The fund paid \$143,298 for these securities.

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

|                  |           |
|------------------|-----------|
| Purchases        | \$116,765 |
| Sales/maturities | \$28,542  |

These derive from investments and futures.

**Federal Tax Data**

|   |                 |
|---|-----------------|
| <b>Portfolio cost</b>                   | \$143,436       |
| <b>Net unrealized gains and losses:</b> |                 |
| Gains                                   | \$20,596        |
| Losses                                  | + (3,571)       |
|   | <b>\$17,025</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |     |
|-------------------------|-----|
| Ordinary income         | \$- |
| Long-term capital gains | \$- |

**Capital losses utilized** \$4,567

**Unused capital losses:**

|                   |                |
|-------------------|----------------|
| Expires 10/31 of: | Loss amount    |
| 2010              | \$890          |
| 2011              | + 3,638        |
|                   | <b>\$4,528</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |            |
|--------------------------------|------------|
| Dividends                      | \$240      |
| Interest                       | 31         |
| Lending of securities          | + 1        |
| <b>Total investment income</b> | <b>272</b> |

**Net Realized Gains and Losses**

|  |            |
|--|------------|
| Net realized gains on investments sold   | 356        |
| Net realized losses on futures contracts | (2)        |
| <b>Net realized gains</b>                | <b>354</b> |

**Net Unrealized Gains and Losses**

|  |               |
|--|---------------|
| Net unrealized gains on investments        | 10,857        |
| Net unrealized losses on futures contracts | + (145)       |
| <b>Net unrealized gains</b>                | <b>10,712</b> |

**Expenses**

|   |            |
|---|------------|
| Investment adviser and administrator fees   | 257        |
| Transfer agent and shareholder service fees | 119        |
| Trustees' fees                              | 3          |
| Custodian fees                              | 17         |
| Portfolio accounting fees                   | 6          |
| Professional fees                           | 12         |
| Registration fees                           | 9          |
| Shareholder reports                         | 8          |
| Other expenses                              | + 1        |
| <b>Total expenses</b>                       | <b>432</b> |

**Increase in Net Assets from Operations**

|   |                 |
|---|-----------------|
| <b>Total investment income</b>                | <b>272</b>      |
| <b>Net expenses</b>                           | <b>- 432</b>    |
| <b>Net investment loss</b>                    | <b>(160)</b>    |
| <b>Net realized gains</b>                     | <b>354</b>      |
| <b>Net unrealized gains</b>                   | <b>+ 10,712</b> |
| <b>Increase in net assets from operations</b> | <b>\$10,906</b> |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.54% of the first \$500 million; 0.515% of the next \$500 million; and 0.49% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as 0.54% 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% 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 expense (excluding interest, taxes and certain non-routine expenses) will not exceed 1.10% of the fund's average daily net assets through February 27, 2006.

These add up to a net gain on investments of \$11,066.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05 | 11/1/03-10/31/04 |
|---|-----------------|------------------|
| Net investment loss                           | (\$160)         | (\$303)          |
| Net realized gains                            | 354             | 4,394            |
| Net unrealized gains                          | + 10,712        | 3,441            |
| <b>Increase in net assets from operations</b> | <b>\$10,906</b> | <b>\$7,532</b>   |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                 | 11/1/03-10/31/04 |                 |
|--|-----------------|-----------------|------------------|-----------------|
|  | SHARES          | VALUE           | SHARES           | VALUE           |
| Shares sold                            | 8,347           | \$103,023       | 3,244            | \$33,738        |
| Shares redeemed                        | + (763)         | (9,260)         | (1,206)          | (12,342)        |
| <b>Net transactions in fund shares</b> | <b>7,584</b>    | <b>\$93,763</b> | <b>2,038</b>     | <b>\$21,396</b> |

**Shares Outstanding and Net Assets**

|                      | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                 |
|----------------------|-----------------|------------------|------------------|-----------------|
|                      | SHARES          | NET ASSETS       | SHARES           | NET ASSETS      |
| Beginning of period  | 5,005           | \$53,932         | 2,967            | \$25,004        |
| Total increase       | + 7,584         | 104,669          | 2,038            | 28,928          |
| <b>End of period</b> | <b>12,589</b>   | <b>\$158,601</b> | <b>5,005</b>     | <b>\$53,932</b> |

Unless stated, all numbers x 1,000.

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

**Current period** \$24

**Prior period** \$41

Dollar amounts are net of the redemption proceeds.

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 loss in the amount of \$160 at the end of the current period.

# Schwab Technology Fund™

## Financial Statements

### Financial Highlights

|   | 11/1/04–<br>4/30/05* | 11/1/03–<br>10/31/04 | 11/1/02–<br>10/31/03 | 11/1/01–<br>10/31/02 | 11/1/00–<br>10/31/01 | 7/3/00¹–<br>10/31/00 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Per-Share Data (\$)</b>                      |                      |                      |                      |                      |                      |                      |
| Net asset value at beginning of period          | 4.42                 | 4.32                 | 2.90                 | 3.86                 | 8.52                 | 10.00                |
| Income or loss from investment operations:      |                      |                      |                      |                      |                      |                      |
| Net investment loss                             | (0.00)²              | (0.04)               | (0.02)               | (0.02)               | (0.03)               | (0.02)               |
| Net realized and unrealized gains or losses     | (0.22)               | 0.14                 | 1.44                 | (0.94)               | (4.63)               | (1.46)               |
| Total income or loss from investment operations | (0.22)               | 0.10                 | 1.42                 | (0.96)               | (4.66)               | (1.48)               |
| Net asset value at end of period                | 4.20                 | 4.42                 | 4.32                 | 2.90                 | 3.86                 | 8.52                 |
| Total return (%)                                | (4.98)³              | 2.31                 | 48.97                | (24.87)              | (54.69)              | (14.80)³             |
| <b>Ratios/Supplemental Data (%)</b>             |                      |                      |                      |                      |                      |                      |
| Ratios to average net assets:                   |                      |                      |                      |                      |                      |                      |
| Net operating expenses                          | 0.99⁴                | 1.02⁵                | 1.04                 | 0.89                 | 0.89                 | 0.89⁴                |
| Gross operating expenses                        | 0.99⁴                | 1.02                 | 1.25                 | 1.15                 | 1.16                 | 1.52⁴                |
| Net investment loss                             | (0.03)⁴              | (0.78)               | (0.65)               | (0.57)               | (0.65)               | (0.63)⁴              |
| Portfolio turnover rate                         | 40³                  | 109                  | 165                  | 117                  | 120                  | 37³                  |
| Net assets, end of period (\$ x 1,000,000)      | 42                   | 49                   | 43                   | 26                   | 39                   | 48                   |

\* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

⁵ The ratio of net operating expenses would have been 1.01% if interest expense had not been included.

**Portfolio Holdings** as of April 30, 2005, unaudited

This section shows all the securities in the fund's portfolio by industry classification 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 Form 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 the 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. With the top ten holdings, the number in the circle is the security's rank among the top ten.

① Top ten holding

- Non-income producing security
- All or a portion of this security is on loan

| Holdings by Category |   | Cost<br>(\$x1,000) | Value<br>(\$x1,000) |
|----------------------|---|--------------------|---------------------|
| <b>99.4%</b>         | <b>Common Stock</b>                               | 39,365             | 41,485              |
| <b>0.6%</b>          | <b>Short-Term Investment</b>                      | 256                | 256                 |
| <b>100.0%</b>        | <b>Total Investments</b>                          | <b>39,621</b>      | <b>41,741</b>       |
| <b>0.1%</b>          | <b>Collateral Invested for Securities on Loan</b> | 56                 | 56                  |
| <b>(0.1)%</b>        | <b>Other Assets and Liabilities, Net</b>          |                    | (76)                |
| <b>100.0%</b>        | <b>Total Net Assets</b>                           |                    | <b>41,721</b>       |

Security and Number of Shares Value  
(\$ x 1,000)

**Common Stock** 99.4% of net assets

**Semiconductors & Semiconductor Equipment 18.7%**

|                                      |         |       |
|--------------------------------------|---------|-------|
| • Agere Systems, Inc., Class A       | 130,300 | 153   |
| • ⑥ Applied Materials, Inc.          | 125,400 | 1,865 |
| • DSP Group, Inc.                    | 18,500  | 446   |
| • Integrated Device Technology, Inc. | 15,700  | 168   |

| Security and Number of Shares    |         | Value<br>(\$ x 1,000) |
|----------------------------------|---------|-----------------------|
| ① Intel Corp.                    | 131,160 | 3,085                 |
| Linear Technology Corp.          | 26,200  | 936                   |
| • LSI Logic Corp.                | 35,800  | 192                   |
| • MIPS Technology, Inc., Class A | 60,300  | 422                   |
| • National Semiconductor Corp.   | 17,100  | 326                   |
| • Photronics, Inc.               | 14,600  | 232                   |
|                                  |         | <b>7,825</b>          |

**Software & Services 41.2%**

|                                      |         |               |
|--------------------------------------|---------|---------------|
| Adobe Systems, Inc.                  | 22,200  | 1,320         |
| • Alliance Data Systems Corp.        | 700     | 28            |
| • Ansys, Inc.                        | 20,000  | 609           |
| • ⑩ Autodesk, Inc.                   | 41,600  | 1,324         |
| • BEA Systems, Inc.                  | 4,600   | 32            |
| • Checkfree Corp.                    | 33,100  | 1,214         |
| • Citrix Systems, Inc.               | 39,800  | 896           |
| • Computer Sciences Corp.            | 4,100   | 178           |
| • Earthlink, Inc.                    | 113,100 | 1,038         |
| Electronic Data Systems Corp.        | 46,500  | 900           |
| • Intuit, Inc.                       | 14,600  | 588           |
| • McAfee, Inc.                       | 19,100  | 399           |
| • ③ Oracle Corp.                     | 228,848 | 2,645         |
| • Parametric Technology Corp.        | 95,900  | 510           |
| • ⑨ Progress Software Corp.          | 52,800  | 1,409         |
| The Reynolds & Reynolds Co., Class A | 32,800  | 865           |
| • SS&C Technologies, Inc.            | 41,700  | 1,060         |
| • Sybase, Inc.                       | 48,900  | 926           |
| • Synopsys, Inc.                     | 33,000  | 543           |
| • United Online, Inc.                | 79,000  | 694           |
|                                      |         | <b>17,178</b> |

**Technology Hardware & Equipment 39.5%**

|                            |         |       |
|----------------------------|---------|-------|
| Agilysys, Inc.             | 59,100  | 781   |
| • Apple Computer, Inc.     | 18,000  | 649   |
| • Avaya, Inc.              | 51,800  | 450   |
| • Cisco Systems, Inc.      | 33,360  | 576   |
| • Coherent, Inc.           | 5,300   | 170   |
| • Digi International, Inc. | 80,700  | 859   |
| • ⑦ EMC Corp.              | 118,500 | 1,555 |
| • Emulex Corp.             | 3,600   | 56    |

| Security and Number of Shares                | Value<br>(\$ x 1,000) |
|--|-----------------------|
| ⑤ Hewlett-Packard Co. 91,300                 | 1,869                 |
| Inter-Tel, Inc. 6,400                        | 122                   |
| International Business Machines Corp. 10,600 | 810                   |
| ④ Motorola, Inc. 129,000                     | 1,979                 |
| • ③ NCR Corp. 46,200                         | 1,524                 |
| • Quantum Corp. 12,900                       | 31                    |
| Scientific-Atlanta, Inc. 32,800              | 1,003                 |
| • Storage Technology Corp. 23,800            | 662                   |
| • Sun Microsystems, Inc. 167,700             | 609                   |
| • ② Xerox Corp. 209,600                      | 2,777                 |
|  | <b>16,482</b>         |

| Security<br>Rate, maturity date | Face Amount<br>(\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

**Short-Term Investment**

0.6% of net assets

Citibank NA, Nassau  
Time Deposit2.36%, 05/02/05      256      **256****End of investments.****Security and Number of Shares****Collateral Invested for Securities on Loan**

0.1% of net assets

**Short-Term Investment 0.1%**Securities Lending Investments  
Fund 55,575      **56****End of collateral invested for securities on loan.**

## Statement of

**Assets and liabilities**

As of April 30, 2005; unaudited. All numbers x 1,000 except NAV.

**Assets**

|   |               |
|---|---------------|
| Investments, at value<br>(including \$53 of securities on loan) | \$41,741      |
| Collateral held for securities on loan                          | 56            |
| Receivables:  |               |
| Fund shares sold  | 22            |
| Dividends   | 5             |
| Prepaid expenses  | + 12          |
| <b>Total assets</b>   | <b>41,836</b> |

**Liabilities**

|   |            |
|---|------------|
| Collateral held for securities on loan      | 56         |
| Payables:                                   |            |
| Fund shares redeemed                        | 28         |
| Investment adviser and administrator fees   | 2          |
| Transfer agent and shareholder service fees | 1          |
| Trustees' fees                              | 1          |
| Accrued expenses                            | + 27       |
| <b>Total liabilities</b>                    | <b>115</b> |

**Net Assets**

|                          |                 |
|--------------------------|-----------------|
| <b>Total assets</b>      | 41,836          |
| <b>Total liabilities</b> | - 115           |
| <b>Net assets</b>        | <b>\$41,721</b> |

**Net Assets by Source**

|                                 |          |
|---------------------------------|----------|
| Capital received from investors | 80,624   |
| Net investment loss             | (6)      |
| Net realized capital losses     | (41,017) |
| Net unrealized capital gains    | 2,120    |

**Net Asset Value (NAV)**

| <b>Net Assets</b> | <b>÷</b> | <b>Shares<br/>Outstanding</b> | <b>=</b> | <b>NAV</b> |
|-------------------|----------|-------------------------------|----------|------------|
| \$41,721          |          | 9,928                         |          | \$4.20     |

Unless stated, all numbers x 1,000.

The fund paid \$39,621 for these securities.

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

|                  |          |
|------------------|----------|
| Purchases        | \$19,452 |
| Sales/maturities | \$25,136 |

**Federal Tax Data**

|   |                |
|---|----------------|
| <b>Portfolio cost</b>                   | \$39,695       |
| <b>Net unrealized gains and losses:</b> |                |
| Gains                                   | \$4,628        |
| Losses                                  | + (2,582)      |
|   | <b>\$2,046</b> |

**As of October 31, 2004:****Net undistributed earnings:**

|                         |     |
|-------------------------|-----|
| Ordinary income         | \$— |
| Long-term capital gains | \$— |

**Capital losses utilized** \$2,579

**Unused capital losses:**

|                   |                 |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount     |
| 2009              | \$16,276        |
| 2010              | 18,148          |
| 2011              | + 6,697         |
|                   | <b>\$41,121</b> |

## Statement of

**Operations**

For November 1, 2004 through April 30, 2005; unaudited. All numbers x 1,000.

**Investment Income**

|                                |   |            |
|--------------------------------|---|------------|
| Dividends                      |   | \$232      |
| Interest                       | + | 1          |
| <b>Total investment income</b> |   | <b>233</b> |

**Net Realized Gains and Losses**

|  |            |
|--|------------|
| Net realized gains on investments sold | <b>214</b> |
|--|------------|

**Net Unrealized Gains and Losses**

|                                      |                |
|--------------------------------------|----------------|
| Net unrealized losses on investments | <b>(2,189)</b> |
|--------------------------------------|----------------|

**Expenses**

|   |            |
|---|------------|
| Investment adviser and administrator fees   | 131        |
| Transfer agent and shareholder service fees | 61         |
| Trustees' fees                              | 3          |
| Custodian fees                              | 15         |
| Portfolio accounting fees                   | 3          |
| Professional fees                           | 12         |
| Registration fees                           | 6          |
| Shareholder reports                         | 6          |
| Interest expense                            | 1          |
| Other expenses                              | + 1        |
| <b>Total expenses</b>                       | <b>239</b> |

**Decrease in Net Assets from Operations**

|  |           |
|--|-----------|
| Total investment income                | 233       |
| Net expenses                           | — 239     |
| Net investment loss                    | (6)       |
| Net realized gains                     | 214       |
| Net unrealized losses                  | + (2,189) |
| Decrease in net assets from operations | (\$1,981) |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.54% of the first \$500 million; 0.515% of the next \$500 million; and 0.49% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

Prior to February 28, 2005, these fees were calculated as 0.54% 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% 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 1.10% of the fund's average daily net assets through February 27, 2006.

These add up to a net loss on investments of \$1,975.

Statements of

**Changes in Net Assets**

For the current and prior report periods. All numbers x 1,000.  
Figures for current period are unaudited.

**Operations**

|   | 11/1/04-4/30/05  | 11/1/03-10/31/04 |
|---|------------------|------------------|
| Net investment loss                           | (\$6)            | (\$405)          |
| Net realized gains                            | 214              | 2,569            |
| Net unrealized losses                         | + (2,189)        | (2,375)          |
| <b>Decrease in net assets from operations</b> | <b>(\$1,981)</b> | <b>(\$211)</b>   |

**Transactions in Fund Shares**

|  | 11/1/04-4/30/05 |                  | 11/1/03-10/31/04 |                |
|--|-----------------|------------------|------------------|----------------|
|  | SHARES          | VALUE            | SHARES           | VALUE          |
| Shares sold                            | 1,186           | \$5,479          | 4,936            | \$23,679       |
| Shares redeemed                        | + (2,359)       | (10,892)         | (3,798)          | (17,389)       |
| <b>Net transactions in fund shares</b> | <b>(1,173)</b>  | <b>(\$5,413)</b> | <b>1,138</b>     | <b>\$6,290</b> |

**Shares Outstanding and Net Assets**

|                            | 11/1/04-4/30/05 |                 | 11/1/03-10/31/04 |                 |
|----------------------------|-----------------|-----------------|------------------|-----------------|
|                            | SHARES          | NET ASSETS      | SHARES           | NET ASSETS      |
| Beginning of period        | 11,101          | \$49,115        | 9,963            | \$43,036        |
| Total increase or decrease | + (1,173)       | (7,394)         | 1,138            | 6,079           |
| <b>End of period</b>       | <b>9,928</b>    | <b>\$41,721</b> | <b>11,101</b>    | <b>\$49,115</b> |

Unless stated, all numbers x 1,000.

For shares purchased on or before 4/29/05 and held less than 180 days, the fund charges 0.75% redemption fee. For shares purchased after 4/29/05 and held less than 30 days, the fund charges 2.00% redemption fee.

|                       |      |
|-----------------------|------|
| <b>Current period</b> | \$8  |
| <b>Prior period</b>   | \$44 |

Dollar amounts are net of the redemption proceeds.

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 loss in the amount of \$6 at the end of the current period.

# Financial Notes

## Business Structure of the Funds

Each of the funds discussed in this report is a series of Schwab Capital Trust, 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.

**Schwab Premier Equity Fund, Schwab Dividend Equity Fund, Schwab Small-Cap Equity Fund and Schwab Hedged Equity 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 Core Equity Fund, Schwab Financial Services Fund, Schwab Health Care Fund and Schwab Technology Fund each offer one share class.

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

The Schwab Premier Equity Fund commenced its operations on March 21, 2005. The Schwab Hedged Equity Fund started offering Investor Shares on March 1, 2005 and the fund shares in existence prior to March 1, 2005 were designated as Select Shares.

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other fund operations 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 pay dividends** from net investment income and make distributions from net capital gains once a year.

**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. The potential for losses associated with futures contracts may exceed amounts recorded in the Statement of Assets and Liabilities.

Because futures carry inherent risks, a fund must give the broker a deposit of cash and/or securities (the

## The Trust and its Funds

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

**Schwab Capital Trust** organized May 7, 1993

Schwab S&P 500 Index Fund  
 Schwab Small-Cap Index Fund  
 Schwab Total Stock Market Index Fund  
 Schwab International Index Fund  
 Schwab MarketTrack All Equity Portfolio  
 Schwab MarketTrack Growth Portfolio  
 Schwab MarketTrack Balanced Portfolio  
 Schwab MarketTrack Conservative Portfolio  
 Laudus U.S. MarketMasters Fund  
 Laudus Balanced MarketMasters Fund  
 Laudus Small-Cap MarketMasters Fund  
 Laudus International MarketMasters Fund

**Schwab Premier Equity Fund**  
**Schwab Core Equity Fund**  
**Schwab Dividend Equity Fund**  
**Schwab Small-Cap Equity Fund**  
**Schwab Hedged Equity Fund**  
**Schwab Financial Services Fund**  
**Schwab Health Care Fund**  
**Schwab Technology Fund**

Schwab Institutional Select S&P 500 Fund  
 Schwab Institutional Select Large-Cap Value Index Fund  
 Schwab Institutional Select Small-Cap Value Index Fund

“initial margin”) whenever it enters into a 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 repurchase agreements.** In a repurchase agreement, a fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created.

The funds’ repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the funds’ custodian (or, with tri-party agreements, the agent’s bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

**The Schwab Hedged Equity Fund may sell securities short (sell securities it does not own).** When it does so, the fund also places assets worth at least 100% of the value of the short securities into a segregated account, as collateral. If the market value of the short securities subsequently falls, the fund can realize a gain by closing the position. However, if the value rises, the fund typically would have to add to its collateral or close out its 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 forward currency contracts in connection with the purchase and sale of portfolio securities to minimize the uncertainty of changes in future exchange rates.** “Forwards,” as they are known, are contracts to buy and sell a currency at a set price on a future date. Forwards are similar

to futures except that they are not publicly traded, but are agreements directly between two parties.

As with futures, forwards involve certain risks that are not fully reflected in the fund’s financials. If counterparties to the contracts are unable to meet the terms of the contracts or if the value of the foreign currency changes unfavorably, the fund could sustain a loss.

**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 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 related parties.** 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 Schwab Funds 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.

| Fund                           | Amount<br>outstanding<br>at 4/30/05<br>(\$ x 1,000) | Average<br>borrowing*<br>(\$ x 1,000) | Weighted<br>average<br>interest<br>rate* (%) |
|--------------------------------|---|---------------------------------------|--|
| Schwab Financial Services Fund | —   | 62                                    | 2.82   |
| Schwab Technology Fund         | —   | 179                                   | 2.83   |

\* Based on the number of days for which the borrowing is outstanding.

**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 net realized 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. The net

investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments for net operating losses and losses on wash sales.

**Under the funds’ organizational documents, its 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:

- **Securities traded on an exchange or over-the-counter:** valued at the closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes. Securities that are primarily traded on foreign exchanges are valued at the closing values of such securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.
- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security’s last close and the time that a fund calculates net asset value: 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 and the Pricing Committee. Some of the more common reasons that may necessi-

tate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been de-listed from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.

- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards 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.

**Schwab Hedged Equity 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.

**Dividends and distributions from portfolio securities** are recorded on the date they are effective (the ex-dividend date), although the funds record certain foreign security dividends on the day they learn of the ex-dividend date.

**Income from interest and the accretion of discount** is recorded as it accrues.

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

**Expenses** that are specific to a fund are charged directly to that fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily 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 average daily 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 keeps certain assets in segregated accounts, as may be 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.

# 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 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 agreements between the Trusts and CSIM (each an “Agreement” and, together, the “Agreements”) with respect to existing funds in the Trusts. 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 fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. Finally, the Independent Trustees receive

advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

Board meetings to consider renewal of the Agreements are regularly scheduled to take place in May. Therefore, during the report period there were no Agreement renewals. However, at the November 16, 2004 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the creation of the new Schwab Premier Equity Fund (the “Fund”) and approved the amendment of the Agreement relating to the Fund’s Trust (the “Fund Agreement”) to appoint CSIM as investment adviser to the Fund. This approval 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 to be provided to the Fund under the Fund Agreement, including the resources of CSIM and its affiliates to be dedicated to the Fund;
2. CSIM’s investment performance with respect to other funds using related investment techniques and how it compared to that of other comparable mutual funds;
3. the Fund’s anticipated expenses and how those expenses compared to those of other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to other funds using similar investment strategies, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale might be realized as the Fund grows and whether fee levels relating to the Fund in the Fund Agreement reflect those economies of scale for the benefit of Fund investors.

**Nature, Extent and Quality of Services.** At prior meetings, the Board has extensively 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 have evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees have 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 have also considered Schwab's excellent reputation as a full service firm and its overall financial condition. The Board considered how these factors could apply to the Fund under the terms of the Fund Agreement. Following such evaluation, the Board concluded that, within the context of its full deliberations, the nature, extent and quality of services to be provided by CSIM to the Fund and the resources of CSIM and its affiliates to be dedicated to the Fund, supported approval of the Fund Agreement.

**Fund Performance.** At prior meetings, the Board has considered performance of other funds using related investment techniques in determining whether to renew the Agreements with respect to such funds. Specifically, the trustees have considered each existing fund's performance relative to its peer group and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of that review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the analysis. In evaluating the performance of each existing fund, the trustees have considered both risk and shareholder risk expectations for such fund. The Board also considered how these factors could apply to the Fund under the terms of the Fund Agreement. Following such evaluation, the Board

concluded that, within the context of its full deliberations, the performance of the existing funds and performance of CSIM supported approval of the Fund Agreement with respect to the Fund.

**Fund Expenses.** With respect to the Fund's expenses, the trustees considered the rate of compensation with respect to the Fund called for by the Fund Agreement, and the Fund's net operating expense ratio in comparison to those of other comparable mutual funds. The trustees also considered information about average expense ratios of comparable mutual funds in the Fund's expected peer group. Finally, 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 for at least one year and that CSIM, through the waiver, will maintain the Fund's net operating expenses at competitive levels for its distribution channels. Following such evaluation, the Board concluded that, within the context of its full deliberations, the expenses of the Fund are reasonable and supported approval of the Fund Agreement with respect to the Fund.

**Profitability.** With regard to profitability, at prior meetings the trustees have considered the compensation flowing to CSIM and its affiliates, directly or indirectly. The trustees have also considered any other benefits derived by CSIM from its relationship with the existing funds, such as investment information or other research resources. In determining profitability of CSIM and its affiliates, the trustees have reviewed management's profitability analyses with the assistance of independent accountants. The trustees have considered whether the varied levels of compensation and profitability under the Agreements and other service agreements were reasonable and justified in light of the quality of all services rendered to each existing fund by CSIM and its affiliates. The Board also considered how

these factors could apply to the Fund. However, because the Fund had no operating history at the time of the Board's deliberations, the Board did not reach a specific conclusion with respect to the profitability of CSIM and its affiliates under the Fund Agreement with respect to the Fund.

**Economies of Scale.** The trustees considered the possible existence of any economies of scale and whether those will be passed along to the 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 historically have committed, and in the future may commit, resources to minimize the effects on shareholders of diseconomies of scale during periods when Fund assets are relatively small through their expense waiver agreement. The trustees noted that such diseconomies of scale may particularly affect newer funds, such as the Fund, or funds with investment strategies that are cur-

rently 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 that, within the context of its full deliberations, the Fund should 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 Fund Agreement to reflect the addition of the Fund and concluded that the compensation with respect to the Fund under the Fund 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 of Schwab Capital Trust

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 Schwab Funds (of which there were 53 as of 4/30/05) 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.

## Individuals Who Are Interested Trustees and Officers of the Trust

| Name and Birthdate                               | Trust Position(s);<br>Trustee Since   | Main Occupations and Other Directorships and Affiliations  |
|--|---|--|
| <b>Charles R. Schwab</b> <sup>2</sup><br>7/29/37 | Chairman, Trustee:<br>Family of Funds, 1989;<br>Investments, 1991;<br>Capital Trust, 1993;<br>Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co. |

<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.

### Individuals Who Are Interested Trustees but Not Officers of the Trust

| Name and Birthdate                | Trustee Since      | Main Occupations and Other Directorships and Affiliations  |
|-----------------------------------|--------------------|--|
| <b>Randall W. Merk</b><br>7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

### Individuals Who Are Officers of the Trust but Not Trustees

| Name and Birthdate                  | Trust Office(s) Held                                       | Main Occupations and Other Directorships and Affiliations   |
|-------------------------------------|--|---|
| <b>Evelyn Dilsaver</b><br>5/4/55    | President, CEO<br>(all trusts).                            | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust.   |
| <b>Stephen B. Ward</b><br>4/5/55    | SVP, Chief Investment<br>Officer (all trusts).             | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.   |
| <b>Kimon Daifotis</b><br>7/10/59    | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Jeffrey Mortimer</b><br>9/29/63  | SVP, Chief Investment<br>Officer (all trusts).             | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc.  |
| <b>Randall Fillmore</b><br>11/11/60 | Chief Compliance<br>Officer (all trusts).                  | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc. <i>Until 9/04:</i> VP, Charles Schwab & Co., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| <b>Koji E. Felton</b><br>3/13/61    | Secretary (all trusts).                                    | SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98:</i> Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.   |
| <b>George Pereira</b><br>6/9/64     | Treasurer, Principal<br>Financial Officer<br>(all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange.  |

## Individuals Who Are Independent Trustees

| Name and Birthdate                   | Trustee Since  | Main Occupations and Other Directorships and Affiliations   |
|--------------------------------------|--|---|
| <b>Mariann Byerwalter</b><br>8/13/60 | 2000 (all trusts).   | Chair, JDN Corp. Advisory LLC; 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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>2001:</i> Stanford University, Special Assistant to the President, <i>from 1996-2001</i> , VP of Business Affairs, CFO. |
| <b>Donald F. Dorward</b><br>9/23/31  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> EVP, Managing Director, Grey Advertising. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising.   |
| <b>William A. Hasler</b><br>11/22/41 | 2000 (all trusts).   | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solelectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals).  |
| <b>Robert G. Holmes</b><br>5/15/31   | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).   |
| <b>Gerald B. Smith</b><br>9/28/50    | 2000 (all trusts).   | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy).  |
| <b>Donald R. Stephens</b><br>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> Chair, CEO, North American Trust (real estate investment trust).  |
| <b>Michael W. Wilsey</b><br>8/18/43  | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Wilsey Bennett, Inc. (real estate investment and management, and other investments).  |

# Glossary

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

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

**beta** A historical measure of an investment's volatility relative to a market index (usually the S&P 500®). The index is defined as having a beta of 1.00. Investments with a beta higher than 1.00 have been more volatile than the index; those with a beta of less than 1.00 have been less volatile.

**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.

**cap, capitalization** See "market cap."

**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.

**earnings growth rate** For a mutual fund, the average yearly rate at which the earnings of the companies in the fund's portfolio have grown, measured over the past five years.

**earnings per share (EPS)** A company's earnings, or net income, for the past 12 months, divided by the number of shares outstanding.

**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.

**market cap, market capitalization** The value of a company as determined by the total value of all shares of its stock outstanding.

**median market cap** The midpoint of the range of market caps of the stocks held by a fund. There are different ways of calculating median market cap. With a simple median, half of the stocks in the fund's portfolio would be larger than the median, and half would be smaller. With a weighted median (the type that is calculated for these funds), half of the fund's assets are invested in stocks that are larger than the median market cap, and half in stocks that are smaller.

**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.

**price-to-book ratio (P/B)** The market price of a company's stock compared with its "book value." A mutual fund's P/B is the weighted average of the P/B of all stocks in the fund's portfolio.

**price-to-earnings ratio (P/E)** The market price of a company's stock compared with earnings over the past year. A mutual fund's P/E is the weighted average of the P/E of all stocks in the fund's portfolio.

**return on equity (ROE)** The average yearly rate of return for each dollar of investors' money, measured over the past five years.

**stock** A share of ownership, or equity, in the issuing company.

**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.

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

The industry/sector classification of the funds' portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

## Notes

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