

Annual report dated October 31, 2005 enclosed.

Schwab Equity Index Funds

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®

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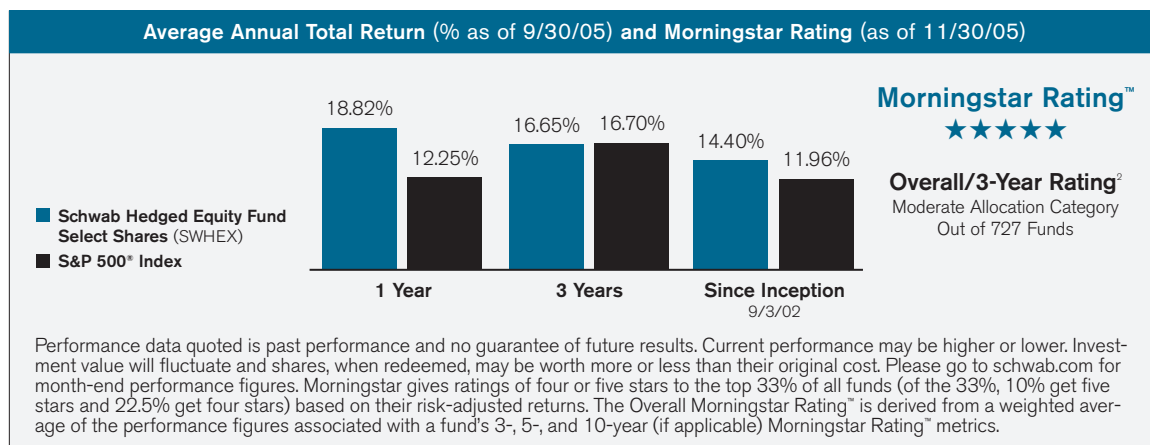
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Give Your Portfolio a 5-Star Treatment.

Add the Schwab Hedged Equity Fund™ to your portfolio today.

The Schwab Hedged Equity Fund draws on Schwab's industry-recognized stock-evaluation methodology—Schwab Equity Ratings®. The Schwab Equity Ratings evaluate approximately 3,000 US-headquartered stocks, and based on their potential to outperform the market over the next 12 months, award each stock a rating, ranging from A (strongly outperform) to F (strongly underperform). Fund managers employ hedging techniques—holding long positions primarily in A- and B-rated stocks and taking limited short positions primarily in D- and F-rated stocks—to seek to minimize market volatility while enhancing long-term performance. It's a strategy that has delivered excellent returns since the fund's inception, outperforming the S&P 500 Index while incurring less market risk.¹



To place your order, call 1-877-340-1713 or visit www.schwab.com/hedgedequity

Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-877-340-1713. Please read the prospectus carefully before investing.

The fund's long positions can decline in value at the same time the value of the short stock 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.

Investor Shares, with an inception date of 2/28/05, are not yet eligible for a Morningstar rating. Investor Shares will experience a reduced rate of return since they have a higher expense ratio. The rankings presented reflect the waiver of all or a portion of the fund's fees. Without such waiver, the rankings would/may have been lower.

¹ The fund's beta is 0.49 as of 9/30/05. Beta is a measure of an investment's sensitivity to the market, with the S&P 500 Index as the most common proxy. The index is defined as having a beta of 1. Investment with a beta higher than 1 are expected to rise and fall more than the index, while those with a beta less than 1 are expected to rise and fall less.

² Morningstar proprietary ratings reflect historical risk-adjusted performance as of 11/30/05. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The top 10% of the funds in an investment category receive 5 stars, 22.5% receive 4 stars, 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

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Schwab International
Index Fund®

charles SCHWAB

*Five cost-efficient ways to tap into the power of the stock market
for long-term growth potential.*

In This Report

| | | | |
|----------------------------------------------------|----|-----------------------------------------------------|----|
| Management's Discussion | 2 | Financial Statements | |
| Performance and Fund Facts | | Schwab S&P 500 Index Fund | 25 |
| Schwab S&P 500 Index Fund | 7 | Schwab 1000 Index® Fund | 34 |
| Schwab 1000 Index® Fund | 11 | Schwab Small-Cap Index Fund® | 43 |
| Schwab Small-Cap Index Fund® | 14 | Schwab Total Stock Market Index Fund® | 51 |
| Schwab Total Stock Market Index Fund® | 17 | Schwab International Index Fund® | 60 |
| Schwab International Index Fund® | 20 | Financial Notes | 68 |
| Fund Expenses | 23 | Investment Advisory Agreement Approval | 74 |
| | | Trustees and Officers | 77 |
| | | Glossary | 81 |

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 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

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small-cap funds are subject to greater volatility than those in other asset categories.

Dear Shareholder,

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

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have now grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

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

This commitment and experience is evident in our funds' performance. I'm especially pleased to highlight the strong performance of the Schwab Small-Cap Equity Fund which ranked in the top 2% of its category for the one-year period ended October 31, 2005.¹

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

Sincerely,

A handwritten signature in dark ink that reads "Charles Schwab".

¹ Source: Lipper Small Cap Core Funds. For the one-year period, rankings were: Select Shares #11 and Investor Shares #12 out of 604 funds. Numbers assume reinvestment of dividends and capital gains over each time period. Lipper, Inc. rankings are based on average total returns not including sales charges.

Management's Discussion for the year ended October 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for the Schwab Equity Index Funds for the one-year period ended October 31, 2005.

With their market-tracking performance, broad diversification and lower costs, index funds can complement a portfolio of actively managed funds. For example, the Schwab 1000 Index Fund includes the stocks of the largest 1,000 publicly traded companies in the United States. This fund has delivered solid results and is a tax-efficient investment that can serve as the core stock portion of an asset allocation strategy.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. In terms of development, Schwab Funds launched seven new funds in 2005. Among the new funds is the Schwab Large-Cap Growth Fund, which commenced operations on October 3, 2005. This fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion and is actively managed by a team of investment professionals that understands how a disciplined investment strategy can help achieve competitive returns.

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

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black 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.

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



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 eight years in asset management.



Larry Mano, vice president and senior portfolio manager of the investment adviser, is responsible for the day-to-day management of the Schwab Total Stock Market Index Fund and co-management of the remaining funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.

The Investment Environment and the Funds

Despite a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit all-time highs and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the Fed Funds Target eight consecutive times in the one-year report period. The moves had a limited impact on overall economic growth, due primarily to the record-low level of interest rates from which the increases began.

Despite concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.6%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past few months was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructure in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September. However, a quick action by the federal government to release Strategic Petroleum Reserves and soften oil demand led to a subsequent decline off that peak. While the full economic effect of the hurricanes was unknown at the end of the report period, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in the area.

Another significant event that occurred during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he has not yet been confirmed into office, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Source of Sector Classification: S&P and MSCI.



Tom Brown, an associate portfolio manager of the investment adviser, is responsible for day-to-day co-management 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.

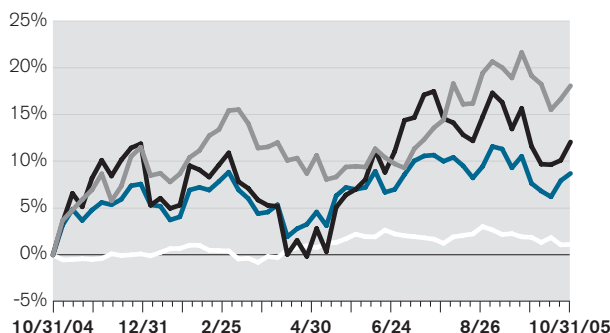
Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks held up well. The S&P 500 Index¹ posted gains of 8.72% for the one-year period ending on October 31, 2005 while the Russell 2000 Index also displayed a positive return of 12.08%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE (Morgan Stanley Capital International, Inc. Europe, Australasia, and Far East) Index also had an impressive return of 18.09% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 1.13%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we were in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

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.

- 8.72% **S&P 500® Index:** measures U.S. large-cap stocks
- 12.08% **Russell 2000® Index:** measures U.S. small-cap stocks
- 18.09% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.13% **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.

¹ 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.

Performance at a Glance

Total return for the 12 months ended 10/31/05

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

Schwab S&P 500 Index Fund

| | |
|---------------------------|--------------|
| Investor Shares | 8.44% |
| Select Shares® | 8.66% |
| e.Shares® | 8.58% |
| Benchmark | 8.72% |

Performance Details pages 7-9

Schwab 1000 Index® Fund

| | |
|---------------------------|---------------|
| Investor Shares | 10.04% |
| Select Shares | 10.21% |
| Benchmark | 10.28% |

Performance Details pages 11-12

Schwab Small-Cap Index Fund®

| | |
|---------------------------|---------------|
| Investor Shares | 12.66% |
| Select Shares | 12.86% |
| Benchmark | 12.85% |

Performance Details pages 14-15

Schwab Total Stock Market Index Fund®

| | |
|---------------------------|---------------|
| Investor Shares | 10.45% |
| Select Shares | 10.63% |
| Benchmark | 10.77% |

Performance Details pages 17-18

Schwab International Index Fund®

| | |
|---------------------------|---------------|
| Investor Shares | 17.30% |
| Select Shares | 17.56% |
| Benchmark | 17.77% |

Performance Details pages 20-21

The funds in this report are index funds and share the same basic

investment strategy: They are designed to track the performance of a stock market index. Each fund tracks a different index. Bear in mind that indices are unmanaged and cannot be invested in directly. Also, unlike an index, the fund's return includes the impact of operating expenses.

The Schwab S&P 500 Index Fund was up 8.44% for the report period, closely tracking its benchmark, the S&P 500 Index, which was up 8.72%. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses. Most of the fund's appreciation occurred during the second and third quarter of 2005. With the price of crude oil appreciating during the period, energy-related stocks were the overall top performers in the fund. Within the Schwab S&P 500 Index Fund, the best performing sectors were Utilities and Energy. On the downside, Telecommunication Services and Consumer Discretionary were the worst performing sectors and detracted from overall performance. Some of the top performing companies within the fund were Altria Group, Inc. and Exxon Mobil Corp.

The Schwab 1000 Index Fund was up 10.04% for the report period, closely tracking its benchmark, the Schwab 1000 Index, which was up 10.28%. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses. Leading contributors to the fund's performance included the Utilities and Energy sectors. Health Care also played an active role in the total returns for the period. The top performing stocks in the fund were Altria Group, Inc., Exxon Mobile Corp., and Google, Inc. Conversely, although the weakest performing industry group was Automobiles and Components, the fund's performance was not heavily impacted, due to relatively light exposure to this sector. Fannie Mae and Pfizer, Inc. were some of the worst performers of the portfolio.

The Schwab Small-Cap Index Fund returned 12.66% for the period, closely tracking its benchmark, the Schwab Small-Cap Index, which was up 12.85%. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses. Two of the leading contributors to total returns were the Energy and Industrials sectors. The top

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. 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.

performing industry within the fund was Energy, due to the appreciation of oil prices during the wake of the hurricanes. Insurance and Capital Goods were other industries that performed well throughout the reporting period. Some of the top performing stocks within the portfolio were Covanta Holding Corporation and Marine Products Corporation.

The Schwab Total Stock Market Index Fund returned 10.45% for the period, closely tracking its benchmark, the Dow Jones Wilshire 5000 Composite Index¹, which was up 10.77%. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses. Some of the top performing sectors for the fund were Utilities, Energy, and Health Care. Stocks that performed well within the portfolio were Altria Group, Inc. and Exxon Mobil Corp. In contrast, Consumer Discretionary and Telecommunication Services continued to struggle during the period. Pfizer, Inc. and Wal-Mart Stores, Inc. were among the stocks which detracted from returns.

The Schwab International Index Fund was up 17.30% for the period, closely tracking its benchmark, the Schwab International Index, which was up 17.77%. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses. Within the fund, Australia and Switzerland were the best performing countries, while Singapore and Italy were the underperformers and contributed the least to total returns. The top industries within the fund were Energy, Utilities, and Health Care Equipment and Services. Similar to the United States, Automobiles and Components was the weakest performing industry within the fund.

¹ Dow Jones®, "Wilshire", "The DJW 5000SM", "The Dow Jones Wilshire 5000SM" and "The Dow Jones Wilshire 5000 Composite IndexSM" 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 IndexSM, 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.

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.

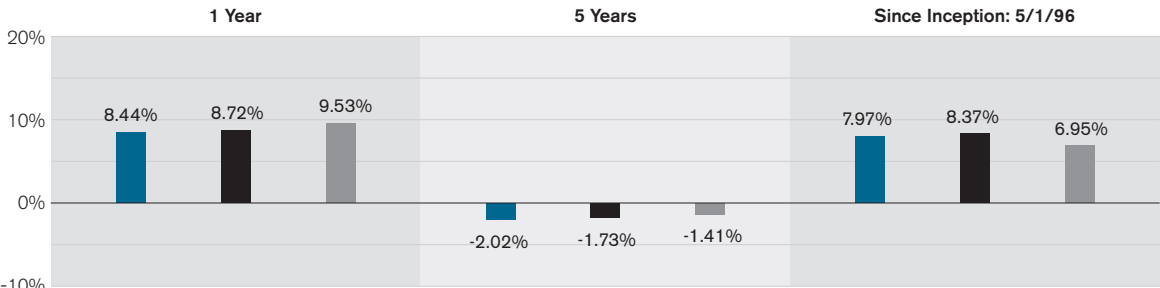
Schwab S&P 500 Index Fund

Investor Shares Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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: SWPIX
■ Benchmark: **S&P 500® Index**
■ Fund Category: **Morningstar Large-Cap Blend**



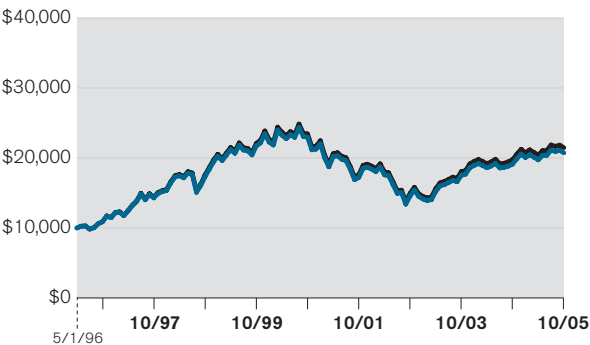
| Total Returns After Tax | 1 Year | 5 Years | Since Inception |
|-------------------------------------|--------|---------|-----------------|
| Pre-Liquidation (still own shares) | 8.18% | -2.36% | 7.62% |
| Post-Liquidation (shares were sold) | 5.82% | -1.88% | 6.84% |

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.

Performance of a Hypothetical \$10,000 Investment²

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.

■ \$20,737 **Investor Shares**
■ \$21,473 **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.

¹ 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 10/31/05 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.

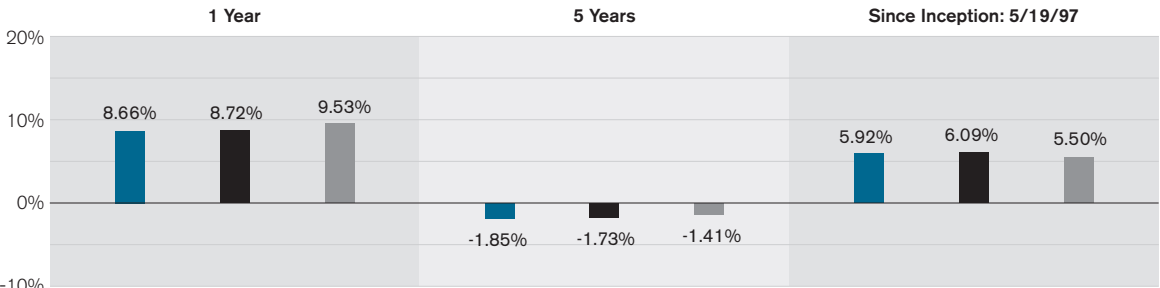
² Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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**



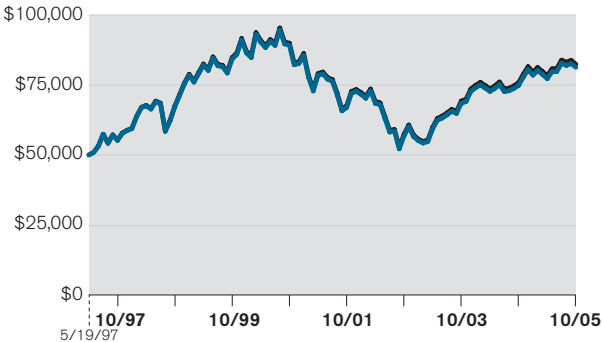
| Total Returns After Tax | 1 Year | | 5 Years | | Since Inception | |
|-------------------------------------|--------|-------|---------|--------|-----------------|-----|
| Pre-Liquidation (still own shares) | 8.38% | 7.38% | -2.23% | -2.22% | 5.52% | n/a |
| Post-Liquidation (shares were sold) | 5.99% | 5.25% | -1.75% | -1.62% | 4.94% | 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.

Performance of a Hypothetical \$50,000 Investment²

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.

\$81,295 **Select Shares**
\$82,399 **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.

¹ 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 10/31/05 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.

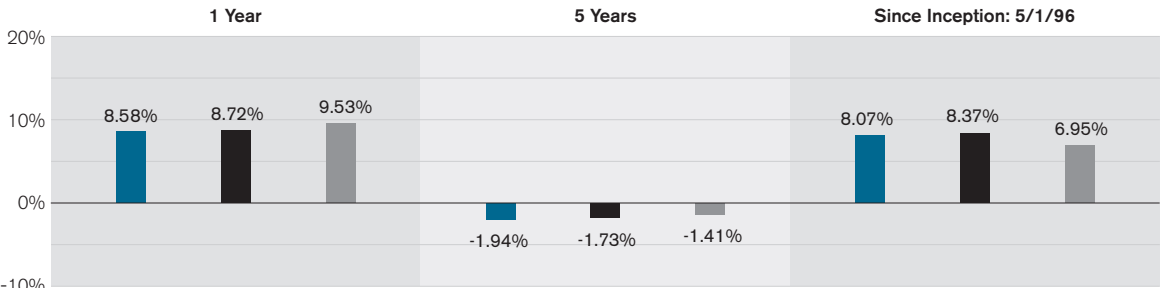
² Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

e.Shares® Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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**



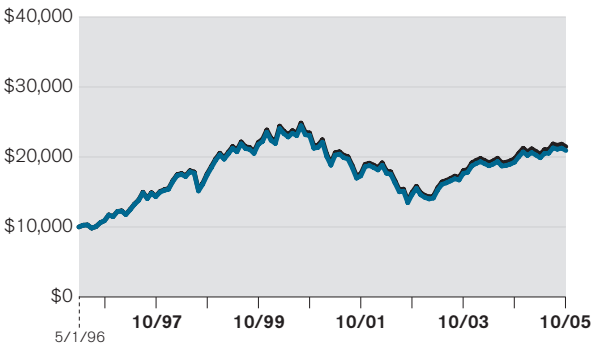
| | 1 Year | | 5 Years | | Since Inception | |
|-------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Total Returns After Tax | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> | <div><div></div></div> |
| Pre-Liquidation (still own shares) | 8.31% | 7.38% | -2.30% | -2.22% | 7.69% | n/a |
| Post-Liquidation (shares were sold) | 5.93% | 5.25% | -1.82% | -1.62% | 6.91% | 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.

Performance of a Hypothetical \$10,000 Investment²

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.

\$20,916 **e.Shares**
\$21,473 **S&P 500® Index**



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² 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 10/31/05

Style Assessment¹



Statistics

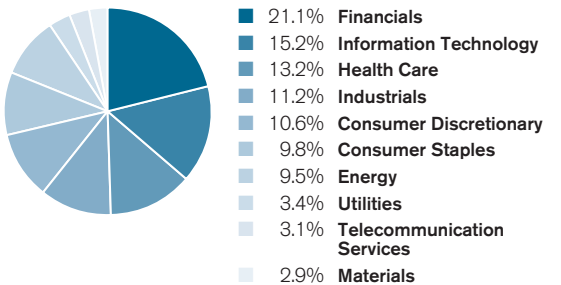
| | |
|-------------------------------------------------------------------------------|----------|
| Number of Holdings | 501 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$88,354 |
| Price/Earnings Ratio (P/E) | 18.0 |
| Price/Book Ratio (P/B) | 2.8 |
| Portfolio Turnover Rate | 4% |
| Minimum Initial Investment ² | |
| Investor Shares (\$1,000 for retirement, education and custodial accounts) | \$2,500 |
| Select Shares e.Shares | \$50,000 |
| (\$500 for retirement, education and custodial accounts) | \$1,000 |

Top Holdings³

| Security | % of Net Assets |
|--------------------------------------|-----------------|
| 1 General Electric Co. | 3.3% |
| 2 Exxon Mobil Corp. | 3.3% |
| 3 Microsoft Corp. | 2.2% |
| 4 Citigroup, Inc. | 2.2% |
| 5 Procter & Gamble Co. | 1.7% |
| 6 Johnson & Johnson | 1.7% |
| 7 Bank of America Corp. | 1.6% |
| 8 American International Group, Inc. | 1.6% |
| 9 Pfizer, Inc. | 1.5% |
| 10 Altria Group, Inc. | 1.4% |
| Total | 20.5% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

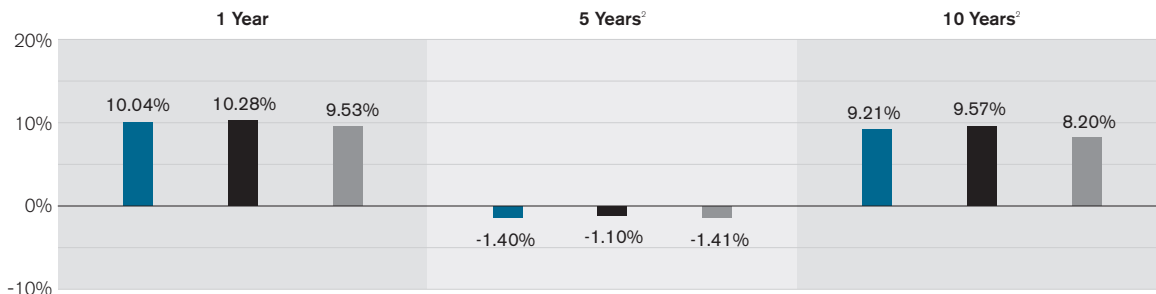
Schwab 1000 Index® Fund

Investor Shares Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns¹

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: SNXFX
 ■ Benchmark: **Schwab 1000 Index®**
 ■ Fund Category: **Morningstar Large-Cap Blend**



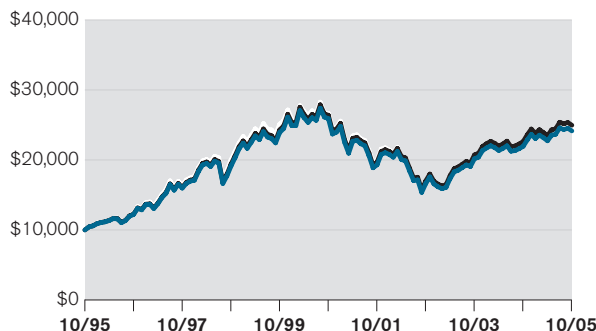
| Total Returns After Tax | 1 Year | 5 Years | 10 Years |
|--------------------------------------------|--------|---------|----------|
| Pre-Liquidation (still own shares) | 9.81% | 7.38% | -1.68% |
| Post-Liquidation (shares were sold) | 6.81% | 5.25% | -1.33% |
| | 7.38% | -2.22% | 8.83% |
| | 6.81% | -1.62% | 6.61% |

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.

Performance of a Hypothetical \$10,000 Investment²

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.

■ \$24,150 **Investor Shares**
 ■ \$24,963 **Schwab 1000 Index®**
 □ \$24,425 **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.

¹ 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 10/31/05 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.

² 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 10/31/05

Style Assessment¹



Statistics

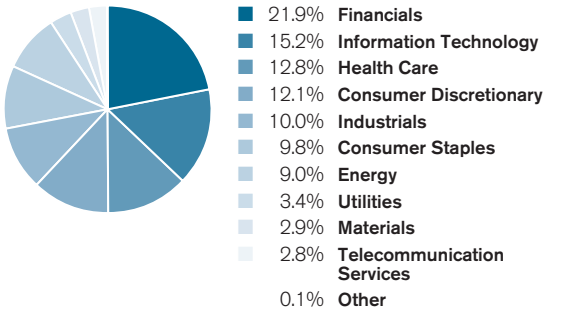
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 986 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$78,614 |
| Price/Earnings Ratio (P/E) | 18.8 |
| Price/Book Ratio (P/B) | 2.8 |
| Portfolio Turnover Rate | 6% |
| Minimum Initial Investment ² | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Top Holdings³

| | % of Net Assets |
|--------------------------------------|-----------------|
| 1 Exxon Mobil Corp. | 2.7% |
| 2 General Electric Co. | 2.7% |
| 3 Microsoft Corp. | 2.1% |
| 4 Citigroup, Inc. | 1.8% |
| 5 Wal-Mart Stores, Inc. | 1.5% |
| 6 Procter & Gamble Co. | 1.5% |
| 7 Johnson & Johnson | 1.4% |
| 8 Bank of America Corp. | 1.3% |
| 9 American International Group, Inc. | 1.3% |
| 10 Pfizer, Inc. | 1.2% |
| Total | 17.5% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

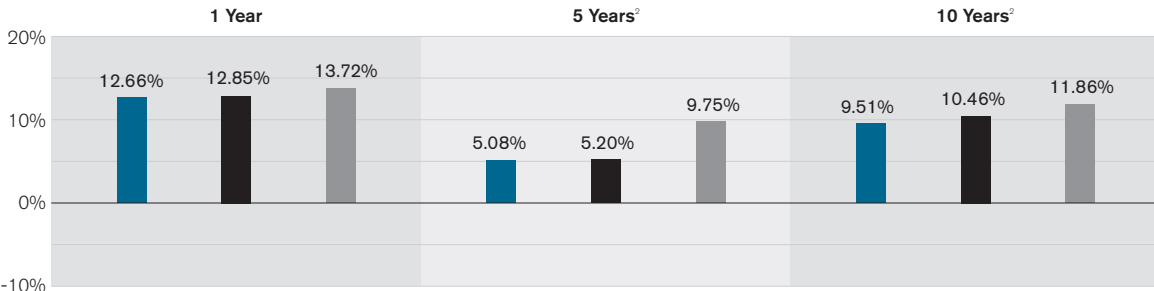
Schwab Small-Cap Index Fund®

Investor Shares Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns¹

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**



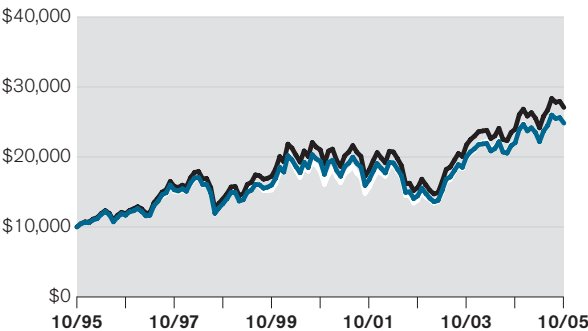
| Total Returns After Tax | 1 Year | | 5 Years | | 10 Years | |
|-------------------------------------|--------|--------|---------|-------|----------|-------|
| Pre-Liquidation (still own shares) | 12.56% | 10.95% | 4.02% | 8.39% | 8.76% | 9.88% |
| Post-Liquidation (shares were sold) | 8.36% | 8.84% | 3.77% | 7.76% | 8.03% | 9.49% |

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.

Performance of a Hypothetical \$10,000 Investment²

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.

■ \$24,830 **Investor Shares**
■ \$27,069 **Schwab Small-Cap Index®**
□ \$24,854 **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.

¹ 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 10/31/05 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.

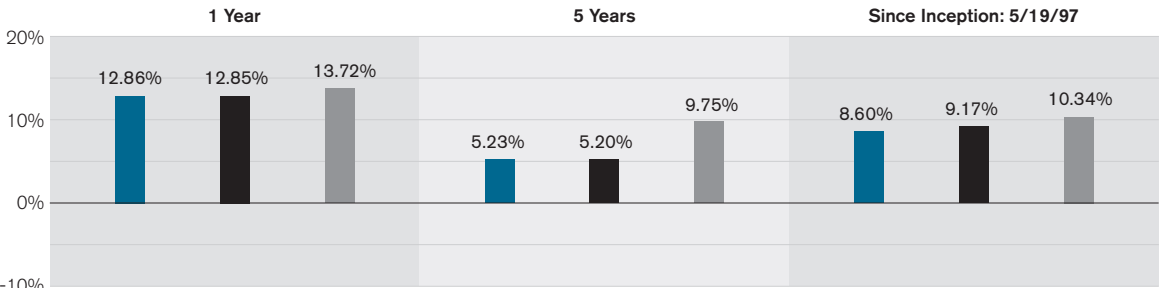
² Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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**



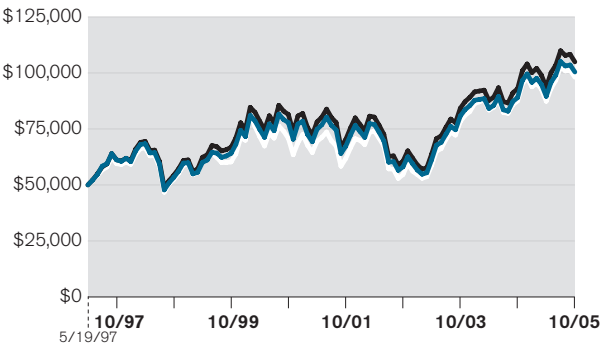
| Total Returns After Tax | 1 Year | | 5 Years | | Since Inception | |
|-------------------------------------|--------|--------|---------|-------|-----------------|-----|
| Pre-Liquidation (still own shares) | 12.73% | 10.95% | 4.13% | 8.39% | 7.72% | n/a |
| Post-Liquidation (shares were sold) | 8.52% | 8.84% | 3.88% | 7.76% | 7.07% | 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.

Performance of a Hypothetical \$50,000 Investment²

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.

■ \$100,425 **Select Shares**
■ \$104,935 **Schwab Small-Cap Index®**
□ \$ 98,073 **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.

¹ 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 10/31/05 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.

² 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 10/31/05

Style Assessment¹



Statistics

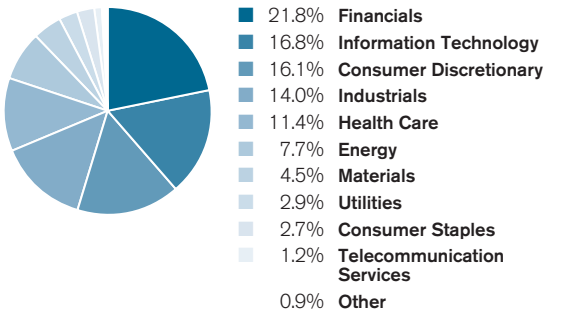
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 1,027 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$1,310 |
| Price/Earnings Ratio (P/E) | 28.3 |
| Price/Book Ratio (P/B) | 2.3 |
| Portfolio Turnover Rate | 40% |
| Minimum Initial Investment ² | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Top Holdings³

| Security | % of Net Assets |
|-----------------------------|-----------------|
| 1 Vintage Petroleum, Inc. | 0.3% |
| 2 Cimarex Energy Co. | 0.3% |
| 3 Cerner Corp. | 0.3% |
| 4 Todco, Class A | 0.3% |
| 5 Intuitive Surgical, Inc. | 0.3% |
| 6 Protein Design Labs, Inc. | 0.3% |
| 7 Gamestop Corp., Class A | 0.2% |
| 8 Range Resources Corp. | 0.2% |
| 9 Adtran, Inc. | 0.2% |
| 10 Salesforce.com, Inc. | 0.2% |
| Total | 2.6% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

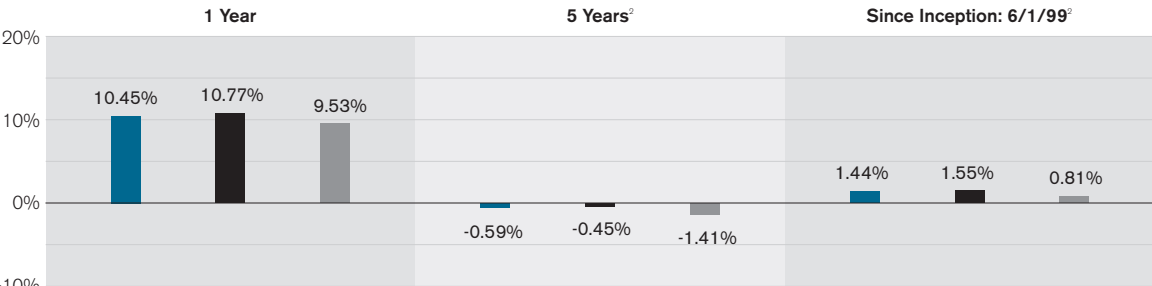
Schwab Total Stock Market Index Fund®







Investor Shares Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns¹

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**™
■ Fund Category: **Morningstar Large-Cap Blend**



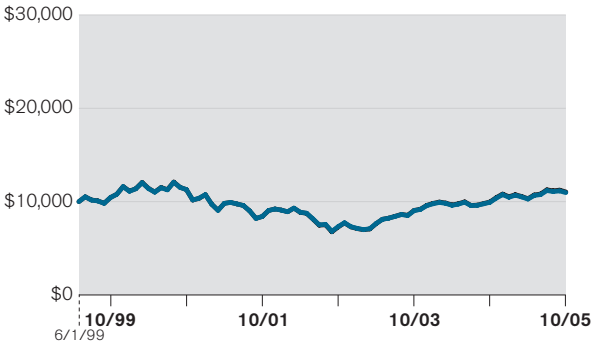
| | 1 Year | | 5 Years | | 10 Years | |
|-------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Total Returns After Tax |  |  |  |  |  |  |
| Pre-Liquidation (still own shares) | 10.25% | 7.38% | -0.87% | -2.22% | 1.19% | n/a |
| Post-Liquidation (shares were sold) | 7.05% | 5.25% | -0.65% | -1.62% | 1.09% | 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.

Performance of a Hypothetical \$10,000 Investment²

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.

■ \$10,963 **Investor Shares**
■ \$11,042 **Dow Jones Wilshire 5000 Composite 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.

¹ 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 10/31/05 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.

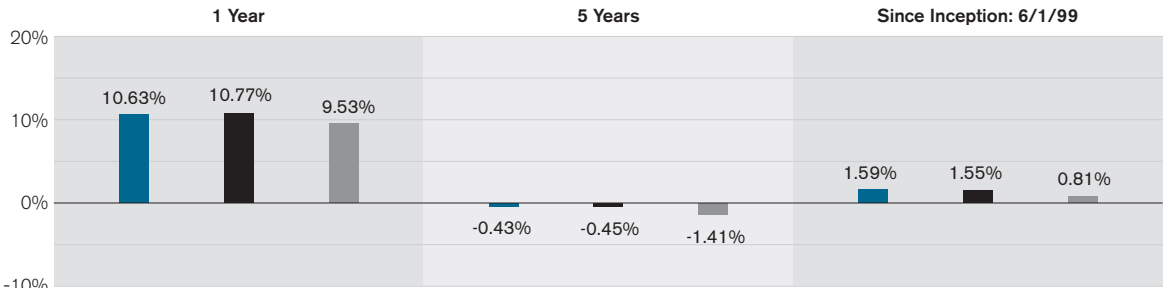
² Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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 IndexSM**
Fund Category: **Morningstar Large-Cap Blend**

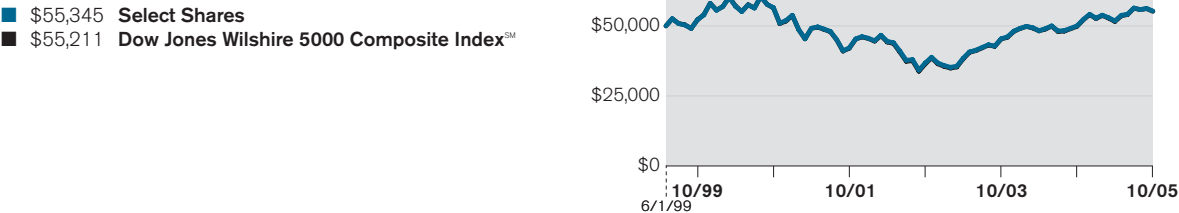


| | 1 Year | | 5 Years | | 10 Years | |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Total 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> |
| Pre-Liquidation (still own shares) | 10.40% | 7.38% | -0.75% | -2.22% | 1.31% | n/a |
| Post-Liquidation (shares were sold) | 7.20% | 5.25% | -0.54% | -1.62% | 1.20% | 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.

Performance of a Hypothetical \$50,000 Investment²

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.



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.

¹ 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 10/31/05 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.

² 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 10/31/05

Style Assessment¹

Statistics

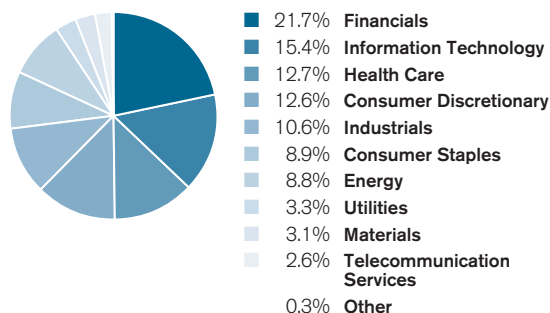
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 2,782 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$71,118 |
| Price/Earnings Ratio (P/E) | 19.2 |
| Price/Book Ratio (P/B) | 2.7 |
| Portfolio Turnover Rate | 2% |
| Minimum Initial Investment² | |
| <i>Investor Shares</i> | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| <i>Select Shares</i> | \$50,000 |

Top Holdings³

| Security | % of Net Assets |
|--------------------------------------|-----------------|
| ① Exxon Mobil Corp. | 2.5% |
| ② General Electric Co. | 2.4% |
| ③ Microsoft Corp. | 1.9% |
| ④ Citigroup, Inc. | 1.6% |
| ⑤ Procter & Gamble Co. | 1.3% |
| ⑥ Johnson & Johnson | 1.3% |
| ⑦ Bank of America Corp. | 1.2% |
| ⑧ American International Group, Inc. | 1.1% |
| ⑨ Pfizer, Inc. | 1.1% |
| ⑩ Wal-Mart Stores, Inc. | 1.1% |
| Total | 15.5% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

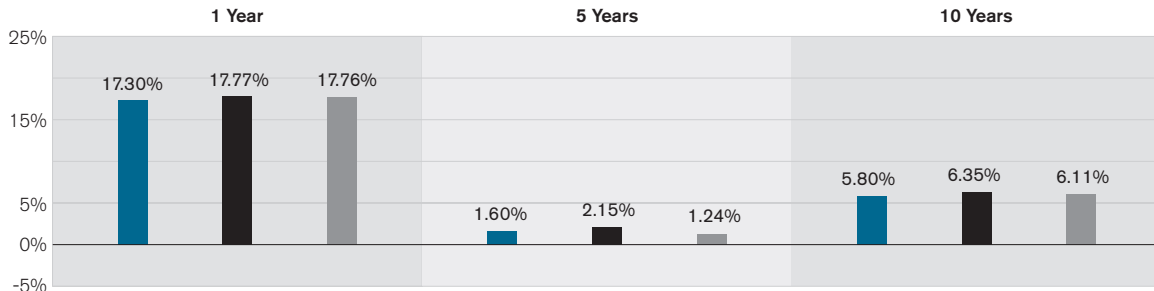
Schwab International Index Fund®

Investor Shares Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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**



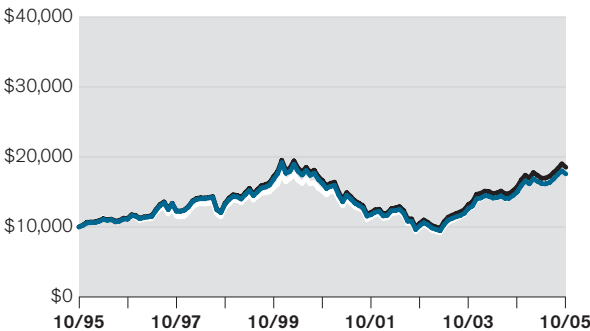
| Total Returns After Tax | 1 Year | | 5 Years | | 10 Years | |
|-------------------------------------|--------|--------|---------|-------|----------|-------|
| Pre-Liquidation (still own shares) | 16.89% | 15.37% | 1.22% | 0.30% | 5.44% | 4.68% |
| Post-Liquidation (shares were sold) | 11.51% | 10.38% | 1.19% | 0.52% | 4.90% | 4.55% |

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.

Performance of a Hypothetical \$10,000 Investment²

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.

■ \$17,574 **Investor Shares**
■ \$18,522 **Schwab International Index®**
□ \$17,588 **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.

¹ 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 10/31/05 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.

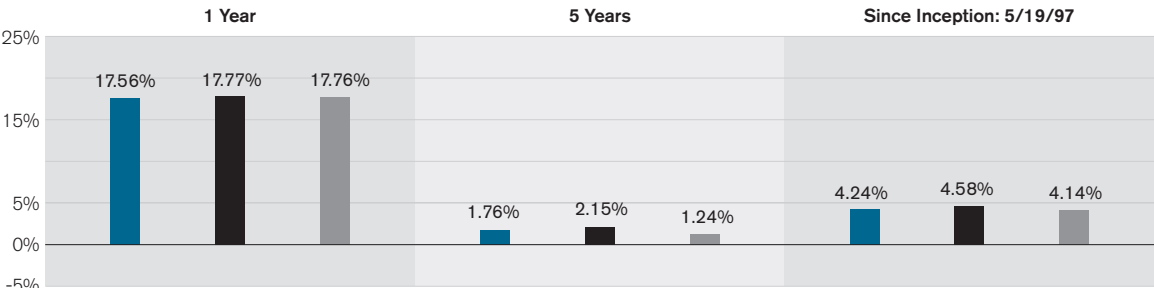
² Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares® Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1, 2}

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**



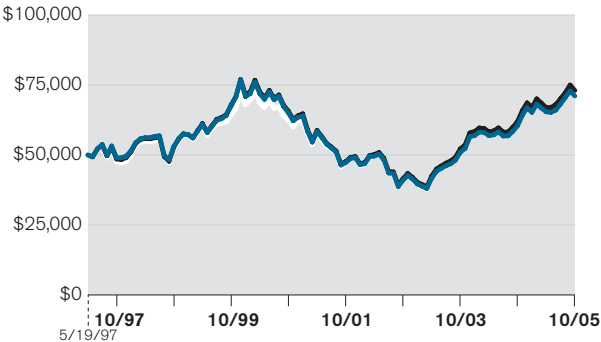
| | 1 Year | | 5 Years | | Since Inception | |
|-------------------------------------|--------|--------|---------|-------|-----------------|-----|
| Total Returns After Tax | | | | | | |
| Pre-Liquidation (still own shares) | 17.11% | 15.37% | 1.34% | 0.30% | 3.87% | n/a |
| Post-Liquidation (shares were sold) | 11.70% | 10.38% | 1.29% | 0.52% | 3.48% | 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.

Performance of a Hypothetical \$50,000 Investment²

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.

- \$71,050 **Select Shares**
- \$73,041 **Schwab International Index®**
- \$72,474 **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.

¹ 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 10/31/05 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.

² 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 10/31/05

Style Assessment¹Top Holdings²

| Security | % of Net Assets |
|-----------------------------------|-----------------|
| ① BP PLC | 3.0% |
| ② HSBC Holdings PLC | 2.2% |
| ③ Vodafone Group PLC | 2.1% |
| ④ GlaxoSmithKline PLC | 1.9% |
| ⑤ Total SA | 1.9% |
| ⑥ Novartis AG, Registered | 1.7% |
| ⑦ Royal Dutch Shell PLC, A Shares | 1.7% |
| ⑧ Toyota Motor Corp. | 1.5% |
| ⑨ Nestle SA, Registered | 1.5% |
| ⑩ Roche Holdings—Genus | 1.3% |
| Total | 18.8% |

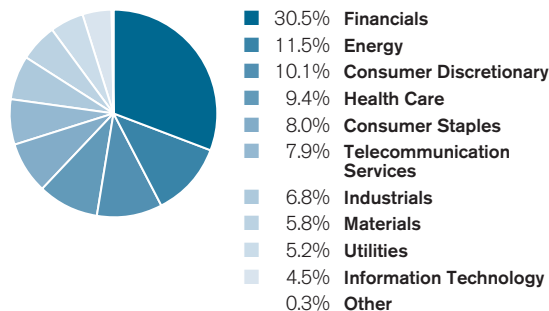
Statistics

| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 344 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$61,669 |
| Price/Earnings Ratio (P/E) | 18.0 |
| Price/Book Ratio (P/B) | 2.4 |
| Portfolio Turnover Rate | 10% |
| Minimum Initial Investment ³ | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

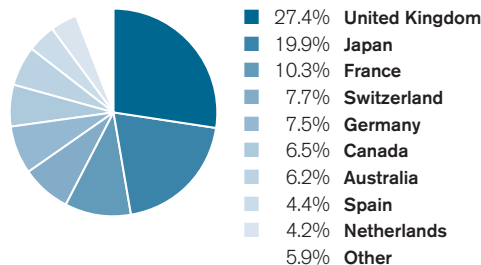
Sector and Country Weightings % of Investments

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² This list is not a recommendation of any security by the investment adviser.

³ Please see prospectus for further detail and eligibility requirements.

Fund Expenses (unaudited)

Examples for a \$1,000 Investment

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

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

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

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

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

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

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 5/1/05–10/31/05 |
|-------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------|
| Schwab S&P 500 Index Fund | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 0.37% | \$1,000 | \$1,051.50 | \$1.90 |
| Hypothetical 5% Return | 0.37% | \$1,000 | \$1,023.36 | \$1.87 |
| <i>Select Shares[®]</i> | | | | |
| Actual Return | 0.19% | \$1,000 | \$1,052.40 | \$0.98 |
| Hypothetical 5% Return | 0.19% | \$1,000 | \$1,024.25 | \$0.96 |
| <i>e.Shares[®]</i> | | | | |
| Actual Return | 0.22% | \$1,000 | \$1,052.00 | \$1.11 |
| Hypothetical 5% Return | 0.22% | \$1,000 | \$1,024.12 | \$1.10 |
| Schwab 1000 Index[®] Fund | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 0.50% | \$1,000 | \$1,062.30 | \$2.59 |
| Hypothetical 5% Return | 0.50% | \$1,000 | \$1,022.70 | \$2.54 |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.35% | \$1,000 | \$1,063.20 | \$1.81 |
| Hypothetical 5% Return | 0.35% | \$1,000 | \$1,023.45 | \$1.78 |

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

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

Fund Expenses continued

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 5/1/05–10/31/05 |
|----------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------|
| Schwab Small-Cap Index Fund® | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 0.58% | \$1,000 | \$1,120.00 | \$3.10 |
| Hypothetical 5% Return | 0.58% | \$1,000 | \$1,022.28 | \$2.96 |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.41% | \$1,000 | \$1,121.40 | \$2.18 |
| Hypothetical 5% Return | 0.41% | \$1,000 | \$1,023.15 | \$2.08 |
| Schwab Total Stock Market Index Fund® | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 0.54% | \$1,000 | \$1,067.30 | \$2.81 |
| Hypothetical 5% Return | 0.54% | \$1,000 | \$1,022.48 | \$2.75 |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.38% | \$1,000 | \$1,068.20 | \$1.99 |
| Hypothetical 5% Return | 0.38% | \$1,000 | \$1,023.28 | \$1.95 |
| Schwab International Index Fund® | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 0.68% | \$1,000 | \$1,085.20 | \$3.56 |
| Hypothetical 5% Return | 0.68% | \$1,000 | \$1,021.79 | \$3.46 |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.49% | \$1,000 | \$1,086.50 | \$2.58 |
| Hypothetical 5% Return | 0.49% | \$1,000 | \$1,022.73 | \$2.50 |

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

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

Schwab S&P 500 Index Fund

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 17.61 | 16.36 | 13.79 | 16.45 | 22.15 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.34 | 0.23 | 0.20 | 0.20 | 0.17 |
| Net realized and unrealized gains or losses | 1.14 | 1.23 | 2.57 | (2.68) | (5.70) |
| Total income or loss from investment operations | 1.48 | 1.46 | 2.77 | (2.48) | (5.53) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.30) | (0.21) | (0.20) | (0.18) | (0.17) |
| Net asset value at end of period | 18.79 | 17.61 | 16.36 | 13.79 | 16.45 |
| Total return (%) | 8.44 | 9.03 | 20.39 | (15.32) | (25.11) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.37 | 0.37 | 0.36 | 0.35 | 0.35 |
| Gross operating expenses | 0.40 | 0.45 | 0.46 | 0.46 | 0.46 |
| Net investment income | 1.74 | 1.35 | 1.45 | 1.21 | 0.95 |
| Portfolio turnover rate | 4 | 3 | 3 | 8 | 4 |
| Net assets, end of period (\$ x 1,000,000) | 3,666 | 3,849 | 3,510 | 2,760 | 3,070 |

Financial Highlights

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 17.68 | 16.41 | 13.83 | 16.50 | 22.21 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.36 | 0.26 | 0.24 | 0.22 | 0.20 |
| Net realized and unrealized gains or losses | 1.16 | 1.24 | 2.57 | (2.69) | (5.71) |
| Total income or loss from investment operations | 1.52 | 1.50 | 2.81 | (2.47) | (5.51) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.32) | (0.23) | (0.23) | (0.20) | (0.20) |
| Net asset value at end of period | 18.88 | 17.68 | 16.41 | 13.83 | 16.50 |
| Total return (%) | 8.66 | 9.25 | 20.62 | (15.20) | (24.97) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.19 | 0.19 | 0.19 | 0.19 | 0.19 |
| Gross operating expenses | 0.25 | 0.30 | 0.31 | 0.31 | 0.31 |
| Net investment income | 1.92 | 1.53 | 1.63 | 1.37 | 1.11 |
| Portfolio turnover rate | 4 | 3 | 3 | 8 | 4 |
| Net assets, end of period (\$ x 1,000,000) | 3,938 | 4,119 | 3,692 | 3,029 | 3,563 |

| e.Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 17.62 | 16.37 | 13.79 | 16.46 | 22.17 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.39 | 0.26 | 0.23 | 0.23 | 0.20 |
| Net realized and unrealized gains or losses | 1.11 | 1.21 | 2.56 | (2.71) | (5.71) |
| Total income or loss from investment operations | 1.50 | 1.47 | 2.79 | (2.48) | (5.51) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.31) | (0.22) | (0.21) | (0.19) | (0.20) |
| Net asset value at end of period | 18.81 | 17.62 | 16.37 | 13.79 | 16.46 |
| Total return (%) | 8.58 | 9.10 | 20.55 | (15.32) | (25.02) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.24 | 0.28 | 0.28 | 0.28 | 0.28 |
| Gross operating expenses | 0.25 | 0.30 | 0.31 | 0.31 | 0.31 |
| Net investment income | 1.88 | 1.44 | 1.54 | 1.28 | 1.02 |
| Portfolio turnover rate | 4 | 3 | 3 | 8 | 4 |
| Net assets, end of period (\$ x 1,000,000) | 220 | 249 | 246 | 220 | 304 |

Summary of Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|--------------------------------------------------------|--------------------|---------------------|
| 99.9% Common Stock | 6,588,735 | 7,815,203 |
| 0.0% U.S. Treasury Obligations | 692 | 692 |
| 99.9% Total Investments | 6,589,427 | 7,815,895 |
| 1.2% Collateral Invested for Securities on Loan | 93,658 | 93,658 |
| (1.1)% Other Assets and Liabilities, Net | | (85,436) |
| 100.0% Total Net Assets | | 7,824,117 |

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

Common Stock 99.9% of net assets

Automobiles & Components 0.6%

| | | |
|------------------|------------|---------------|
| Other Securities | 0.6 | 43,958 |
|------------------|------------|---------------|

Banks 7.3%

| | | |
|-----------------------------------|------------|----------------|
| ⑦ Bank of America Corp. 2,898,120 | 1.6 | 126,764 |
| U.S. Bancorp 1,310,900 | 0.5 | 38,776 |
| Wachovia Corp. 1,139,550 | 0.7 | 57,570 |
| Wells Fargo & Co. 1,210,516 | 0.9 | 72,873 |
| Other Securities | 3.6 | 278,252 |
| | 7.3 | 574,235 |

Capital Goods 8.7%

| | | |
|-----------------------------------|------------|----------------|
| 3M Co. 552,603 | 0.5 | 41,987 |
| The Boeing Co. 593,330 | 0.5 | 38,353 |
| ▲① General Electric Co. 7,564,419 | 3.3 | 256,509 |
| Tyco International Ltd. 1,441,577 | 0.5 | 38,043 |
| United Technologies Corp. 726,861 | 0.5 | 37,273 |
| Other Securities | 3.4 | 266,484 |
| | 8.7 | 678,649 |

Commercial Services & Supplies 0.9%

| | | |
|------------------|------------|---------------|
| Other Securities | 0.9 | 68,647 |
|------------------|------------|---------------|

Consumer Durables & Apparel 1.2%

| | | |
|------------------|------------|---------------|
| Other Securities | 1.2 | 96,985 |
|------------------|------------|---------------|

Diversified Financials 8.2%

| | | |
|------------------------------------|------------|----------------|
| American Express Co. 896,504 | 0.6 | 44,619 |
| ■ The Charles Schwab Corp. 745,315 | 0.1 | 11,329 |
| ④ Citigroup, Inc. 3,708,732 | 2.2 | 169,786 |
| Goldman Sachs Group, Inc. 326,946 | 0.5 | 41,316 |
| JPMorgan Chase & Co. 2,537,862 | 1.2 | 92,936 |
| Merrill Lynch & Co., Inc. 673,026 | 0.6 | 43,572 |
| Morgan Stanley 784,609 | 0.5 | 42,691 |
| Other Securities | 2.5 | 196,344 |
| | 8.2 | 642,593 |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|--------------------------------------------------|-----------------|--------------------|
| Energy 9.5% | | |
| ChevronTexaco Corp. 1,622,963 | 1.2 | 92,622 |
| ConocoPhillips 1,005,577 | 0.8 | 65,745 |
| ▲② Exxon Mobil Corp. 4,532,210 | 3.3 | 254,438 |
| Schlumberger Ltd. 421,406 | 0.5 | 38,251 |
| Other Securities | 3.7 | 287,754 |
| | 9.5 | 738,810 |
| Food & Staples Retailing 2.4% | | |
| Wal-Mart Stores, Inc. 1,783,886 | 1.1 | 84,396 |
| Other Securities | 1.3 | 105,104 |
| | 2.4 | 189,500 |
| Food Beverage & Tobacco 4.9% | | |
| ⑩ Altria Group, Inc. 1,475,494 | 1.4 | 110,736 |
| The Coca-Cola Co. 1,503,274 | 0.8 | 64,310 |
| PepsiCo, Inc. 1,199,296 | 0.9 | 70,854 |
| Other Securities | 1.8 | 134,823 |
| | 4.9 | 380,723 |
| Health Care Equipment & Services 5.2% | | |
| Medtronic, Inc. 866,206 | 0.6 | 49,079 |
| UnitedHealth Group, Inc. 916,297 | 0.7 | 53,044 |
| Other Securities | 3.9 | 307,230 |
| | 5.2 | 409,353 |
| Hotels Restaurants & Leisure 1.4% | | |
| Other Securities | 1.4 | 112,275 |
| Household & Personal Products 2.5% | | |
| ▲⑤ Procter & Gamble Co. 2,439,958 | 1.7 | 136,613 |
| Other Securities | 0.8 | 55,739 |
| | 2.5 | 192,352 |
| Insurance 4.8% | | |
| ③ American International Group, Inc. 1,871,723 | 1.6 | 121,288 |
| Other Securities | 3.2 | 253,070 |
| | 4.8 | 374,358 |
| Materials 2.9% | | |
| Other Securities | 2.9 | 230,356 |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|----------------------------------------------------------|-----------------|--------------------|
| Media 3.4% | | |
| • Comcast Corp., Class A 1,579,531 | 0.6 | 43,958 |
| Time Warner, Inc. 3,391,284 | 0.8 | 60,467 |
| Viacom, Inc., Class B 1,154,698 | 0.4 | 35,761 |
| Other Securities | 1.6 | 126,229 |
| | 3.4 | 266,415 |
| Pharmaceuticals & Biotechnology 7.9% | | |
| Abbott Laboratories 1,110,600 | 0.6 | 47,811 |
| • Amgen, Inc. 886,202 | 0.9 | 67,139 |
| Eli Lilly & Co. 805,300 | 0.5 | 40,096 |
| ⑥ Johnson & Johnson 2,136,946 | 1.7 | 133,816 |
| Merck & Co., Inc. 1,577,888 | 0.6 | 44,528 |
| ⑨ Pfizer, Inc. 5,318,550 | 1.5 | 115,625 |
| Wyeth 968,895 | 0.5 | 43,174 |
| Other Securities | 1.6 | 128,288 |
| | 7.9 | 620,477 |
| Real Estate 0.7% | | |
| Other Securities | 0.7 | 57,636 |
| Retailing 3.8% | | |
| ■ Home Depot, Inc. 1,527,260 | 0.8 | 62,679 |
| Other Securities | 3.0 | 237,676 |
| | 3.8 | 300,355 |
| Semiconductors & Semiconductor Equipment 3.1% | | |
| Intel Corp. 4,395,616 | 1.3 | 103,297 |
| Other Securities | 1.8 | 139,576 |
| | 3.1 | 242,873 |
| Software & Services 5.2% | | |
| ▲③ Microsoft Corp. 6,606,793 | 2.2 | 169,795 |
| Other Securities | 3.0 | 235,160 |
| | 5.2 | 404,955 |
| Technology Hardware & Equipment 7.0% | | |
| • Cisco Systems, Inc. 4,576,968 | 1.0 | 79,868 |
| • Dell, Inc. 1,722,383 | 0.7 | 54,910 |
| Hewlett-Packard Co. 2,067,149 | 0.8 | 57,963 |
| International Business Machines Corp. 1,151,594 | 1.2 | 94,293 |

Summary of Portfolio Holdings continued

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|-----------------------|
| Motorola, Inc. 1,783,756 | 0.5 | 39,528 |
| Qualcomm, Inc. 1,169,944 | 0.6 | 46,517 |
| Other Securities | 2.2 | 170,204 |
| | 7.0 | 543,283 |

Telecommunication Services 3.1%

| | | |
|----------------------------------------|------------|----------------|
| SBC Communications, Inc. 2,357,762 | 0.7 | 56,233 |
| Sprint Corp. (FON Group) 2,084,463 | 0.6 | 48,589 |
| Verizon Communications, Inc. 1,981,776 | 0.8 | 62,446 |
| Other Securities | 1.0 | 73,899 |
| | 3.1 | 241,167 |

Transportation 1.8%

| | | |
|----------------------------------------------|------------|----------------|
| United Parcel Service, Inc., Class B 797,790 | 0.7 | 58,191 |
| Other Securities | 1.1 | 78,311 |
| | 1.8 | 136,502 |

Utilities 3.4%

| | | |
|------------------|------------|----------------|
| Other Securities | 3.4 | 268,746 |
|------------------|------------|----------------|

Security

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

U.S. Treasury Obligations 0.0% of net assets

| | | |
|-------------------------------------------------------|------------|------------|
| ▲ U.S. Treasury Bills 3.40%-3.47%, 12/15/05 695 | 0.0 | 692 |
|-------------------------------------------------------|------------|------------|

End of investments.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Gains |
|------------------------------------------------|---------------------|----------------|------------------|
| S&P 500 Index e-mini, Long Expires 12/18/05 | 50 | 3,025 | 42 |

Statement of

Assets and Liabilities

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

Assets

| | |
|---------------------------------------------------------------------|------------------|
| Investments, at value (including \$92,279 of securities on loan) | \$7,815,895 |
| Collateral invested for securities on loan | 93,658 |
| Receivables: | |
| Fund shares sold | 5,698 |
| Dividends | 7,173 |
| Investments sold | 4,998 |
| Due from brokers for futures | 34 |
| Income from securities on loan | 19 |
| Prepaid expenses | + 76 |
| Total assets | 7,927,551 |

Liabilities

| | |
|---------------------------------------------|----------------|
| Collateral invested for securities on loan | 93,658 |
| Bank overdraft | 1,045 |
| Payables: | |
| Fund shares redeemed | 8,177 |
| Interest expense | 50 |
| Investment adviser and administrator fees | 51 |
| Transfer agent and shareholder service fees | 132 |
| Trustee fees | 1 |
| Accrued expenses | + 320 |
| Total liabilities | 103,434 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 7,927,551 |
| Total liabilities | – 103,434 |
| Net assets | \$7,824,117 |

Net Assets by Source

| | |
|-------------------------------------------|-----------|
| Capital received from investors | 7,316,267 |
| Net investment income not yet distributed | 100,796 |
| Net realized capital losses | (819,456) |
| Net unrealized capital gains | 1,226,510 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|-------------|---|--------------------|---|---------|
| Investor Shares | \$3,666,167 | | 195,079 | | \$18.79 |
| Select Shares | \$3,937,976 | | 208,606 | | \$18.88 |
| e.Shares | \$219,974 | | 11,692 | | \$18.81 |

Unless stated, all numbers x 1,000.

The fund paid \$6,589,427 for these securities.

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

| | |
|------------------|-------------|
| Purchases | \$348,154 |
| Sales/maturities | \$1,278,559 |

The fund's total security transactions (including transactions related to the redemption-in-kind) with other Schwab Funds® during the period were \$515,008.

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|--------------------|
| Portfolio Cost | \$6,654,355 |
| Net unrealized gains and losses: | |
| Gains | \$2,253,612 |
| Losses | + (1,092,072) |
| | \$1,161,540 |

Net undistributed earnings:

| | |
|-------------------------|-----------|
| Ordinary income | \$100,796 |
| 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 | 29,212 |
| 2013 | + 175,897 |
| | \$754,486 |

The following reclassifications were made as a result of the redemption-in-kind with other Schwab Funds:

Reclassifications:

| | |
|---------------------------------|-------------|
| Capital received from investors | \$231,642 |
| Reclassified as: | |
| Realized capital losses | (\$231,642) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|----------------|
| Dividends | \$172,556 |
| Interest | 100 |
| Lending of securities | + 772 |
| Total investment income | 173,428 |

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 \$546 from the investment adviser (CSIM) and \$2,764 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the net 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 \$542,673.

Net Realized Gains and Losses

| | |
|-----------------------------------------|---------------|
| Net realized gains on investments | 76,428 |
| Net realized gains on futures contracts | + 1,254 |
| Net realized gains | 77,682 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|----------------|
| Net unrealized gains on investments | 465,017 |
| Net unrealized losses on futures contracts | + (26) |
| Net unrealized gains | 464,991 |

Expenses

| | |
|----------------------------------------------|---------------|
| Investment adviser and administrator fees | 9,693 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 9,732 |
| Select Shares | 4,088 |
| e.Shares | 242 |
| Trustees' fees | 68 |
| Custodian fees | 240 |
| Portfolio accounting fees | 1,089 |
| Professional fees | 55 |
| Registration fees | 146 |
| Shareholder reports | 473 |
| Interest expense | 144 |
| Other expenses | + 113 |
| Total expenses | 26,083 |
| Expense reduction | - 3,310 |
| Net expenses | 22,773 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 173,428 |
| Net expenses | - 22,773 |
| Net investment income | 150,655 |
| Net realized gains | 77,682 |
| Net unrealized gains | + 464,991 |
| Increase in net assets from operations | \$693,328 |

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$150,655 | \$115,762 |
| Net realized gains or losses | 77,682 | (33,884) |
| Net unrealized gains | + 464,991 | 600,470 |
| Increase in net assets from operations | 693,328 | 682,348 |

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 |
| Total dividends from net investment income | \$144,350 | \$102,190 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|--------------------------|------------------|--------------------|------------------|--------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 24,608 | \$453,452 | 43,461 | \$748,116 |
| Select Shares | 44,426 | 826,293 | 48,984 | 845,969 |
| e.Shares | + 2,521 | 46,535 | 3,507 | 60,506 |
| Total shares sold | 71,555 | \$1,326,280 | 95,952 | \$1,654,591 |

Shares Reinvested

| | | | | |
|--------------------------------|--------------|------------------|--------------|-----------------|
| Investor Shares | 3,370 | \$61,509 | 2,680 | \$44,333 |
| Select Shares | 3,694 | 67,604 | 2,844 | 47,146 |
| e.Shares | + 210 | 3,838 | 182 | 3,018 |
| Total shares reinvested | 7,274 | \$132,951 | 5,706 | \$94,497 |

Shares Redeemed

| | | | | |
|------------------------------|------------------|----------------------|-----------------|----------------------|
| Investor Shares | (51,474) | (\$955,673) | (42,120) | (\$725,021) |
| Select Shares | (72,497) | (1,349,747) | (43,789) | (755,806) |
| e.Shares | + (5,182) | (96,047) | (4,554) | (78,428) |
| Total shares redeemed | (129,153) | (\$2,401,467) | (90,463) | (\$1,559,255) |

Net transactions in fund shares

| | | | | |
|--|-----------------|--------------------|---------------|------------------|
| | (50,324) | (\$942,236) | 11,195 | \$189,833 |
|--|-----------------|--------------------|---------------|------------------|

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (50,324) | (393,258) | 11,195 | 769,991 |
| End of period | 415,377 | \$7,824,117 | 465,701 | \$8,217,375 |

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$144,350 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions for the period ended 10/31/05 are:

| | Current period | Prior period |
|-----------------|----------------|--------------|
| Ordinary income | \$144,350 | \$102,190 |
| LT Cap. Gains | \$— | \$— |

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

| MarketTrack | 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 | \$192 | \$238 |
| Select Shares | 200 | 238 |
| e.Shares | + 15 | + 10 |
| Total | \$407 | \$486 |

Includes distributable net investment income in the amount of \$100,796 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[®] Fund

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 32.54 | 30.25 | 25.25 | 29.57 | 39.95 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.55 | 0.37 | 0.33 | 0.31 | 0.26 |
| Net realized and unrealized gains or losses | 2.70 | 2.26 | 4.99 | (4.36) | (10.40) |
| Total income or loss from investment operations | 3.25 | 2.63 | 5.32 | (4.05) | (10.14) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.48) | (0.34) | (0.32) | (0.27) | (0.24) |
| Net asset value at end of period | 35.31 | 32.54 | 30.25 | 25.25 | 29.57 |
| Total return (%) | 10.04 | 8.78 | 21.34 | (13.87) | (25.50) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.50 | 0.50 | 0.49 | 0.46 | 0.46 |
| Gross operating expenses | 0.50 | 0.50 | 0.51 | 0.52 | 0.51 |
| Net investment income | 1.49 | 1.15 | 1.27 | 1.04 | 0.78 |
| Portfolio turnover rate | 6 | 5 | 5 | 9 | 8 |
| Net assets, end of period (\$ x 1,000,000) | 4,166 | 4,258 | 3,974 | 3,223 | 3,852 |

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 32.56 | 30.27 | 25.26 | 29.58 | 39.98 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.56 | 0.42 | 0.37 | 0.35 | 0.31 |
| Net realized and unrealized gains or losses | 2.74 | 2.25 | 4.99 | (4.36) | (10.41) |
| Total income or loss from investment operations | 3.30 | 2.67 | 5.36 | (4.01) | (10.10) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.52) | (0.38) | (0.35) | (0.31) | (0.30) |
| Net asset value at end of period | 35.34 | 32.56 | 30.27 | 25.26 | 29.58 |
| Total return (%) | 10.21 | 8.90 | 21.52 | (13.77) | (25.40) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 |
| Gross operating expenses | 0.35 | 0.35 | 0.36 | 0.37 | 0.36 |
| Net investment income | 1.63 | 1.30 | 1.41 | 1.15 | 0.89 |
| Portfolio turnover rate | 6 | 5 | 5 | 9 | 8 |
| Net assets, end of period (\$ x 1,000,000) | 2,328 | 2,138 | 1,996 | 1,588 | 1,911 |

Summary of Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|--------------------------------------------------------|--------------------|---------------------|
| 99.8% Common Stock | 3,537,111 | 6,483,237 |
| 0.1% Short-Term Investment | 5,430 | 5,430 |
| 0.0% U.S. Treasury Obligation | 398 | 398 |
| 99.9% Total Investments | 3,542,939 | 6,489,065 |
| 3.7% Collateral Invested for Securities on Loan | 235,290 | 235,290 |
| (3.6)% Other Assets and Liabilities, Net | | (230,804) |
| 100.0% Total Net Assets | | 6,493,551 |

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

Common Stock 99.8% of net assets**Automobiles & Components** 0.5%

| | | |
|------------------|------------|---------------|
| Other Securities | 0.5 | 35,062 |
|------------------|------------|---------------|

Banks 7.1%

| | | |
|-----------------------------------|------------|----------------|
| ⑧ Bank of America Corp. 1,971,067 | 1.3 | 86,214 |
| U.S. Bancorp 915,765 | 0.4 | 27,088 |
| Wachovia Corp. 785,243 | 0.6 | 39,671 |
| Wells Fargo & Co. 829,067 | 0.8 | 49,910 |
| Other Securities | 4.0 | 255,967 |
| | 7.1 | 458,850 |

Capital Goods 7.4%

| | | |
|-----------------------------------|------------|----------------|
| 3M Co. 383,920 | 0.4 | 29,170 |
| The Boeing Co. 408,604 | 0.4 | 26,412 |
| ▲② General Electric Co. 5,117,534 | 2.7 | 173,536 |
| Other Securities | 3.9 | 251,833 |
| | 7.4 | 480,951 |

Commercial Services & Supplies 1.2%

| | | |
|------------------|------------|---------------|
| Other Securities | 1.2 | 77,000 |
|------------------|------------|---------------|

Consumer Durables & Apparel 1.5%

| | | |
|------------------|------------|---------------|
| Other Securities | 1.5 | 97,684 |
|------------------|------------|---------------|

Diversified Financials 7.5%

| | | |
|------------------------------------|------------|----------------|
| American Express Co. 618,788 | 0.5 | 30,797 |
| ■ The Charles Schwab Corp. 666,890 | 0.2 | 10,137 |
| ④ Citigroup, Inc. 2,523,200 | 1.8 | 115,512 |
| Goldman Sachs Group, Inc. 233,670 | 0.5 | 29,529 |
| JPMorgan Chase & Co. 1,753,831 | 1.0 | 64,225 |
| Merrill Lynch & Co., Inc. 453,215 | 0.5 | 29,341 |
| Morgan Stanley 535,123 | 0.4 | 29,116 |
| Other Securities | 2.6 | 177,072 |
| | 7.5 | 485,729 |

Energy 8.8%

| | | |
|---------------------------------|-----|--------|
| ■ ChevronTexaco Corp. 1,121,151 | 1.0 | 63,984 |
|---------------------------------|-----|--------|

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|--------------------------------------------------|-----------------|--------------------|
| ConocoPhillips 678,682 | 0.7 | 44,372 |
| ① Exxon Mobil Corp. 3,097,377 | 2.7 | 173,887 |
| Schlumberger Ltd. 287,603 | 0.4 | 26,106 |
| Other Securities | 4.0 | 264,531 |
| | 8.8 | 572,880 |
| Food & Staples Retailing 2.7% | | |
| ▲⑤ Wal-Mart Stores, Inc. 2,017,892 | 1.5 | 95,466 |
| Other Securities | 1.2 | 79,779 |
| | 2.7 | 175,245 |
| Food Beverage & Tobacco 5.0% | | |
| Altria Group, Inc. 1,001,686 | 1.2 | 75,177 |
| The Coca-Cola Co. 1,195,903 | 0.8 | 51,161 |
| PepsiCo, Inc. 829,508 | 0.8 | 49,007 |
| Other Securities | 2.2 | 147,929 |
| | 5.0 | 323,274 |
| Health Care Equipment & Services 5.1% | | |
| Medtronic, Inc. 595,108 | 0.5 | 33,719 |
| UnitedHealth Group, Inc. 630,168 | 0.6 | 36,480 |
| Other Securities | 4.0 | 263,256 |
| | 5.1 | 333,455 |
| Hotels Restaurants & Leisure 1.7% | | |
| Other Securities | 1.7 | 113,138 |
| Household & Personal Products 2.1% | | |
| ▲⑥ Procter & Gamble Co. 1,682,360 | 1.5 | 94,195 |
| Other Securities | 0.6 | 43,929 |
| | 2.1 | 138,124 |
| Insurance 5.6% | | |
| ⑨ American International Group, Inc. 1,278,239 | 1.3 | 82,830 |
| • Berkshire Hathaway, Inc., Class A 766 | 1.0 | 65,799 |
| Other Securities | 3.3 | 216,355 |
| | 5.6 | 364,984 |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|----------------------------------------------------------|-----------------|--------------------|
| Materials 3.1% | | |
| Other Securities | 3.1 | 199,965 |
| Media 4.0% | | |
| ■ Comcast Corp., Class A 1,107,239 | 0.5 | 30,814 |
| ■ Time Warner, Inc. 2,167,003 | 0.6 | 38,638 |
| Other Securities | 2.9 | 192,952 |
| | 4.0 | 262,404 |
| Pharmaceuticals & Biotechnology 7.7% | | |
| Abbott Laboratories 760,007 | 0.5 | 32,718 |
| • Amgen, Inc. 619,877 | 0.7 | 46,962 |
| Eli Lilly & Co. 546,393 | 0.4 | 27,205 |
| • Genentech, Inc. 506,813 | 0.7 | 45,917 |
| ⑦ Johnson & Johnson 1,453,305 | 1.4 | 91,006 |
| Merck & Co., Inc. 1,090,550 | 0.5 | 30,775 |
| ⑩ Pfizer, Inc. 3,636,919 | 1.2 | 79,067 |
| Wyeth 658,266 | 0.5 | 29,332 |
| Other Securities | 1.8 | 115,403 |
| | 7.7 | 498,385 |
| Real Estate 1.7% | | |
| Other Securities | 1.7 | 110,340 |
| Retailing 4.0% | | |
| Home Depot, Inc. 1,035,686 | 0.7 | 42,505 |
| Other Securities | 3.3 | 219,522 |
| | 4.0 | 262,027 |
| Semiconductors & Semiconductor Equipment 2.8% | | |
| Intel Corp. 3,042,293 | 1.1 | 71,494 |
| Other Securities | 1.7 | 108,188 |
| | 2.8 | 179,682 |
| Software & Services 6.1% | | |
| • Google, Inc., Class A 133,618 | 0.8 | 49,725 |
| ▲③ Microsoft Corp. 5,213,207 | 2.1 | 133,979 |
| • Oracle Corp. 2,561,449 | 0.5 | 32,479 |
| Other Securities | 2.7 | 181,948 |
| | 6.1 | 398,131 |

Summary of Portfolio Holdings continued

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------|--------------------|
| Technology Hardware & Equipment 6.3% | | |
| • Cisco Systems, Inc. 3,213,218 | 0.9 | 56,071 |
| • Dell, Inc. 1,202,423 | 0.6 | 38,333 |
| Hewlett-Packard Co. 1,438,272 | 0.6 | 40,329 |
| International Business Machines Corp. 797,737 | 1.0 | 65,319 |
| Qualcomm, Inc. 805,483 | 0.5 | 32,026 |
| Other Securities | 2.7 | 175,370 |
| | 6.3 | 407,448 |

Telecommunication Services 2.8%

| | | |
|----------------------------------------|------------|----------------|
| SBC Communications, Inc. 1,625,177 | 0.6 | 38,761 |
| Sprint Corp. (FON Group) 1,367,507 | 0.5 | 31,877 |
| Verizon Communications, Inc. 1,361,951 | 0.7 | 42,915 |
| Other Securities | 1.0 | 66,921 |
| | 2.8 | 180,474 |

Transportation 1.7%

| | | |
|----------------------------------------------|------------|----------------|
| United Parcel Service, Inc., Class B 552,244 | 0.6 | 40,281 |
| Other Securities | 1.1 | 66,601 |
| | 1.7 | 106,882 |

Utilities 3.4%

| | | |
|------------------|------------|----------------|
| Other Securities | 3.4 | 221,123 |
|------------------|------------|----------------|

Short-Term Investment 0.1% of net assets

| | | |
|--------------------------------------------|------------|--------------|
| Provident Institutional TempFund 5,429,809 | 0.1 | 5,430 |
|--------------------------------------------|------------|--------------|

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

U.S. Treasury Obligation 0.0% of net assets

| | | |
|------------------------------------------|------------|------------|
| ▲ U.S. Treasury Bill 3.35%, 12/15/05 400 | 0.0 | 398 |
|------------------------------------------|------------|------------|

End of investments.

Security
Rate, Maturity Date

Face Amount
(\$ x 1,000)

Value
(\$ x 1,000)

Collateral Invested for Securities on Loan 3.7% of net assets**Commercial Paper & Other Corporate Obligations 0.1%**

| | | |
|-----------------------------------------|-------|--------------|
| Skandinav Enskilda Bank 3.94%, 11/17/05 | 3,486 | 3,486 |
|-----------------------------------------|-------|--------------|

Security and Number of Shares

Short-Term Investments 3.6%

| | | |
|----------------------------------------------|--|---------|
| Institutional Money Market Trust 164,341,566 | | 164,342 |
|----------------------------------------------|--|---------|

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | |
|--------------------------------------------------|-----------------------------|----------------|
| National City Bank, Time Deposit 3.98%, 11/01/05 | 57,906 | 57,906 |
| Nordea Bank, Time Deposit 4.03%, 11/01/05 | 4,778 | 4,778 |
| Rabobank, Time Deposit 4.03%, 11/01/05 | 4,778 | 4,778 |
| | | 231,804 |

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

| Futures Contracts | | | |
|------------------------------------------------|------------------------|-------------------|----------------------|
| | Number of Contracts | Contract Value | Unrealized Losses |
| S&P 500 Index e-mini, Long Expires 12/18/05 | 50 | 3,025 | (8) |

Statement of

Assets and Liabilities

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

Assets

| | |
|----------------------------------------------------------------------|------------------|
| Investments, at value (including \$228,955 of securities on loan) | \$6,489,065 |
| Collateral invested for securities on loan | 235,290 |
| Receivables: | |
| Fund shares sold | 4,080 |
| Interest | 4 |
| Dividends | 5,280 |
| Income from securities on loan | 105 |
| Prepaid expenses | + 67 |
| Total assets | 6,733,891 |

Liabilities

| | |
|---------------------------------------------|----------------|
| Collateral invested for securities on loan | 235,290 |
| Payables: | |
| Fund shares redeemed | 4,523 |
| Due to brokers from futures | 8 |
| Interest expense | 26 |
| Investment adviser and administrator fees | 117 |
| Transfer agent and shareholder service fees | 103 |
| Trustee fees | 1 |
| Accrued expenses | + 272 |
| Total liabilities | 240,340 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 6,733,891 |
| Total liabilities | - 240,340 |
| Net assets | \$6,493,551 |

Net Assets by Source

| | |
|-------------------------------------------|-----------|
| Capital received from investors | 3,993,831 |
| Net investment income not yet distributed | 67,176 |
| Net realized capital losses | (513,574) |
| Net unrealized capital gains | 2,946,118 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|-------------|---|--------------------|---|---------|
| Investor Shares | \$4,165,812 | | 117,989 | | \$35.31 |
| Select Shares | \$2,327,739 | | 65,873 | | \$35.34 |

Unless stated, all numbers x 1,000.

The fund paid \$3,542,939 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$373,854 |
| Sales/maturities | \$795,419 |

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

| | |
|-----------------------------------------|--------------------|
| Portfolio cost | \$3,547,691 |
| Net unrealized gains and losses: | |
| Gains | \$3,251,927 |
| Losses | + (310,553) |
| | \$2,941,374 |

Net undistributed earnings:

| | |
|--------------------------------|-----------------|
| Ordinary income | \$67,176 |
| Long-term capital gains | \$— |
| Capital losses utilized | \$30,478 |

Unused capital losses:

| | |
|-------------------|------------------|
| Expires 10/31 of: | Loss amount |
| 2009 | 82,442 |
| 2010 | 250,409 |
| 2011 | 164,037 |
| 2012 | + 11,942 |
| | \$508,830 |

Reclassifications:

| | |
|-------------------------------------------|---------|
| Net realized capital gains | \$189 |
| Reclassified as: | |
| Net investment income not yet distributed | (\$189) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|----------------|
| Dividends | \$129,880 |
| Interest | 58 |
| Lending of securities | + 1,268 |
| Total investment income | 131,206 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|---------------|
| Net realized gains on investments | 44,606 |
| Net realized gains on futures contracts | + 838 |
| Net realized gains | 45,444 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|----------------|
| Net unrealized gains on investments | 485,694 |
| Net unrealized losses on futures contracts | + (95) |
| Net unrealized gains | 485,599 |

Expenses

| | |
|----------------------------------------------|---------------|
| Investment adviser and administrator fees | 14,690 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 10,872 |
| Select Shares | 2,243 |
| Trustees' fees | 54 |
| Custodian fees | 201 |
| Portfolio accounting fees | 864 |
| Professional fees | 55 |
| Registration fees | 144 |
| Shareholder reports | 412 |
| Interest expense | 88 |
| Other expenses | + 91 |
| Total expenses | 29,714 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 131,206 |
| Net expenses | - 29,714 |
| Net investment income | 101,492 |
| Net realized gains | 45,444 |
| Net unrealized gains | + 485,599 |
| Increase in net assets from operations | \$632,535 |

Net of \$14 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 net 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:

| Share Class | % of Average Daily Net Assets |
|--------------------|--------------------------------------|
| 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 \$531,043

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$101,492 | \$76,032 |
| Net realized gains or losses | 45,444 | (10,801) |
| Net unrealized gains | + 485,599 | 458,477 |
| Increase in net assets from operations | 632,535 | 523,708 |

Distributions Paid**Dividends from net investment income**

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

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|----------------------|------------------|----------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 10,950 | \$375,768 | 19,479 | \$619,405 |
| Select Shares | + 11,316 | 393,335 | 9,808 | 311,874 |
| Total shares sold | 22,266 | \$769,103 | 29,287 | \$931,279 |
| Shares Reinvested | | | | |
| Investor Shares | 1,674 | \$56,670 | 1,365 | \$41,809 |
| Select Shares | + 840 | 28,419 | 698 | 21,363 |
| Total shares reinvested | 2,514 | \$85,089 | 2,063 | \$63,172 |
| Shares Redeemed | | | | |
| Investor Shares | (25,490) | (\$881,852) | (21,346) | (\$679,008) |
| Select Shares | + (11,930) | (410,943) | (10,792) | (343,161) |
| Total shares redeemed | (37,420) | (\$1,292,795) | (32,138) | (\$1,022,169) |
| Net transactions in fund shares | (12,640) | (\$438,603) | (788) | (\$27,718) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (12,640) | 98,300 | (788) | 425,618 |
| End of period | 183,862 | \$6,493,551 | 196,502 | \$6,395,251 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$95,632 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

| | Current period | Prior period |
|-------------------------|----------------|--------------|
| Ordinary income | \$95,632 | \$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 | \$151 |
| Select Shares | + 65 |
| Total | \$216 |

Prior period:

| | |
|-----------------|--------------|
| Investor Shares | \$218 |
| Select Shares | + 83 |
| Total | \$301 |

Dollar amounts are net of the redemption fee proceeds.

Includes distributable net investment income in the amount of \$67,176 and \$61,506 at the end of the current period and prior period, respectively.

Schwab Small-Cap Index Fund®

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 19.92 | 18.22 | 13.27 | 15.98 | 21.06 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.14 | 0.13 | 0.11 | 0.13 | 0.07 |
| Net realized and unrealized gains or losses | 2.38 | 1.68 | 4.98 | (2.17) | (2.76) |
| Total income or loss from investment operations | 2.52 | 1.81 | 5.09 | (2.04) | (2.69) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.13) | (0.11) | (0.14) | (0.09) | (0.08) |
| Distributions from net realized gains | – | – | – | (0.58) | (2.31) |
| Total distributions | (0.13) | (0.11) | (0.14) | (0.67) | (2.39) |
| Net asset value at end of period | 22.31 | 19.92 | 18.22 | 13.27 | 15.98 |
| Total return (%) | 12.66 | 9.98 | 38.72 | (13.66) | (13.66) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.58 | 0.59 | 0.56 | 0.49 | 0.49 |
| Gross operating expenses | 0.58 | 0.59 | 0.60 | 0.60 | 0.61 |
| Net investment income | 0.57 | 0.66 | 0.74 | 0.77 | 0.49 |
| Portfolio turnover rate | 40 | 39 | 34 | 44 | 49 |
| Net assets, end of period (\$ x 1,000,000) | 823 | 869 | 886 | 722 | 804 |

Financial Highlights

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 19.96 | 18.25 | 13.28 | 16.00 | 21.09 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.17 | 0.17 | 0.14 | 0.14 | 0.11 |
| Net realized and unrealized gains or losses | 2.39 | 1.68 | 4.99 | (2.18) | (2.78) |
| Total income or loss from investment operations | 2.56 | 1.85 | 5.13 | (2.04) | (2.67) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.16) | (0.14) | (0.16) | (0.10) | (0.11) |
| Distributions from net realized gains | — | — | — | (0.58) | (2.31) |
| Total distributions | (0.16) | (0.14) | (0.16) | (0.68) | (2.42) |
| Net asset value at end of period | 22.36 | 19.96 | 18.25 | 13.28 | 16.00 |
| Total return (%) | 12.86 | 10.16 | 39.02 | (13.62) | (13.56) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.41 | 0.42 | 0.41 | 0.38 | 0.38 |
| Gross operating expenses | 0.43 | 0.44 | 0.45 | 0.45 | 0.46 |
| Net investment income | 0.74 | 0.82 | 0.89 | 0.88 | 0.60 |
| Portfolio turnover rate | 40 | 39 | 34 | 44 | 49 |
| Net assets, end of period (\$ x 1,000,000) | 795 | 761 | 759 | 638 | 727 |

Summary of Portfolio Holdings as of October 31, 2005

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.

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
- All or a portion of this security is on loan

| Holdings by Category | Cost (\$x1,000) | Value (\$x1,000) |
|---------------------------------------------------------|--------------------|---------------------|
| 99.1% Common Stock | 1,252,687 | 1,603,334 |
| 0.8% Short-Term Investment | 12,862 | 12,862 |
| 0.0% U.S. Treasury Obligations | 483 | 483 |
| 99.9% Total Investments | 1,266,032 | 1,616,679 |
| 13.4% Collateral Invested for Securities on Loan | 216,545 | 216,545 |
| (13.3)% Other Assets and Liabilities, Net | | (215,250) |
| 100.0% Total Net Assets | | 1,617,974 |

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

Common Stock 99.1% of net assets

Automobiles & Components 0.9%

| | | |
|------------------|------------|---------------|
| Other Securities | 0.9 | 14,499 |
|------------------|------------|---------------|

Banks 8.7%

| | | |
|------------------|------------|----------------|
| Other Securities | 8.7 | 141,550 |
|------------------|------------|----------------|

Capital Goods 8.6%

| | | |
|-----------------------------------------|------------|----------------|
| Crane Co. 97,717 | 0.2 | 3,025 |
| • Flowserve Corp. 86,629 | 0.2 | 3,032 |
| ■ GATX Corp. 81,695 | 0.2 | 3,053 |
| Kennametal, Inc. 60,398 | 0.2 | 3,087 |
| • McDermott International, Inc. 107,475 | 0.2 | 3,905 |
| ■ The Shaw Group, Inc. 123,985 | 0.2 | 3,323 |
| ■ USG Corp. 64,943 | 0.2 | 3,839 |
| • WESCO International, Inc. 76,376 | 0.2 | 3,036 |
| York International Corp. 64,904 | 0.2 | 3,642 |
| Other Securities | 6.8 | 109,899 |
| | 8.6 | 139,841 |

Commercial Services & Supplies 3.9%

| | | |
|------------------|------------|---------------|
| Other Securities | 3.9 | 62,617 |
|------------------|------------|---------------|

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) |
|--------------------------------------------------|-----------------|--------------------|-------------------------------------------------|-----------------|--------------------|
| Consumer Durables & Apparel 3.3% | | | Hotels Restaurants & Leisure 3.0% | | |
| Other Securities | 3.3 | 53,647 | Other Securities | 3.0 | 48,340 |
| Diversified Financials 2.0% | | | Household & Personal Products 0.8% | | |
| ■ CompuCredit Corp. 76,489 | 0.2 | 3,352 | Other Securities | 0.8 | 12,227 |
| MoneyGram International, Inc. 131,867 | 0.2 | 3,204 | Insurance 3.8% | | |
| Other Securities | 1.6 | 25,663 | ▲ Philadelphia Consolidated Holding Co. 36,819 | 0.2 | 3,544 |
| | 2.0 | 32,219 | Other Securities | 3.6 | 57,612 |
| Energy 7.1% | | | | 3.8 | 61,156 |
| Cabot Oil & Gas Corp. 82,102 | 0.2 | 3,759 | Materials 5.1% | | |
| ▲ ② Cimarex Energy Co. 126,287 | 0.3 | 4,958 | ▲ Aptargroup, Inc. 60,297 | 0.2 | 3,087 |
| Frontier Oil Corp. 89,184 | 0.2 | 3,289 | ▲ Chemtura Corp. 366,090 | 0.2 | 3,917 |
| ⑧ Range Resources Corp. 112,016 | 0.2 | 3,998 | ▲ Eagle Materials, Inc. 31,173 | 0.2 | 3,320 |
| • Spinnaker Exploration Co. 51,243 | 0.2 | 3,156 | ▲ FMC Corp. 58,253 | 0.2 | 3,171 |
| ■ St. Mary Land & Exploration Co. 89,860 | 0.2 | 3,056 | Other Securities | 4.3 | 69,085 |
| • ④ Todco, Class A 99,877 | 0.3 | 4,469 | | 5.1 | 82,580 |
| ▲ ① Vintage Petroleum, Inc. 108,000 | 0.3 | 5,604 | Media 2.5% | | |
| Other Securities | 5.2 | 83,127 | Other Securities | 2.5 | 40,343 |
| | 7.1 | 115,416 | Pharmaceuticals & Biotechnology 4.1% | | |
| Food & Staples Retailing 0.7% | | | ▲ Kos Pharmaceuticals, Inc. 61,130 | 0.2 | 3,668 |
| Other Securities | 0.7 | 10,660 | • Neurocrine Biosciences, Inc. 57,408 | 0.2 | 3,032 |
| Food Beverage & Tobacco 1.3% | | | ▲ ⑥ Protein Design Labs, Inc. 155,921 | 0.3 | 4,369 |
| Other Securities | 1.3 | 21,100 | ▲ Techne Corp. 68,072 | 0.2 | 3,691 |
| Health Care Equipment & Services 7.5% | | | ■ Vertex Pharmaceuticals, Inc. 138,194 | 0.2 | 3,144 |
| ■ Advanced Medical Optics, Inc. 101,894 | 0.2 | 3,636 | Other Securities | 3.0 | 47,665 |
| ■ ③ Cerner Corp. 58,675 | 0.3 | 4,955 | | 4.1 | 65,569 |
| ▲ ⑤ Intuitive Surgical, Inc. 49,955 | 0.3 | 4,433 | Real Estate 7.3% | | |
| ▲ LifePoint Hospitals, Inc. 81,441 | 0.2 | 3,184 | Essex Property Trust, Inc. 35,995 | 0.2 | 3,235 |
| ▲ Mentor Corp. 70,133 | 0.2 | 3,156 | Global Signal, Inc. 86,141 | 0.2 | 3,571 |
| ▲ Pediatrix Medical Group, Inc. 39,726 | 0.2 | 3,061 | Other Securities | 6.9 | 112,138 |
| ▲ Sierra Health Services, Inc. 43,728 | 0.2 | 3,280 | | 7.3 | 118,944 |
| ▲ VCA Antech, Inc. 135,670 | 0.2 | 3,500 | Retailing 5.4% | | |
| Other Securities | 5.7 | 91,622 | ■ ⑦ Gamestop Corp., Class A 116,025 | 0.2 | 4,116 |
| | 7.5 | 120,827 | | | |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|-------------------------------|-----------------|-----------------------|
| Other Securities | 5.2 | 83,918 |
| | 5.4 | 88,034 |

Semiconductors & Semiconductor Equipment 3.3%

| | | |
|------------------|-----|--------|
| Other Securities | 3.3 | 53,566 |
|------------------|-----|--------|

Software & Services 7.9%

| | | |
|---------------------------------------|------------|----------------|
| ■ Akamai Technologies, Inc. 208,157 | 0.2 | 3,609 |
| • CNET Networks, Inc. 224,828 | 0.2 | 3,055 |
| ▲ Parametric Technology Corp. 471,910 | 0.2 | 3,072 |
| ▲ ⑩ Salesforce.com, Inc. 157,259 | 0.2 | 3,930 |
| ▲ Sybase, Inc. 158,962 | 0.2 | 3,537 |
| Other Securities | 6.9 | 110,759 |
| | 7.9 | 127,962 |

Technology Hardware & Equipment 5.4%

| | | |
|--------------------------|------------|---------------|
| ▲ ⑨ Adtran, Inc. 131,924 | 0.2 | 3,991 |
| • UNOVA, Inc. 100,816 | 0.2 | 3,125 |
| Other Securities | 5.0 | 80,834 |
| | 5.4 | 87,950 |

Telecommunication Services 1.2%

| | | |
|------------------------------------------|------------|---------------|
| • Alamosa Holdings, Inc. 219,874 | 0.2 | 3,254 |
| ■ Level 3 Communications, Inc. 1,121,772 | 0.2 | 3,253 |
| Other Securities | 0.8 | 12,966 |
| | 1.2 | 19,473 |

Transportation 2.3%

| | | |
|---------------------|------------|---------------|
| ■ AMR Corp. 266,155 | 0.2 | 3,596 |
| Other Securities | 2.1 | 33,188 |
| | 2.3 | 36,784 |

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

Utilities 3.0%

| | | |
|------------------|-----|--------|
| Other Securities | 3.0 | 48,030 |
|------------------|-----|--------|

Security

Rate, Maturity Date

Face Amount (\$ x 1,000)

Short-Term Investments 0.8% of net assets

Wachovia Bank, Grand Cayman
Time Deposit
3.48%, 11/01/05
12,862

0.8 12,862**U.S. Treasury Obligations 0.0% of net assets**

▲ U.S. Treasury Bills
3.28%-3.40%, 12/15/05
485

0.0 483**End of investments.****Security and Number of Shares****Collateral Invested for Securities on Loan**

13.4% of net assets

Short-Term Investment 13.4%

| | |
|----------------------------------------------------|----------------|
| Securities Lending Investments Fund 216,544,696 | 216,545 |
|----------------------------------------------------|----------------|

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Gains |
|-----------------------------------------------------------|---------------------|----------------|------------------|
| Russell 2000 Index, e-mini Futures, Long Expires 12/18/05 | 186 | 12,075 | 66 |

Statement of

Assets and Liabilities

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

Assets

| | |
|----------------------------------------------------------------------|------------------|
| Investments, at value (including \$214,681 of securities on loan) | \$1,616,679 |
| Collateral invested for securities on loan | 216,545 |
| Receivables: | |
| Fund shares sold | 904 |
| Interest | 1 |
| Dividends | 961 |
| Investments sold | 10 |
| Due from brokers for futures | 406 |
| Income from securities on loan | 179 |
| Prepaid expenses | + 24 |
| Total assets | 1,835,709 |

Liabilities

| | |
|---------------------------------------------|----------------|
| Collateral invested for securities on loan | 216,545 |
| Payables: | |
| Fund shares redeemed | 1,018 |
| Investment adviser and administrator fees | 39 |
| Transfer agent and shareholder service fees | 23 |
| Trustee fees | 1 |
| Accrued expenses | + 109 |
| Total liabilities | 217,735 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 1,835,709 |
| Total liabilities | - 217,735 |
| Net assets | \$1,617,974 |

Net Assets by Source

| | |
|-------------------------------------------|-----------|
| Capital received from investors | 1,249,511 |
| Net investment income not yet distributed | 8,490 |
| Net realized capital gains | 9,260 |
| Net unrealized capital gains | 350,713 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$822,978 | | 36,894 | | \$22.31 |
| Select Shares | \$794,996 | | 35,560 | | \$22.36 |

Unless stated, all numbers x 1,000.

The fund paid \$1,266,032 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$675,553 |
| Sales/maturities | \$890,859 |

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

| | |
|-----------------------------------------|------------------|
| Portfolio cost | \$1,267,201 |
| Net unrealized gains and losses: | |
| Gains | \$457,212 |
| Losses | + (107,734) |
| | \$349,478 |

Net undistributed earnings:

| | |
|--------------------------------|-----------------|
| Ordinary income | \$8,490 |
| Long-term capital gains | \$10,495 |
| Capital losses utilized | \$68,700 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|---------------|
| Dividends | \$17,415 |
| Interest | 96 |
| Lending of securities | + 1,798 |
| Total investment income | 19,309 |

Net of \$7 foreign withholding tax.

Net Realized Gains and Losses

| | |
|-----------------------------------------|---------------|
| Net realized gains on investments | 81,228 |
| Net realized gains on futures contracts | + 83 |
| Net realized gains | 81,311 |

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).

Net Unrealized Gains and Losses

| | |
|-------------------------------------------|----------------|
| Net unrealized gains on investments | 109,855 |
| Net unrealized gains on futures contracts | + 31 |
| Net unrealized gains | 109,886 |

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).

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 4,933 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 2,186 |
| Select Shares | 798 |
| Trustees' fees | 18 |
| Custodian fees | 199 |
| Portfolio accounting fees | 230 |
| Professional fees | 42 |
| Registration fees | 45 |
| Shareholder reports | 80 |
| Interest expense | 23 |
| Other expenses | + 30 |
| Total expenses | 8,584 |
| Expense reduction | - 169 |
| Net expenses | 8,415 |

For the fund's independent trustees only.

Includes \$24 from the investment adviser (CSIM) and \$145 from the transfer agent and shareholder service agent (Schwab). It reflects a guarantee by CSIM and Schwab to limit the net 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.

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 19,309 |
| Net expenses | - 8,415 |
| Net investment income | 10,894 |
| Net realized gains | 81,311 |
| Net unrealized gains | + 109,886 |
| Increase in net assets from operations | \$202,091 |

These add up to a net gain on investments of \$191,197.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$10,894 | \$12,316 |
| Net realized gains | 81,311 | 215,610 |
| Net unrealized gains or losses | + 109,886 | (67,250) |
| Increase in net assets from operations | 202,091 | 160,676 |

Distributions Paid**Dividends from net investment income**

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

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|--------------------------|------------------|------------------|------------------|------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 4,246 | \$91,743 | 5,935 | \$114,857 |
| Select Shares | + 5,026 | 109,688 | 6,358 | 121,773 |
| Total shares sold | 9,272 | \$201,431 | 12,293 | \$236,630 |

Shares Reinvested

| | | | | |
|--------------------------------|------------|-----------------|------------|-----------------|
| Investor Shares | 237 | \$5,085 | 270 | \$5,073 |
| Select Shares | + 256 | 5,502 | 278 | 5,234 |
| Total shares reinvested | 493 | \$10,587 | 548 | \$10,307 |

Shares Redeemed

| | | | | |
|------------------------------|-----------------|--------------------|-----------------|--------------------|
| Investor Shares | (11,218) | (\$243,579) | (11,208) | (\$215,266) |
| Select Shares | + (7,843) | (170,831) | (10,118) | (196,867) |
| Total shares redeemed | (19,061) | (\$414,410) | (21,326) | (\$412,133) |

Net transactions in fund shares

| | | | | |
|--|----------------|--------------------|----------------|--------------------|
| | (9,296) | (\$202,392) | (8,485) | (\$165,196) |
|--|----------------|--------------------|----------------|--------------------|

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (9,296) | (11,752) | (8,485) | (15,566) |
| End of period | 72,454 | \$1,617,974 | 81,750 | \$1,629,726 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$11,314 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

| | Current period | Prior period |
|-------------------------|----------------|--------------|
| Ordinary income | \$11,451 | \$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 | \$44 | \$68 |
| Select Shares | + 50 | + 33 |
| Total | \$94 | \$101 |

Dollar amounts are net of the redemption fee proceeds.

Includes distributable net investment income in the amount of \$8,490 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 | 8.2% |
| Balanced Portfolio | 4.9% |
| Conservative Portfolio | 1.9% |

Schwab Annuity Portfolios

| | |
|---------------------|------|
| Growth Portfolio II | 0.4% |
|---------------------|------|

Schwab Total Stock Market Index Fund®

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 19.04 | 17.48 | 14.35 | 16.62 | 22.49 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.29 | 0.19 | 0.16 | 0.16 | 0.15 |
| Net realized and unrealized gains or losses | 1.69 | 1.53 | 3.14 | (2.27) | (5.87) |
| Total income or loss from investment operations | 1.98 | 1.72 | 3.30 | (2.11) | (5.72) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.25) | (0.16) | (0.17) | (0.16) | (0.15) |
| Net asset value at end of period | 20.77 | 19.04 | 17.48 | 14.35 | 16.62 |
| Total return (%) | 10.45 | 9.93 | 23.24 | (12.86) | (25.55) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.54 | 0.56 | 0.53 | 0.40 | 0.40 |
| Gross operating expenses | 0.54 | 0.56 | 0.59 | 0.62 | 0.65 |
| Net investment income | 1.37 | 1.07 | 1.18 | 1.11 | 0.94 |
| Portfolio turnover rate | 2 | 2 | 3 | 2 | 2 |
| Net assets, end of period (\$ x 1,000,000) | 600 | 592 | 469 | 263 | 224 |

Financial Highlights

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 19.09 | 17.52 | 14.37 | 16.65 | 22.52 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.31 | 0.22 | 0.20 | 0.19 | 0.18 |
| Net realized and unrealized gains or losses | 1.71 | 1.54 | 3.14 | (2.29) | (5.87) |
| Total income or loss from investment operations | 2.02 | 1.76 | 3.34 | (2.10) | (5.69) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.28) | (0.19) | (0.19) | (0.18) | (0.18) |
| Net asset value at end of period | 20.83 | 19.09 | 17.52 | 14.37 | 16.65 |
| Total return (%) | 10.63 | 10.10 | 23.50 | (12.81) | (25.40) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.39 | 0.39 | 0.36 | 0.27 | 0.27 |
| Gross operating expenses | 0.39 | 0.41 | 0.44 | 0.47 | 0.50 |
| Net investment income | 1.52 | 1.23 | 1.35 | 1.24 | 1.07 |
| Portfolio turnover rate | 2 | 2 | 3 | 2 | 2 |
| Net assets, end of period (\$ x 1,000,000) | 617 | 548 | 429 | 264 | 257 |

Summary of Portfolio Holdings as of October 31, 2005

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.

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

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 99.6% | Common Stock | 1,058,474 | 1,212,821 |
| 0.3% | Short-Term Investment | 3,196 | 3,196 |
| 0.0% | U.S. Treasury Obligations | 274 | 274 |
| 0.0% | Preferred Stock | 64 | 74 |
| 0.0% | Warrants | 147 | — |
| 0.0% | Rights | — | — |
| 99.9% | Total Investments | 1,062,155 | 1,216,365 |
| 2.2% | Collateral Invested for Securities on Loan | 26,922 | 26,922 |
| (2.1)% | Other Assets and Liabilities, Net | | (26,001) |
| 100.0% | Total Net Assets | | 1,217,286 |

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

Common Stock 99.6% of net assets

Automobiles & Components 0.6%

| | | |
|------------------|------------|--------------|
| Other Securities | 0.6 | 6,867 |
|------------------|------------|--------------|

Banks 7.3%

| | | | |
|---------------------------|---------|------------|---------------|
| ▲ ⑦ Bank of America Corp. | 338,518 | 1.2 | 14,807 |
| U.S. Bancorp | 158,531 | 0.4 | 4,689 |
| Wachovia Corp. | 133,649 | 0.6 | 6,752 |
| Wells Fargo & Co. | 137,577 | 0.7 | 8,282 |
| Other Securities | | 4.4 | 54,573 |
| | | 7.3 | 89,103 |

Business Services 0.1%

| | | |
|------------------|------------|--------------|
| Other Securities | 0.1 | 1,052 |
|------------------|------------|--------------|

Capital Goods 7.6%

| | | | |
|--------------------------|---------|------------|---------------|
| 3M Co. | 65,000 | 0.4 | 4,939 |
| The Boeing Co. | 68,800 | 0.4 | 4,447 |
| ▲ ② General Electric Co. | 854,566 | 2.4 | 28,978 |
| Other Securities | | 4.4 | 53,970 |
| | | 7.6 | 92,334 |

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) |
|--------------------------------------------------|-----------------|--------------------|-------------------------------------------------|-----------------|--------------------|
| Commercial Services & Supplies 1.6% | | | | | |
| Other Securities | 1.6 | 19,884 | UnitedHealth Group, Inc. 102,600 | 0.5 | 5,940 |
| Consumer Durables & Apparel 1.8% | | | Other Securities | 4.6 | 56,300 |
| Other Securities | 1.8 | 22,351 | | 5.6 | 67,814 |
| Diversified Financials 7.0% | | | Hotels Restaurants & Leisure 1.8% | | |
| American Express Co. 105,150 | 0.4 | 5,233 | Other Securities | 1.8 | 21,909 |
| ■ The Charles Schwab Corp. 111,120 | 0.1 | 1,689 | Household & Personal Products 2.0% | | |
| ▲④ Citigroup, Inc. 427,436 | 1.6 | 19,568 | ▲⑤ Procter & Gamble Co. 290,815 | 1.3 | 16,283 |
| Goldman Sachs Group, Inc. 38,700 | 0.4 | 4,891 | Other Securities | 0.7 | 8,224 |
| JPMorgan Chase & Co. 295,944 | 0.9 | 10,838 | | 2.0 | 24,507 |
| Merrill Lynch & Co., Inc. 79,800 | 0.4 | 5,166 | Insurance 5.3% | | |
| Morgan Stanley 90,300 | 0.4 | 4,913 | ⑧ American International Group, Inc. 211,922 | 1.1 | 13,733 |
| Other Securities | 2.8 | 32,320 | • Berkshire Hathaway, Inc., Class A 119 | 0.9 | 10,222 |
| | 7.0 | 84,618 | Other Securities | 3.3 | 40,656 |
| Energy 8.6% | | | | 5.3 | 64,611 |
| ChevronTexaco Corp. 192,819 | 0.9 | 11,004 | Materials 3.3% | | |
| ConocoPhillips 112,196 | 0.6 | 7,335 | Other Securities | 3.3 | 39,827 |
| ▲① Exxon Mobil Corp. 537,816 | 2.5 | 30,193 | Media 3.8% | | |
| Schlumberger Ltd. 50,000 | 0.4 | 4,539 | Time Warner, Inc. 367,052 | 0.5 | 6,545 |
| Other Securities | 4.2 | 52,071 | Viacom, Inc., Class B 144,012 | 0.4 | 4,460 |
| | 8.6 | 105,142 | Other Securities | 2.9 | 35,149 |
| Food & Staples Retailing 2.3% | | | | 3.8 | 46,154 |
| ⑩ Wal-Mart Stores, Inc. 289,200 | 1.1 | 13,682 | Pharmaceuticals & Biotechnology 7.1% | | |
| Other Securities | 1.2 | 14,531 | Abbott Laboratories 125,705 | 0.5 | 5,412 |
| | 2.3 | 28,213 | • Amgen, Inc. 103,268 | 0.6 | 7,824 |
| Food Beverage & Tobacco 4.6% | | | Eli Lilly & Co. 92,400 | 0.4 | 4,601 |
| Altria Group, Inc. 168,800 | 1.0 | 12,668 | • Genentech, Inc. 83,300 | 0.6 | 7,547 |
| The Coca-Cola Co. 202,200 | 0.7 | 8,650 | ⑥ Johnson & Johnson 246,370 | 1.3 | 15,428 |
| PepsiCo, Inc. 140,800 | 0.7 | 8,319 | Merck & Co., Inc. 183,552 | 0.4 | 5,180 |
| Other Securities | 2.2 | 26,241 | ⑨ Pfizer, Inc. 631,552 | 1.1 | 13,730 |
| | 4.6 | 55,878 | Wyeth 109,400 | 0.4 | 4,875 |
| Health Care Equipment & Services 5.6% | | | Other Securities | 1.8 | 22,245 |
| Medtronic, Inc. 98,374 | 0.5 | 5,574 | | 7.1 | 86,842 |

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

Real Estate 2.1%

| | | |
|------------------|-----|--------|
| Other Securities | 2.1 | 26,128 |
|------------------|-----|--------|

Retailing 4.2%

| | | |
|--------------------------|------------|---------------|
| Home Depot, Inc. 181,000 | 0.6 | 7,428 |
| Other Securities | 3.6 | 43,559 |
| | 4.2 | 50,987 |

Semiconductors & Semiconductor Equipment 2.8%

| | | |
|---------------------|------------|---------------|
| Intel Corp. 533,832 | 1.0 | 12,545 |
| Other Securities | 1.8 | 21,071 |
| | 2.8 | 33,616 |

Software & Services 6.3%

| | | |
|--------------------------------|------------|---------------|
| • Google, Inc., Class A 22,500 | 0.7 | 8,373 |
| ▲ ③ Microsoft Corp. 884,960 | 1.9 | 22,743 |
| • Oracle Corp. 429,500 | 0.5 | 5,446 |
| Other Securities | 3.2 | 39,492 |
| | 6.3 | 76,054 |

Technology Hardware & Equipment 6.2%

| | | |
|-----------------------------------------------|------------|---------------|
| • Cisco Systems, Inc. 563,969 | 0.8 | 9,841 |
| • Dell, Inc. 202,100 | 0.5 | 6,443 |
| Hewlett-Packard Co. 252,916 | 0.6 | 7,092 |
| International Business Machines Corp. 135,450 | 0.9 | 11,091 |
| Qualcomm, Inc. 135,100 | 0.4 | 5,372 |
| Other Securities | 3.0 | 36,004 |
| | 6.2 | 75,843 |

Telecommunication Services 2.6%

| | | |
|--------------------------------------|------------|---------------|
| SBC Communications, Inc. 281,016 | 0.6 | 6,702 |
| Sprint Corp. (FON Group) 229,430 | 0.4 | 5,348 |
| Verizon Communications, Inc. 232,468 | 0.6 | 7,325 |
| Other Securities | 1.0 | 12,850 |
| | 2.6 | 32,225 |

Telephone 0.0%

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | 5 |
|------------------|-----|---|

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

Transportation 1.7%

| | | |
|---------------------------------------------|------------|---------------|
| United Parcel Service, Inc., Class B 91,480 | 0.6 | 6,673 |
| Other Securities | 1.1 | 13,899 |
| | 1.7 | 20,572 |

Utilities 3.3%

| | | |
|------------------|-----|--------|
| Other Securities | 3.3 | 40,285 |
|------------------|-----|--------|

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

| | | |
|------------------|-----|----|
| Other Securities | 0.0 | 74 |
|------------------|-----|----|

Warrants 0.0% of net assets**Media 0.0%**

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | — |
|------------------|-----|---|

Software & Services 0.0%

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | — |
|------------------|-----|---|

Rights 0.0% of net assets**Pharmaceuticals & Biotechnology 0.0%**

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | — |
|------------------|-----|---|

Security

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

Short-Term Investment 0.3% of net assets

| | | |
|----------------------------------------------------------------|-----|-------|
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 3,196 | 0.3 | 3,196 |
|----------------------------------------------------------------|-----|-------|

U.S. Treasury Obligations 0.0% of net assets

| | | |
|-------------------------------------------------|-----|-----|
| ▲ U.S. Treasury Bills 3.46%-3.53%, 12/15/05 275 | 0.0 | 274 |
|-------------------------------------------------|-----|-----|

End of investments.

Summary of Portfolio Holdings continued

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

| | |
|--------------------------------------------|--|
| Collateral Invested for Securities on Loan | |
| 2.2% of net assets | |

| | |
|--------------------------------|--------|
| Short-Term Investment | 2.2% |
| Securities Lending Investments | |
| Fund 26,921,966 | 26,922 |

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

| Futures Contracts | | | |
|-------------------------------------------------|------------------------|-------------------|---------------------|
| | Number of Contracts | Contract Value | Unrealized Gains |
| S&P 500 Index, e-mini, Long Expires 12/18/05 | 55 | 3,327 | 65 |

Statement of

Assets and Liabilities

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

Assets

| | |
|---------------------------------------------------------------------|------------------|
| Investments, at value (including \$26,507 of securities on loan) | \$1,216,365 |
| Collateral invested for securities on loan | 26,922 |
| Receivables: | |
| Fund shares sold | 1,024 |
| Dividends | 992 |
| Due from brokers for futures | 107 |
| Income from securities on loan | 15 |
| Prepaid expenses | + 18 |
| Total assets | 1,245,443 |

Liabilities

| | |
|---------------------------------------------|---------------|
| Collateral invested for securities on loan | 26,922 |
| Payables: | |
| Fund shares redeemed | 1,107 |
| Investment adviser and administrator fees | 25 |
| Transfer agent and shareholder service fees | 17 |
| Interest expense | 3 |
| Accrued expenses | + 83 |
| Total liabilities | 28,157 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 1,245,443 |
| Total liabilities | - 28,157 |
| Net assets | \$1,217,286 |

Net Assets by Source

| | |
|-------------------------------------------|-----------|
| Capital received from investors | 1,069,522 |
| Net investment income not yet distributed | 11,788 |
| Net realized capital losses | (18,299) |
| Net unrealized capital gains | 154,275 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$599,976 | | 28,883 | | \$20.77 |
| Select Shares | \$617,310 | | 29,633 | | \$20.83 |

Unless stated, all numbers x 1,000.

The fund paid \$1,062,155 for these securities.

Includes securities valued at fair value worth \$9 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 | \$27,611 |
| Sales/maturities | \$43,444 |

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

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|------------------|
| Portfolio Cost | \$1,063,013 |
| Net unrealized gains and losses: | |
| Gains | \$327,833 |
| Losses | + (174,481) |
| | \$153,352 |

Net undistributed earnings:

| | |
|-------------------------|----------|
| Ordinary income | \$11,792 |
| Long-term capital gains | \$— |

Capital losses utilized \$4,388

Unused capital losses:

| | |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount |
| 2009 | \$1,044 |
| 2010 | 11,486 |
| 2011 | 3,976 |
| 2012 | + 874 |
| | \$17,380 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|---------------|
| Dividends | \$22,841 |
| Interest | 57 |
| Lending of securities | + 221 |
| Total investment income | 23,119 |

Net of \$2 foreign withholding tax.

Net Realized Gains and Losses

| | |
|-----------------------------------------|--------------|
| Net realized gains on investments | 3,493 |
| Net realized gains on futures contracts | + 501 |
| Net realized gains | 3,994 |

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).

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|---------------|
| Net unrealized gains on investments | 97,843 |
| Net unrealized losses on futures contracts | + (14) |
| Net unrealized gains | 97,829 |

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).

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 3,060 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 1,548 |
| Select Shares | 590 |
| Trustees' fees | 13 |
| Custodian fees | 82 |
| Portfolio accounting fees | 171 |
| Professional fees | 41 |
| Registration fees | 66 |
| Shareholder reports | 65 |
| Interest expense | 6 |
| Other expenses | + 36 |
| Total expenses | 5,678 |
| Expense reduction | - 36 |
| Net expenses | 5,642 |

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 net operating expenses of this fund through February 27, 2006, as follows:

| Share Class | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| 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 \$101,823.

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 23,119 |
| Net expenses | - 5,642 |
| Net investment income | 17,477 |
| Net realized gains | 3,994 |
| Net unrealized gains | + 97,829 |
| Increase in net assets from operations | \$119,300 |

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$17,477 | \$12,208 |
| Net realized gains | 3,994 | 286 |
| Net unrealized gains | + 97,829 | 83,701 |
| Increase in net assets from operations | 119,300 | 96,195 |

Distributions Paid**Dividends from net investment income**

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

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|--------------------------|------------------|------------------|------------------|------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 5,085 | \$102,573 | 9,767 | \$180,735 |
| Select Shares | + 6,795 | 138,664 | 8,998 | 165,692 |
| Total shares sold | 11,880 | \$241,237 | 18,765 | \$346,427 |

Shares Reinvested

| | | | | |
|--------------------------------|------------|-----------------|------------|----------------|
| Investor Shares | 362 | \$7,203 | 237 | \$4,213 |
| Select Shares | + 328 | 6,531 | 222 | 3,957 |
| Total shares reinvested | 690 | \$13,734 | 459 | \$8,170 |

Shares Redeemed

| | | | | |
|------------------------------|-----------------|--------------------|-----------------|--------------------|
| Investor Shares | (7,672) | (\$155,939) | (5,759) | (\$106,552) |
| Select Shares | + (6,203) | (126,000) | (5,002) | (92,791) |
| Total shares redeemed | (13,875) | (\$281,939) | (10,761) | (\$199,343) |

Net transactions in fund shares

| | | | | |
|--|---------|------------|-------|-----------|
| | (1,305) | (\$26,968) | 8,463 | \$155,254 |
|--|---------|------------|-------|-----------|

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (1,305) | 76,606 | 8,463 | 242,092 |
| End of period | 58,516 | \$1,217,286 | 59,821 | \$1,140,680 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$15,726 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

| | Current period | Prior period |
|-------------------------|----------------|--------------|
| Ordinary income | \$15,726 | \$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 | \$38 |
| Select Shares | + 32 |
| Total | \$70 |

Prior period:

| | |
|-----------------|--------------|
| Investor Shares | \$70 |
| Select Shares | + 59 |
| Total | \$129 |

Dollar amounts are net of the redemption fee proceeds.

Includes distributable net investment income in the amount of \$11,788 and \$10,037 at the end of the current period and prior period, respectively.

Schwab International Index Fund®

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 14.82 | 12.74 | 10.47 | 12.22 | 17.13 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.35 | 0.26 | 0.23 | 0.21 | 0.15 |
| Net realized and unrealized gains or losses | 2.18 | 2.05 | 2.25 | (1.82) | (4.81) |
| Total income or loss from investment operations | 2.53 | 2.31 | 2.48 | (1.61) | (4.66) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.28) | (0.23) | (0.21) | (0.14) | (0.25) |
| Net asset value at end of period | 17.07 | 14.82 | 12.74 | 10.47 | 12.22 |
| Total return (%) | 17.30 | 18.40 | 24.24 | (13.34) | (27.58) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.68 | 0.69 | 0.65 | 0.58 | 0.58 |
| Gross operating expenses | 0.72 | 0.73 | 0.74 | 0.76 | 0.75 |
| Net investment income | 2.05 | 1.78 | 2.01 | 1.70 | 1.14 |
| Portfolio turnover rate | 10 | 1 | 7 | 13 | 18 |
| Net assets, end of period (\$ x 1,000,000) | 595 | 550 | 494 | 443 | 519 |

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 14.83 | 12.75 | 10.47 | 12.23 | 17.14 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.38 | 0.28 | 0.25 | 0.21 | 0.16 |
| Net realized and unrealized gains or losses | 2.19 | 2.05 | 2.26 | (1.82) | (4.80) |
| Total income or loss from investment operations | 2.57 | 2.33 | 2.51 | (1.61) | (4.64) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.31) | (0.25) | (0.23) | (0.15) | (0.27) |
| Net asset value at end of period | 17.09 | 14.83 | 12.75 | 10.47 | 12.23 |
| Total return (%) | 17.56 | 18.56 | 24.50 | (13.31) | (27.45) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.50 | 0.50 | 0.49 | 0.47 | 0.47 |
| Gross operating expenses | 0.57 | 0.58 | 0.59 | 0.61 | 0.60 |
| Net investment income | 2.23 | 1.97 | 2.19 | 1.81 | 1.25 |
| Portfolio turnover rate | 10 | 1 | 7 | 13 | 18 |
| Net assets, end of period (\$ x 1,000,000) | 776 | 687 | 629 | 536 | 616 |

Summary of Portfolio Holdings as of October 31, 2005

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.

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
- All or a portion of this security is on loan

| Holdings by Category | Cost (\$x1,000) | Value (\$x1,000) |
|--------------------------------------------------------|--------------------|---------------------|
| 99.4% Foreign Common Stock | 958,909 | 1,362,937 |
| 0.3% Short-Term Investment | 4,247 | 4,247 |
| 0.1% Foreign Preferred Stock | 766 | 1,042 |
| 0.0% Warrants | 200 | — |
| 99.8% Total Investments | 964,122 | 1,368,226 |
| 6.2% Collateral Invested for Securities on Loan | 85,164 | 85,164 |
| (6.0)% Other Assets and Liabilities, Net | | (82,204) |
| 100.0% Total Net Assets | | 1,371,186 |

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

Foreign Common Stock 99.4% of net assets

Australia 4.3%

| | | | |
|-------------------|---------|------------|---------------|
| BHP Billiton Ltd. | 600,162 | 0.7 | 9,309 |
| Other Securities | | 3.6 | 50,254 |
| | | 4.3 | 59,563 |

Belgium 0.9%

| | | | |
|------------------|--|------------|---------------|
| Other Securities | | 0.9 | 12,114 |
|------------------|--|------------|---------------|

Canada 6.5%

| | | | |
|----------------------------|---------|------------|---------------|
| ■ Manulife Financial Corp. | 131,759 | 0.5 | 6,860 |
| ■ Royal Bank of Canada | 107,744 | 0.5 | 7,605 |
| Other Securities | | 5.5 | 74,820 |
| | | 6.5 | 89,285 |

Denmark 0.7%

| | | | |
|------------------|--|------------|--------------|
| Other Securities | | 0.7 | 9,313 |
|------------------|--|------------|--------------|

France 10.3%

| | | | |
|---------------------------|---------|-------------|----------------|
| AXA SA | 260,843 | 0.6 | 7,556 |
| BNP Paribas | 132,633 | 0.7 | 10,060 |
| Sanofi-Aventis | 173,827 | 1.0 | 13,927 |
| Societe Generale, Class A | 61,146 | 0.5 | 6,984 |
| ■ ⑤ Total SA | 102,990 | 1.9 | 25,920 |
| Other Securities | | 5.6 | 76,843 |
| | | 10.3 | 141,290 |

Germany 7.4%

| | | | |
|---------------------|---------|------------|----------------|
| Allianz AG | 59,288 | 0.6 | 8,388 |
| BASF AG | 94,612 | 0.5 | 6,824 |
| DaimlerChrysler AG | 142,504 | 0.5 | 7,142 |
| ■ Deutsche Bank AG | 94,035 | 0.6 | 8,817 |
| Deutsche Telekom AG | 411,262 | 0.5 | 7,274 |
| E.ON AG | 112,817 | 0.7 | 10,225 |
| Siemens AG | 144,278 | 0.8 | 10,747 |
| Other Securities | | 3.2 | 42,876 |
| | | 7.4 | 102,293 |

Hong Kong / China 1.0%

| | | | |
|------------------|--|------------|---------------|
| Other Securities | | 1.0 | 14,204 |
|------------------|--|------------|---------------|

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|----------------------------------------------|-----------------|--------------------|
| Ireland 0.1% | | |
| Other Securities | 0.1 | 989 |
| Italy 3.4% | | |
| ■ ENI-Ente Nazionale Idrocarburi SPA 429,220 | 0.8 | 11,490 |
| Other Securities | 2.6 | 34,922 |
| | 3.4 | 46,412 |
| Japan 19.8% | | |
| Canon, Inc. 139,395 | 0.5 | 7,381 |
| Honda Motor Co. Ltd. 141,539 | 0.6 | 7,874 |
| Mitsubishi UFJ Financial Group, Inc. 988 | 0.9 | 12,423 |
| Mizuho Financial Group, Inc. 1,395 | 0.7 | 9,316 |
| Nippon Telegraph & Telephone Corp. 1,667 | 0.6 | 7,971 |
| Sumitomo Mitsui Financial Group, Inc. 938 | 0.6 | 8,666 |
| Takeda Pharmaceutical Co. Ltd. 141,200 | 0.6 | 7,742 |
| ⑧ Toyota Motor Corp. 442,703 | 1.5 | 20,535 |
| Other Securities | 13.8 | 189,961 |
| | 19.8 | 271,869 |
| Netherlands 3.7% | | |
| ABN Amro Holdings NV 311,572 | 0.5 | 7,370 |
| ING Groep NV 366,162 | 0.8 | 10,561 |
| Unilever NV 94,924 | 0.5 | 6,680 |
| Other Securities | 1.9 | 25,767 |
| | 3.7 | 50,378 |
| Spain 4.2% | | |
| Banco Bilbao Vizcaya Argentaria SA 590,624 | 0.8 | 10,416 |
| Banco Santander Central Hispano SA 1,036,437 | 1.0 | 13,199 |
| Telefonica SA 830,416 | 1.0 | 13,256 |
| Other Securities | 1.4 | 20,619 |
| | 4.2 | 57,490 |

| Security and Number of Shares | % of Net Assets | Value (\$ x 1,000) |
|----------------------------------------------------|-----------------|--------------------|
| Sweden 2.0% | | |
| Telefonaktiebolaget LM Ericsson, Class B 2,453,793 | 0.6 | 8,044 |
| Other Securities | 1.4 | 18,996 |
| | 2.0 | 27,040 |
| Switzerland 7.7% | | |
| Credit Suisse Group 190,854 | 0.6 | 8,445 |
| ⑨ Nestle SA, Registered 67,591 | 1.5 | 20,133 |
| ⑥ Novartis AG, Registered 430,836 | 1.7 | 23,180 |
| ⑩ Roche Holdings – Genus 121,834 | 1.3 | 18,209 |
| UBS AG, Registered 177,232 | 1.1 | 15,115 |
| Other Securities | 1.5 | 20,245 |
| | 7.7 | 105,327 |
| United Kingdom 27.4% | | |
| AstraZeneca PLC 284,404 | 0.9 | 12,722 |
| Barclays PLC 1,124,769 | 0.8 | 11,146 |
| ① BP PLC 3,683,430 | 3.0 | 40,802 |
| Diageo PLC 523,989 | 0.6 | 7,739 |
| ④ GlaxoSmithKline PLC 1,023,700 | 1.9 | 26,625 |
| HBOS PLC 673,991 | 0.7 | 9,956 |
| ② HSBC Holdings PLC 1,947,777 | 2.2 | 30,602 |
| Lloyds TSB Group PLC 957,348 | 0.6 | 7,829 |
| Rio Tinto PLC 188,475 | 0.5 | 7,181 |
| Royal Bank of Scotland Group PLC 549,711 | 1.1 | 15,222 |
| ⑦ Royal Dutch Shell PLC, A Shares 749,220 | 1.7 | 23,104 |
| Royal Dutch Shell PLC, B Shares 497,774 | 1.2 | 16,237 |
| Tesco PLC 1,376,566 | 0.5 | 7,330 |
| ③ Vodafone Group PLC 11,087,405 | 2.1 | 29,109 |
| Other Securities | 9.6 | 129,766 |
| | 27.4 | 375,370 |

Summary of Portfolio Holdings continued

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

United States 0.0%

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | — |
|------------------|-----|---|

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

| | | |
|------------------|-----|-------|
| Other Securities | 0.1 | 1,042 |
|------------------|-----|-------|

Warrants 0.0% of net assets**France 0.0%**

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | — |
|------------------|-----|---|

United States 0.0%

| | | |
|------------------|-----|---|
| Other Securities | 0.0 | — |
|------------------|-----|---|

Security

Rate, Maturity Date

Face Amount (\$ x 1,000)

Short-Term Investment 0.3% of net assets

| | | |
|-------------------------------------------------------------------------|-----|-------|
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 4,247 | 0.3 | 4,247 |
|-------------------------------------------------------------------------|-----|-------|

End of investments.

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

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

Collateral Invested for Securities on Loan
6.2% of net assets**Other Investment Companies 6.2%**

| | | |
|----------------------------------------|------------|--------|
| Securities Lending Investments Fund | 85,164,128 | 85,164 |
|----------------------------------------|------------|--------|

End of collateral invested for securities on loan.

Statement of

Assets and Liabilities

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

Assets

| | |
|---------------------------------------------------------------------|------------------|
| Investments, at value (including \$81,513 of securities on loan) | \$1,368,226 |
| Collateral invested for securities on loan | 85,164 |
| Foreign currency | 329 |
| Receivables: | |
| Fund shares sold | 1,273 |
| Dividends | 2,155 |
| Income from securities on loan | 33 |
| Dividend tax reclaim | 238 |
| Prepaid expenses | + 25 |
| Total assets | 1,457,443 |

Liabilities

| | |
|---------------------------------------------|---------------|
| Collateral invested for securities on loan | 85,164 |
| Cash overdraft | 309 |
| Payables: | |
| Fund shares redeemed | 544 |
| Investment adviser and administrator fees | 38 |
| Transfer agent and shareholder service fees | 27 |
| Accrued expenses | + 175 |
| Total liabilities | 86,257 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 1,457,443 |
| Total liabilities | - 86,257 |
| Net assets | \$1,371,186 |

Net Assets by Source

| | |
|-------------------------------------------|-----------|
| Capital received from investors | 1,238,568 |
| Net investment income not yet distributed | 25,265 |
| Net realized capital losses | (296,707) |
| Net unrealized capital gains | 404,060 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$595,389 | | 34,871 | | \$17.07 |
| Select Shares | \$775,797 | | 45,402 | | \$17.09 |

Unless stated, all numbers x 1,000.

The fund paid \$964,122 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$131,589 |
| Sales/maturities | \$188,232 |

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

The fund paid \$321 for these currencies.

Federal Tax Data

| | |
|-----------------------------------------|------------------|
| Portfolio cost | \$969,936 |
| Net unrealized gains and losses: | |
| Gains | \$454,477 |
| Losses | + (56,187) |
| | \$398,290 |

As of October 31, 2005:**Net undistributed earnings:**

| | |
|-------------------------|----------|
| Ordinary income | \$26,505 |
| Long-term capital gains | \$— |

Capital losses utilized \$16,242

Unused capital losses:

| | |
|-------------------|------------------|
| Expires 10/31 of: | Loss amount |
| 2008 | 1,176 |
| 2009 | 130,942 |
| 2010 | 112,722 |
| 2011 | 39,016 |
| 2012 | + 8,278 |
| | \$292,134 |

Reclassifications:

| | |
|-------------------------------------------|---------|
| Net realized capital gains | \$813 |
| Reclassified as: | |
| Net investment income not yet distributed | (\$813) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Investment Income

| | |
|--------------------------------|---------------|
| Dividends | \$35,822 |
| Interest | 107 |
| Securities on loan | + 1,179 |
| Total investment income | 37,108 |

Net Realized Gains and Losses

| | |
|------------------------------------------------------|---------------|
| Net realized gains on investments | 16,890 |
| Net realized losses on foreign currency transactions | + (1,075) |
| Net realized gains | 15,815 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------------------|----------------|
| Net unrealized gains on investments | 169,763 |
| Net unrealized losses on foreign currency transactions | + (93) |
| Net unrealized gains | 169,670 |

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 5,414 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 1,480 |
| Select Shares | 767 |
| Trustees' fees | 15 |
| Custodian fees | 587 |
| Portfolio accounting fees | 190 |
| Professional fees | 43 |
| Registration fees | 45 |
| Shareholder reports | 75 |
| Interest expense | 4 |
| Other expenses | + 69 |
| Total expenses | 8,689 |
| Expense reduction | - 835 |
| Net expenses | 7,854 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 37,108 |
| Net expenses | - 7,854 |
| Net investment income | 29,254 |
| Net realized gains | 15,815 |
| Net unrealized gains | + 169,670 |
| Increase in net assets from operations | \$214,739 |

Unless stated, all numbers x 1,000.

Net of \$4,537 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 \$539 from the investment adviser (CSIM) and \$296 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the net 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 \$185,485.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$29,254 | \$22,962 |
| Net realized gains or losses | 15,815 | (7,817) |
| Net unrealized gains | + 169,670 | 187,892 |
| Increase in net assets from operations | 214,739 | 203,037 |

Distributions Paid**Dividends from net investment income**

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

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|--------------------|------------------|--------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 5,337 | \$85,930 | 5,725 | \$80,057 |
| Select Shares | + 7,993 | 128,120 | 5,772 | 80,804 |
| Total shares sold | 13,330 | \$214,050 | 11,497 | \$160,861 |
| Shares Reinvested | | | | |
| Investor Shares | 617 | \$9,445 | 629 | \$8,293 |
| Select Shares | + 864 | 13,224 | 882 | 11,628 |
| Total shares reinvested | 1,481 | \$22,669 | 1,511 | \$19,921 |
| Shares Redeemed | | | | |
| Investor Shares | (8,209) | (\$132,435) | (7,955) | (\$111,302) |
| Select Shares | + (9,795) | (160,690) | (9,688) | (136,414) |
| Total shares redeemed | (18,004) | (\$293,125) | (17,643) | (\$247,716) |
| Net transactions in fund shares | (3,193) | (\$56,406) | (4,635) | (\$66,934) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (3,193) | 133,679 | (4,635) | 114,569 |
| End of period | 80,273 | \$1,371,186 | 83,466 | \$1,237,507 |

Unless stated, all numbers x 1,000.

Unaudited

The fund designates \$22,047 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid were:

| | Current period | Prior period |
|-------------------------|----------------|--------------|
| Ordinary income | \$24,654 | \$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 | \$52 |
| Select Shares | + 106 |
| Total | \$158 |
| Prior period: | |
| Investor Shares | \$50 |
| Select Shares | + 22 |
| Total | \$72 |

Dollar amounts are net of the redemption fee proceeds.

Includes distributable net investment income in the amount of \$25,265 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 | 10.1% |
| Growth Portfolio | 9.6% |
| Balanced Portfolio | 5.7% |
| Conservative Portfolio | 2.2% |

Schwab Annuity Portfolios

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

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 Tax-Free 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 Tax-Free YieldPlus 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 Institutional Select S&P 500 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 Large-Cap Growth Fund
- Schwab Small-Cap Equity Fund
- Schwab Hedged Equity Fund
- Schwab Financial Services Fund
- Schwab Health Care Fund
- Schwab Technology Fund
- Schwab Target 2010 Fund
- Schwab Target 2020 Fund
- Schwab Target 2030 Fund
- Schwab Target 2040 Fund
- Schwab Retirement Income 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 ("due to/from broker").

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 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. If the value of the collateral falls below 100%, it will be adjusted the following day.

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 10/31/05 (\$ x 1,000) | Average borrowing* (\$ x 1,000) | Weighted average interest rate* (%) |
|-----------------------------------------------------|------------------------------------------------------|---------------------------------------|----------------------------------------------|
| Schwab S&P 500 Index Fund | 1,045 | 7,639 | 3.30 |
| Schwab 1000 Index Fund | — | 4,548 | 3.15 |
| Schwab Small-Cap Index Fund | — | 2,272 | 3.07 |
| Schwab Total Stock Market Index Fund | — | 905 | 3.77 |
| Schwab International Index Fund | 309 | 2,464 | 4.03 |

* 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 guidelines 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.
- **Mutual funds:** valued at their respective net asset values as determined by those funds, in accordance with the 1940 Act for a given day.

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.

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders of:

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®

In our opinion, the accompanying statements of assets and liabilities, including the summary of portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab 1000 Index Fund (one of the portfolios constituting Schwab Investments), Schwab S&P 500 Index Fund, Schwab Small-Cap Index Fund, Schwab Total Stock Market Index Fund, and Schwab International Index Fund (four of the portfolios constituting Schwab Capital Trust, hereafter referred to as the “Funds”) at October 31, 2005, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

December 16, 2005

Investment Advisory Agreement Approval

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

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Investments and Schwab Capital Trust (the “Trusts”) and CSIM (the “Agreements”) with respect to existing funds in the Trusts, operating as of December 31 of the previous year, including the Schwab S&P 500 Index Fund, the Schwab 1000 Index Fund, the Schwab Small-Cap Index Fund, the Schwab Total Stock Market Index Fund and the Schwab International Index Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives

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

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

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

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

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

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

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

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

the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreements.

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

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

Trustees and Officers

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

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

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

| Independent Trustees | | |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
| Mariann Byerwalter 1960 | 2000 (all trusts). | Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children’s Hospital; Director, Pacific Life Insurance Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ² <i>Until 2001:</i> Stanford University, Special Advisor to the President. <i>From 1996-2001:</i> Stanford University, Vice President of Business Affairs, Chief Financial Officer. |
| Donald F. Dorward 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> Executive Vice President, Managing Director, Grey Advertising San Francisco. <i>Until 1996:</i> President, Chief Executive Officer, Allen & Dorward Advertising. |

¹ 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.

² This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Independent Trustees continued

| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Hasler 1941 | 2000 (all trusts). | <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Soletron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ³ |
| Robert G. Holmes 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm). |
| Gerald B. Smith 1950 | 2000 (all trusts). | <i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy). |
| Donald R. Stephens 1938 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust). |
| Michael W. Wilsey 1943 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments). |

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Interested Trustees

| Name and Year of Birth | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charles R. Schwab ⁴ 1937 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art. |
| Randall W. Merk ⁴ 1954 | Trustee, 2005 (all trusts). | Executive Vice President and President, Asset Management Products & Services Enterprise, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (6/01 to 8/02); Chief Investment Officer, Fixed, American Century Companies, Inc. (1/97 to 6/01). |

Officers of the Trust

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|--------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Dilsaver 1955 | President, Chief Executive Officer (all trusts). | Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 1955 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|---------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kimon Daifotis 1959 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 1963 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 1960 | Chief Compliance Officer (all trusts). | Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc. |
| Koji E. Felton 1961 | Secretary (all trusts). | Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco. |
| George Pereira 1964 | Treasurer, Principal Financial Officer (all trusts) | Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. |

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

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.

Internet¹

www.schwab.com

Schwab by Phone™²

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

TeleBroker®

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

Mail

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

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

Proxy Voting Policies, Procedures and Results

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

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

The Schwab Funds Family®

Stock Funds

Schwab Institutional Select® S&P 500 Fund
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 Large-Cap Growth Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™

Asset Allocation Funds

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

Bond Funds

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

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ 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®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

³ 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

This report is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

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MFR13810-08

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Annual report dated October 31, 2005 enclosed.

Schwab Active Equity Funds

Schwab Premier Equity Fund™

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Large-Cap Growth 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*)

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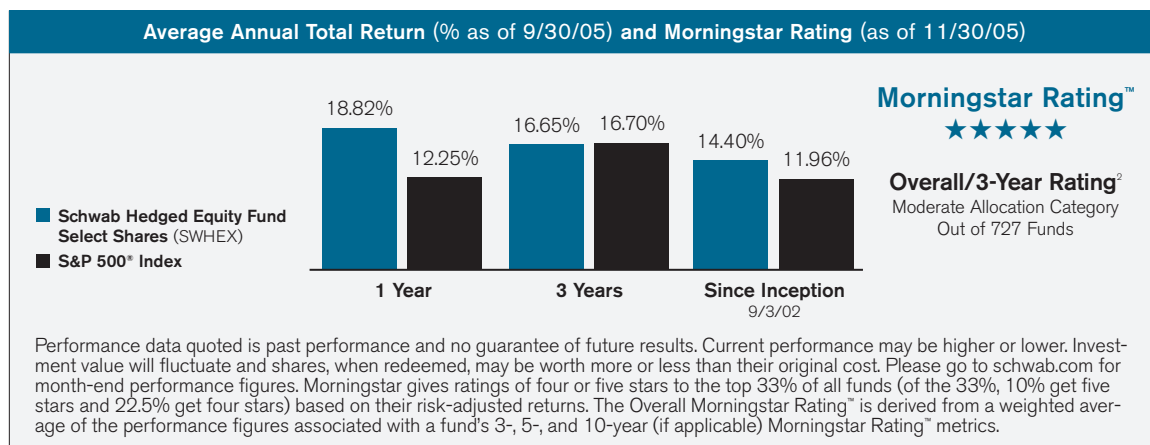
Save paper. Sign up for electronic delivery at www.schwab.com/edelivery.

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Give Your Portfolio a 5-Star Treatment.

Add the Schwab Hedged Equity Fund™ to your portfolio today.

The Schwab Hedged Equity Fund draws on Schwab's industry-recognized stock-evaluation methodology—Schwab Equity Ratings®. The Schwab Equity Ratings evaluate approximately 3,000 US-headquartered stocks, and based on their potential to outperform the market over the next 12 months, award each stock a rating, ranging from A (strongly outperform) to F (strongly underperform). Fund managers employ hedging techniques—holding long positions primarily in A- and B-rated stocks and taking limited short positions primarily in D- and F-rated stocks—to seek to minimize market volatility while enhancing long-term performance. It's a strategy that has delivered excellent returns since the fund's inception, outperforming the S&P 500 Index while incurring less market risk.¹



To place your order, call 1-877-340-1713 or visit www.schwab.com/hedgedequity

Investors should carefully consider information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-877-340-1713. Please read the prospectus carefully before investing.

The fund's long positions can decline in value at the same time the value of the short stock 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.

Investor Shares, with an inception date of 2/28/05, are not yet eligible for a Morningstar rating. Investor Shares will experience a reduced rate of return since they have a higher expense ratio. The rankings presented reflect the waiver of all or a portion of the fund's fees. Without such waiver, the rankings would/may have been lower.

¹ The fund's beta is 0.49 as of 9/30/05. Beta is a measure of an investment's sensitivity to the market, with the S&P 500 Index as the most common proxy. The index is defined as having a beta of 1. Investment with a beta higher than 1 are expected to rise and fall more than the index, while those with a beta less than 1 are expected to rise and fall less.

² Morningstar proprietary ratings reflect historical risk-adjusted performance as of 11/30/05. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The top 10% of the funds in an investment category receive 5 stars, 22.5% receive 4 stars, 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

Schwab Active Equity Funds

Annual Report

October 31, 2005

Schwab Premier Equity Fund™

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Large-Cap Growth 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)

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The power of Schwab Equity Ratings®. The convenience and diversification of mutual funds.

In This Report

| | | | |
|-------------------------------------------|----|-------------------------------------------|-----|
| Management's Discussion | 2 | Financial Statements | |
| Performance and Fund Facts | | Schwab Premier Equity Fund™ | 34 |
| Schwab Premier Equity Fund™ | 9 | Schwab Core Equity Fund™ | 42 |
| Schwab Core Equity Fund™ | 12 | Schwab Dividend Equity Fund™ | 49 |
| Schwab Dividend Equity Fund™ | 14 | Schwab Large-Cap Growth Fund™ | 57 |
| Schwab Large-Cap Growth Fund™ | 17 | Schwab Small-Cap Equity Fund™ | 64 |
| Schwab Small-Cap Equity Fund™ | 20 | Schwab Hedged Equity Fund™ | 73 |
| Schwab Hedged Equity Fund™ | 23 | Schwab Financial Services Fund™ | 83 |
| Schwab Financial Services Fund™ | 26 | Schwab Health Care Fund™ | 89 |
| Schwab Health Care Fund™ | 28 | Schwab Technology Fund™ | 95 |
| Schwab Technology Fund™ | 30 | Financial Notes | 101 |
| Fund Expenses | 32 | Investment Advisory | |
| | | Agreement Approval | 107 |
| | | Trustees and Officers | 112 |
| | | Glossary | 116 |

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 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

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small-cap funds are subject to greater volatility than those in other asset categories.

Dear Shareholder,

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

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have now grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

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

This commitment and experience is evident in our funds' performance. I'm especially pleased to highlight the strong performance of the Schwab Small-Cap Equity Fund which ranked in the top 2% of its category for the one-year period ended October 31, 2005.¹

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

Sincerely,

A handwritten signature in dark ink that reads "Charles Schwab". The signature is fluid and cursive, with the first name "Charles" and last name "Schwab" clearly distinguishable.

¹ Source: Lipper Small Cap Core Funds. For the one-year period, rankings were: Select Shares #11 and Investor Shares #12 out of 604 funds. Numbers assume reinvestment of dividends and capital gains over each time period. Lipper, Inc. rankings are based on average total returns not including sales charges.

Management's Discussion

for the year ended October 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for the Schwab Active Equity Funds for the period ended October 31, 2005. Although the period was marked by volatility, all of the funds with at least a one-year track record beat their respective benchmarks for the one-year period.

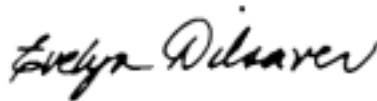
In addition to our suite of actively managed funds, we also have a strong line-up of index funds. With their market-tracking performance, broad diversification and lower costs, index funds can complement a portfolio of actively managed funds. For example, the Schwab 1000 Index Fund includes the stocks of the largest 1,000 publicly traded companies in the United States. This fund has delivered solid results and is a tax-efficient investment that can serve as the core stock portion of an asset allocation strategy.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. In terms of development, Schwab Funds launched seven new funds in 2005. Among the new funds is the Schwab Large-Cap Growth Fund, which commenced operations on October 3, 2005. This fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion and is actively managed by a team of investment professionals that understands how a disciplined investment strategy can help achieve competitive returns.

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

Thank you for investing in Schwab Funds.

Sincerely,

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

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



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 eight 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 of the investment adviser, is responsible for the day-to-day co-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

Despite a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit all-time highs and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the Fed Funds Target eight consecutive times in the one-year report period. The moves had a limited impact on overall economic growth, due primarily to the record-low level of interest rates from which the increases began.

Despite concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.6%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past few months was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructure in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September. However, a quick action by the federal government to release Strategic Petroleum Reserves and soften oil demand led to a subsequent decline off that peak. While the full economic effect of the hurricanes was unknown at the end of the report period, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in the area.

Another significant event that occurred during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he has not yet been confirmed into office, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

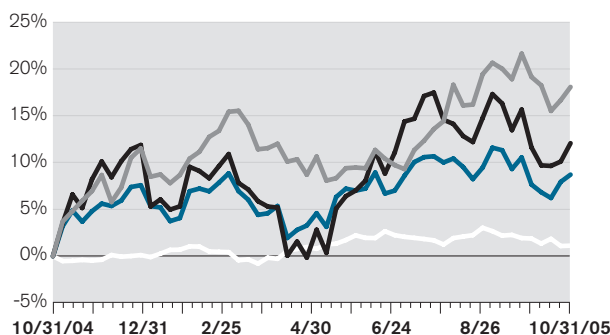
Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks held up well. The S&P 500 Index¹ posted gains of 8.72% for the one-year period ending on October 31, 2005 while the Russell 2000 Index also displayed a positive return of 12.08%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE (Morgan Stanley Capital International, Inc. Europe, Australasia, and Far East) Index also had an impressive return of 18.09% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 1.13%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we were in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

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.

- 8.72% **S&P 500® Index:** measures U.S. large-cap stocks
- 12.08% **Russell 2000® Index:** measures U.S. small-cap stocks
- 18.09% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.13% **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. Schwab Equity Ratings® are produced by the Schwab Center for Investment Research®.

Data source: Charles Schwab & Co., Inc.

Source of Sector Classification: S&P and MSCI.

¹ 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.

Performance at a Glance

Total return for the 12 months ended 10/31/05, except where noted.

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

Schwab Premier Equity Fund™

| | |
|------------------------------|-------|
| Investor Shares ¹ | 7.00% |
| Select Shares ¹ | 7.10% |
| Benchmark ¹ | 2.52% |
| Fund Category ^{1,2} | 2.71% |

Performance Details pages 9-10

Schwab Core Equity Fund™ 15.74%

| | |
|----------------------------|-------|
| Benchmark | 8.72% |
| Fund Category ² | 9.53% |

Performance Details page 12

Schwab Dividend Equity Fund™

| | |
|----------------------------|--------|
| Investor Shares | 9.98% |
| Select Shares® | 10.17% |
| Benchmark | 8.72% |
| Fund Category ² | 10.02% |

Performance Details . . . pages 14-15

Schwab Large-Cap Growth Fund™

| | |
|------------------------------|--------|
| Investor Shares ³ | -2.70% |
| Select Shares ³ | -2.70% |
| Benchmark ³ | -0.97% |
| Fund Category ^{2,3} | -1.15% |

Performance Details . . . pages 17-18

The Schwab Premier Equity Fund was launched on March 21, 2005.

Performance numbers are for the period since inception and are not annualized. The fund is comprised of approximately 100 stocks that have been identified using Schwab Equity Ratings as likely to outperform the market over the next 12 months. The portfolio is diversified across sectors and capitalization size, and generally invests in only A or B rated stocks. Since its inception, the Schwab Premier Equity Fund was up 7.00%, well above its benchmark, the S&P 500 Index, which was up 2.52% for the same period. Energy stocks came off of their highs towards the end of the report period, but still posted a solid return of 7% for the inception-to-date period. Sector and industry group weights had a slightly negative impact on fund performance while an overweight to the Information Technology and Energy sectors positively affected performance. Stock selection was the most positive aspect of performance for the period as A-rated stocks excelled. Stock selection in the Diversified Financials, Insurance, as well as Software & Services industry groups was particularly strong. Some of the better performing stocks in the Insurance industry group were W.R. Berkley Corporation, Loews Corporation, AFLAC, Inc., and Metlife, Inc.

The Schwab Core Equity Fund was up 15.74% for the one-year report period, well above its benchmark, the S&P 500 Index, which returned 8.72%. Returns were driven by large energy and utility stocks, which were up over 33% and 23% respectively. The underperforming sectors for the period included Consumer Discretionary and Telecommunication Services. Helping the fund's performance was the stock selection process, which can be attributed to Schwab Equity Ratings' rigorous stock evaluation and its ability to identify stocks likely to outperform the market. The fund's underweight to the Consumer Discretionary and Financial sectors, added to the overall performance. Stocks that performed well during the one-year period were Burlington Resources, Inc., Franklin Resources, Inc. and The Gillette Company, after being acquired by Procter & Gamble Co.

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.

Schwab Equity Ratings® are produced by the Schwab Center for Investment Research®.

¹ Total return is for 3/21/05 – 10/31/05.

² Source for category information: Morningstar, Inc.

³ Total return is for 10/3/05 – 10/31/05.

Performance at a Glance

Total return for the 12 months ended 10/31/05, except where noted.

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

Schwab Small-Cap Equity Fund™

| | |
|----------------------------------|---------------|
| Investor Shares..... | 23.65% |
| Select Shares..... | 23.83% |
| Benchmark..... | 15.27% |
| Fund Category ¹ | 13.72% |

Performance Details . . . pages 20-21

Schwab Hedged Equity Fund™

| | |
|------------------------------------|---------------|
| Investor Shares ² | 6.96% |
| Select Shares..... | 16.52% |
| Benchmark..... | 8.72% |
| Fund Category ¹ | 7.62% |

Performance Details . . . pages 23-24

Schwab Financial Services

| | |
|----------------------------------|---------------|
| Fund™ | 18.62% |
| Benchmark..... | 9.34% |
| Fund Category ¹ | 8.97% |

Performance Details..... page 26

Schwab Health Care Fund™ 30.15%

| | |
|----------------------------------|---------------|
| Benchmark..... | 11.02% |
| Fund Category ¹ | 15.21% |

Performance Details..... page 28

Schwab Technology Fund™ 10.41%

| | |
|----------------------------------|--------------|
| Benchmark..... | 5.81% |
| Fund Category ¹ | 8.86% |

Performance Details..... page 30

The Schwab Dividend Equity Fund, which was up 9.98% for the period, handily outperformed its benchmark, the S&P 500 Index, which increased 8.72%. A significant amount of the fund's outperformance can be attributed to Schwab Equity Ratings' ability to identify stocks likely to outperform the market. On the positive side, the fund's underweight position in technology stocks and overweight in utilities helped performance. Among the winners were The Gillette Company, Marathon Oil Corporation, AON Corporation, and Edison International. The fund is also designed to provide current income from dividends that are eligible for the reduced tax rate on qualified dividend income. As a result, lower dividend yields kept us away from many energy stocks, which excelled during the period.

The Schwab Large-Cap Growth Fund was launched on October 3, 2005. Performance numbers are for the period since inception and are not annualized. The Schwab Large-Cap Growth Fund was down 2.70% for the nearly one-month period, slightly underperforming its benchmark, the Russell 1000 Growth Index, which was down 0.97%. Stocks as a whole struggled during the month of October as the S&P 500 Index was down 1.73%. Energy stocks came down from their lofty heights during the month of October, as the group lost over 8%. Similarly, the Utilities and the Telecommunication Services also had a tough period, while the overall strengths in the fund were found in the Financial and Materials sectors. For the nearly one-month period, A-rated stocks within the Russell 1000 Growth lagged and large positions of Exxon Mobil Corp. and Chevron Texaco Corporation slightly detracted from fund performance. Some of the better performing stocks for the period included Monster Worldwide, Inc., an online recruitment service, and Microsoft Corp.

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.

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.

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®.

¹ Source for category information: Morningstar, Inc.

² Total return is for 3/1/05 – 10/31/05.

The Schwab Small-Cap Equity Fund was up 23.65%, outperforming its benchmark, the S&P 600 Small-Cap Index, which was up 15.27% for the year-end period. Small-cap energy stocks were up over 60% for the period, contributing to the overall performance of the equity markets. Another leading contributor to the markets' performance for the year was the Health Care and Industrials sectors which were up 20% for the year. Among the top performers were Payless Shoesource, Inc., Hydril Co., and Investment Technology Group, Inc. From an industry group standpoint, Insurance as well as Food & Staples shined, while Automobiles, Household & Personal Products, and Pharmaceuticals & Biotechnology all struggled during the period. Further, it was difficult to avoid underperformers in the small-cap area of the technology sector. Borland Software, producers of platform software technology solutions, was one of the securities that detracted from performance.

The Schwab Hedged Equity Fund Select Shares were up 16.52%, outperforming their benchmark, the S&P 500 Index, which returned 8.72% for the 12-month period. In addition, the fund's Investor Shares, which were launched on March 1, 2005, returned 6.96% since inception, outperforming the 1.44% return of the benchmark S&P 500 Index for that period. Prior to the devastation of the hurricanes, the fund was growing steadily and was positioned to outperform more than it did, but at the end of the quarter, results were dampened due to a slight underweight to Energy, which rallied as a result of concerns of temporary energy shortages. Importantly, in addition to outperforming its benchmark, the fund maintained less market volatility and a lower weighted average market capitalization than the broad equity market. The results of stock selection for the period were positive. On the long side, within the Insurance and Software industries, positions in AON Corp, Burlington Resources, Inc., and Apple Computer, Inc. contributed to overall returns.

The Schwab Financial Services Fund returned 18.62% for the one-year report period, beating its benchmark, the S&P 1500 SuperComposite Financials Sector Index, which was up 9.34%. The diverse nature of the Financial Services sector proved helpful during the year as the group posted positive returns, despite concerns about the narrowing of interest rate spreads at Banks. The fund benefited from being smaller than the benchmark, as the fund's weighted average market capitalization was about one-fourth of the benchmark. With the help of Schwab Equity Ratings' ability to identify stocks likely to outperform the market over the next

12 months, the fund was able to find winners that produced substantial returns. The fund sidestepped a struggling Fannie Mae and caught the momentum behind Franklin Resources, Inc., Investment Technology Group, Inc., and AFLAC, Inc.

The Schwab Health Care Fund, which was up 30.15% for the one-year reporting period, was the best performing of the three sector funds. The fund outperformed its benchmark, the S&P 1500 SuperComposite Health Care Sector Index, which was up 11.02%. Health Care stocks posted solid returns for the year, with one industry group, Health Care Equipment and Services, returning 26%. The fund maintained lower price/earnings and price/book ratios than the benchmark, which added value to overall returns. The fund also benefited from its emphasis on holdings that were smaller than the benchmark, particularly as a result of underweighting large pharmaceutical stocks. Much of the fund's out-performance can be attributed to the Health Care sector, as Schwab's Equity Ratings identified a number of A-rated stocks that climbed more than 100% for the period. Some of the largest contributors to the fund were Humana, Inc. and Express Scripts, Inc.

The Schwab Technology Fund was up 10.41% for the period, outperforming its benchmark, the S&P 1500 SuperComposite Technology Sector Index, which was up 5.81%. During the report period, Technology stocks posted reasonable gains, with each of its three industry groups posting similar returns. Since performance for the three industry groups did not vary by much for the period, little could be gained by overweighting each group and therefore, the fund showed almost no benefit or loss from industry weights. Software firms such as Autodesk, Inc. and Progress Software Corp., both business solutions companies, contributed to the overall returns for the fund whereas holdings of Avaya, Inc. and Xerox Corp. slightly detracted from performance.

Source of Sector Classification: S&P and MSCI.
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.

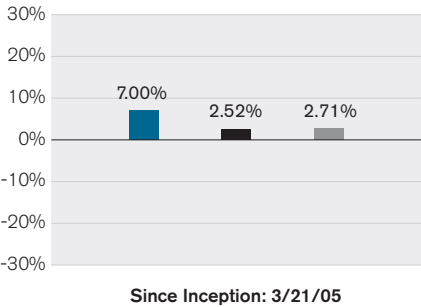
Schwab Premier Equity Fund™

Investor Shares Performance as of 10/31/05

Total Returns^{1, 2}

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**

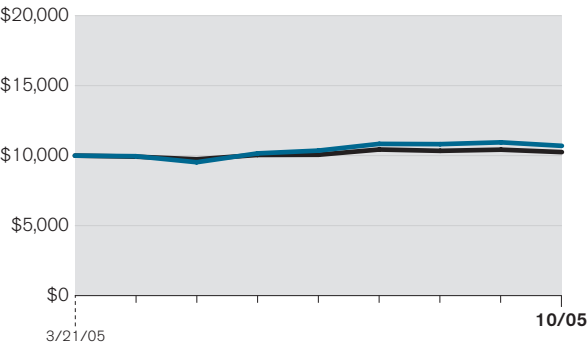


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment¹

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.

- \$10,700 **Investor Shares**
- \$10,252 **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.

¹ 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.

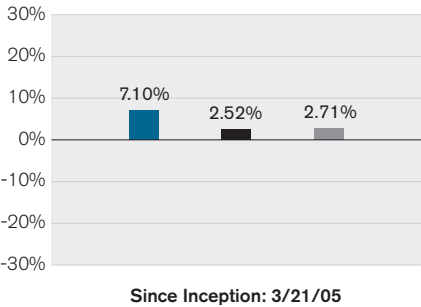
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Total Returns^{1, 2}

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**

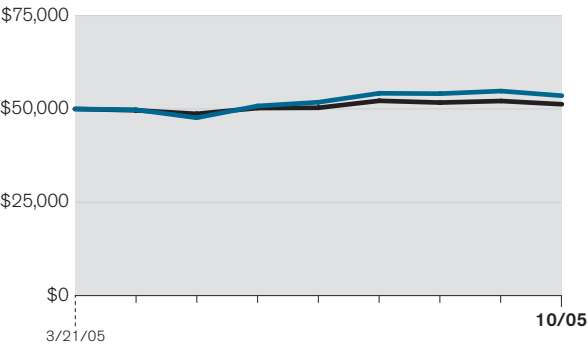


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$50,000 Investment¹

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.

- \$53,550 **Select Shares**
- \$51,261 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹

Statistics

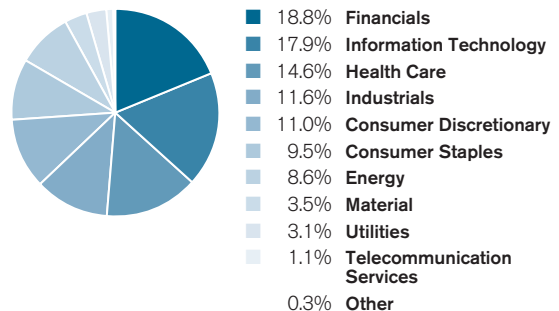
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 101 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$24,424 |
| Price/Earnings Ratio (P/E) | 19.9 |
| Price/Book Ratio (P/B) | 2.6 |
| Portfolio Turnover Rate ² | 33% |
| Minimum Initial Investment ³ | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Top Holdings⁴

| | % of Net Assets |
|--------------------------------------------|-----------------|
| 1 Apple Computer, Inc. | 1.2% |
| 2 Investment Technology Group, Inc. | 1.2% |
| 3 W.R. Berkley Corp. | 1.2% |
| 4 Autodesk, Inc. | 1.2% |
| 5 Helmerich & Payne, Inc. | 1.2% |
| 6 AMR Corp. | 1.2% |
| 7 J.C. Penny Co., Inc. Holding Co. | 1.2% |
| 8 Prudential Financial, Inc. | 1.2% |
| 9 Payless Shoesource, Inc. | 1.1% |
| 10 Pride International, Inc. | 1.1% |
| Total | 11.8% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Not annualized.

³ Please see prospectus for further detail and eligibility requirements.

⁴ This list is not a recommendation of any security by the investment adviser.

Schwab Core Equity Fund™

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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

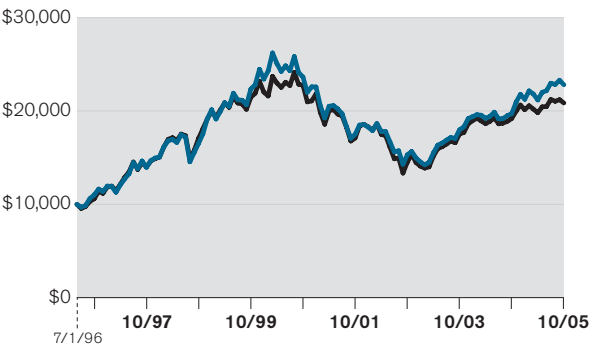


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Performance of a Hypothetical \$10,000 Investment¹

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

- \$22,806 Fund
- \$20,855 S&P 500® Index



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¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹



Statistics

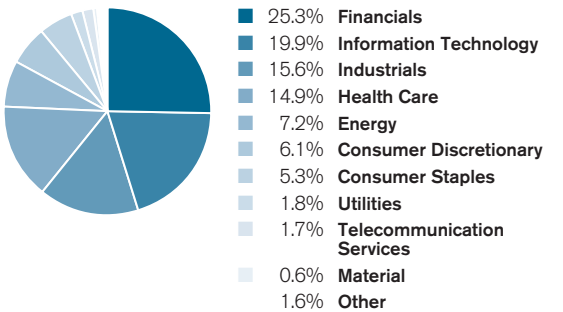
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 93 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$60,334 |
| Price/Earnings Ratio (P/E) | 18.0 |
| Price/Book Ratio (P/B) | 2.8 |
| Portfolio Turnover Rate | 48% |
| Minimum Initial Investment ² | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |

Top Holdings³

| | % of Net Assets |
|----------------------------|-----------------|
| 1 American Express Co. | 5.0% |
| 2 Boeing Co. | 4.7% |
| 3 Exxon Mobil Corp. | 4.4% |
| 4 Intel Corp. | 4.3% |
| 5 Coca-Cola Co. | 4.2% |
| 6 UnionBanCal Corp. | 4.0% |
| 7 Hewlett-Packard Co. | 4.0% |
| 8 Franklin Resources, Inc. | 3.7% |
| 9 CSX Corp. | 3.5% |
| 10 Lockheed Martin Corp. | 3.3% |
| Total | 41.1% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

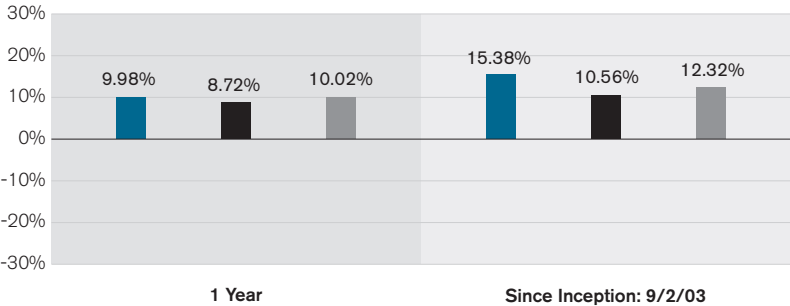
Schwab Dividend Equity Fund™

Investor Shares Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

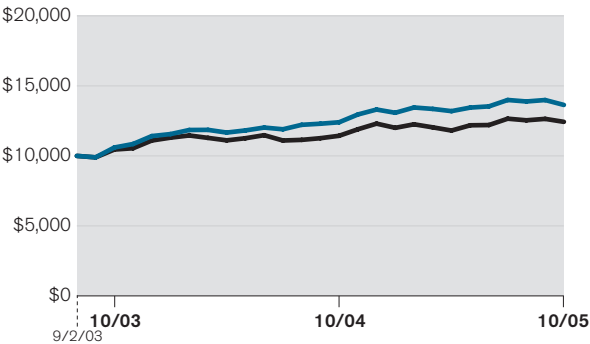


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Performance of a Hypothetical \$10,000 Investment¹

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.

■ \$13,640 **Investor Shares**
■ \$12,433 **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.

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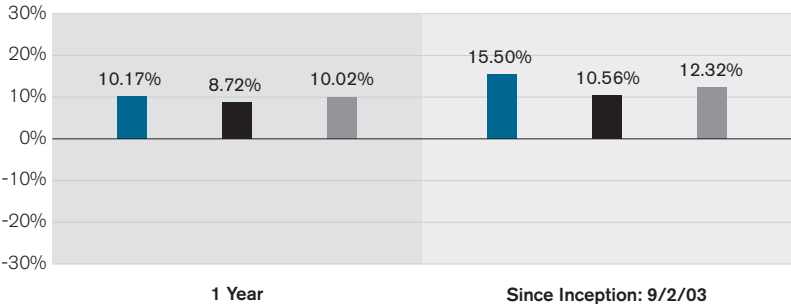
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

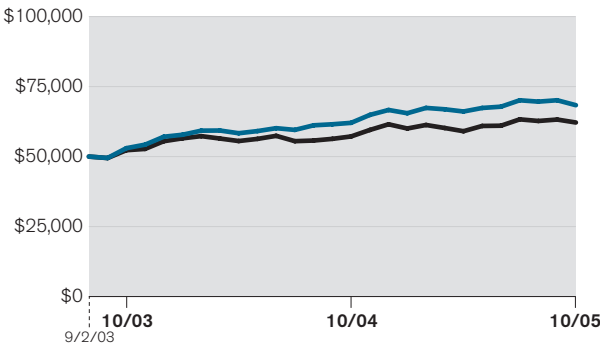


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Performance of a Hypothetical \$50,000 Investment¹

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.

- \$68,350 **Select Shares**
- \$62,167 **S&P 500® Index**



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¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹

Investment Style

ValueBlendGrowth

LargeMediumSmall

Market Cap

Statistics

Number of Holdings

112

Weighted Average Market Cap (\$ x 1,000,000)

\$49,274

Price/Earnings Ratio (P/E)

15.8

Price/Book Ratio (P/B)

2.6

Portfolio Turnover Rate

26%

SEC Yield²

Investor Shares

1.84%

Select Shares

1.98%

SEC Yield—No Waiver³

Investor Shares

1.84%

Select Shares

1.98%

Minimum Initial Investment⁴

Investor Shares

\$2,500

(\$1,000 for retirement, education and custodial accounts)

Select Shares

\$50,000

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Top Holdings⁵

Security

% of Net Assets

① ChevronTexaco Corp.

1.6%

② Kellogg Co.

1.4%

③ ConocoPhillips

1.4%

④ PNC Financial Services Group, Inc.

1.4%

⑤ St. Paul Travelers Cos., Inc.

1.3%

⑥ JPMorgan Chase & Co.

1.3%

⑦ Marathon Oil Corp.

1.3%

⑧ Hewlett-Packard Co.

1.3%

⑨ Motorola, Inc.

1.3%

⑩ Altria Group, Inc.

1.3%

Total

13.6%

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.

| | |
|-------|----------------------------|
| 25.3% | Financials |
| 12.8% | Industrials |
| 12.8% | Utilities |
| 12.2% | Consumer Staples |
| 8.3% | Information Technology |
| 6.7% | Health Care |
| 6.2% | Telecommunication Services |
| 5.5% | Energy |
| 5.5% | Consumer Discretionary |
| 4.4% | Material |
| 0.3% | Other |

Portfolio holdings may have changed since the report date.

Source of Sector Classification: S&P and MSCI.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² 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.

³ Yield if fund expenses had not been partially absorbed by CSIM and Schwab.

⁴ Please see prospectus for further detail and eligibility requirements.

⁵ This list is not a recommendation of any security by the investment adviser.

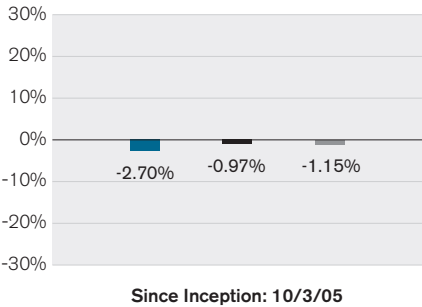
Schwab Large-Cap Growth Fund™

Investor Shares Performance as of 10/31/05

Total Returns^{1, 2}

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

- Fund: **Investor Shares** Ticker Symbol: SWLNX
- Benchmark: **Russell 1000® Growth Index**
- Fund Category: **Morningstar Large-Cap Growth**

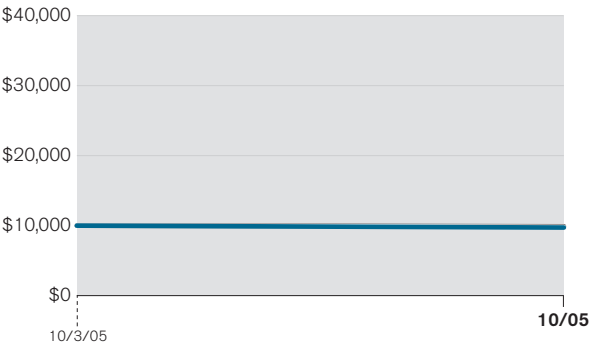


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Performance of a Hypothetical \$10,000 Investment¹

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.

- \$9,730 **Investor Shares**
- \$9,903 **Russell 1000® Growth Index**
- \$9,833 **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.

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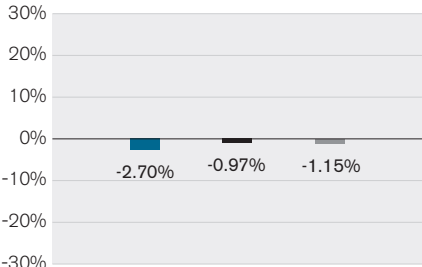
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Total Returns^{1, 2}

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

- Fund: **Select Shares** Ticker Symbol: SWLSX
- Benchmark: **Russell 1000® Growth Index**
- Fund Category: **Morningstar Large-Cap Growth**



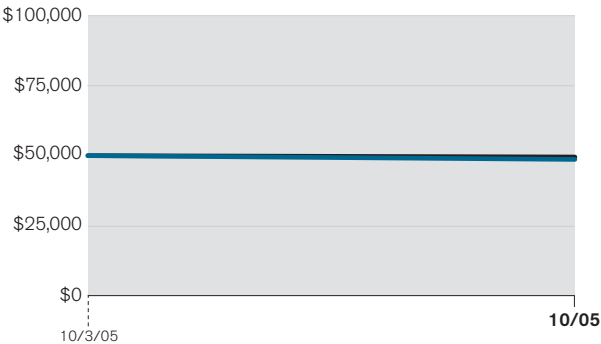
Since Inception: 10/3/05

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Performance of a Hypothetical \$50,000 Investment¹

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.

- \$48,650 **Select Shares**
- \$49,515 **Russell 1000® Growth Index**
- \$49,166 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹



Statistics

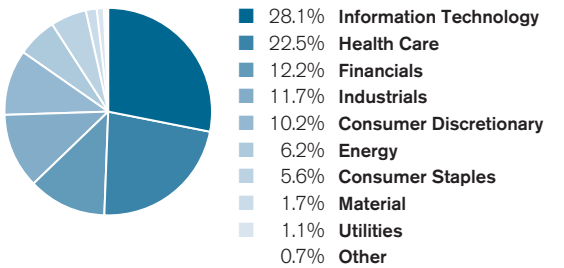
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 60 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$74,362 |
| Price/Earnings Ratio (P/E) | 21.4 |
| Price/Book Ratio (P/B) | 4.2 |
| Portfolio Turnover Rate ² | 4% |
| Minimum Initial Investment ³ | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Top Holdings⁴

| | % of Net Assets |
|-----------------------------------------|-----------------|
| Security | |
| 1 Johnson & Johnson | 4.4% |
| 2 Intel Corp. | 3.8% |
| 3 Pfizer, Inc. | 3.5% |
| 4 Exxon Mobil Corp. | 3.4% |
| 5 International Business Machines Corp. | 3.2% |
| 6 Hewlett-Packard Co. | 3.2% |
| 7 General Dynamics Corp. | 3.1% |
| 8 UnitedHealth Group, Inc. | 2.6% |
| 9 Qualcomm, Inc. | 2.3% |
| 10 Coca-Cola Co. | 2.3% |
| Total | 31.8% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Not annualized.

³ Please see prospectus for further detail and eligibility requirements.

⁴ This list is not a recommendation of any security by the investment adviser.

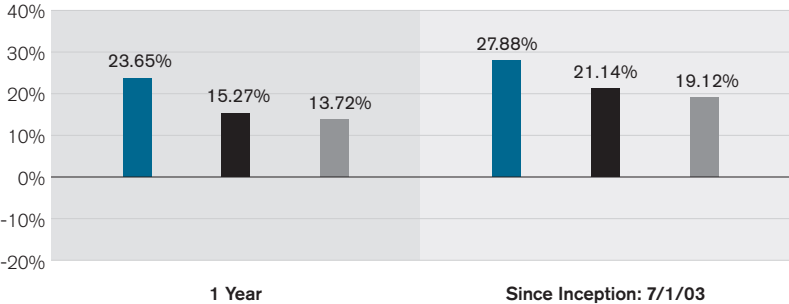
Schwab Small-Cap Equity Fund™

Investor Shares Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

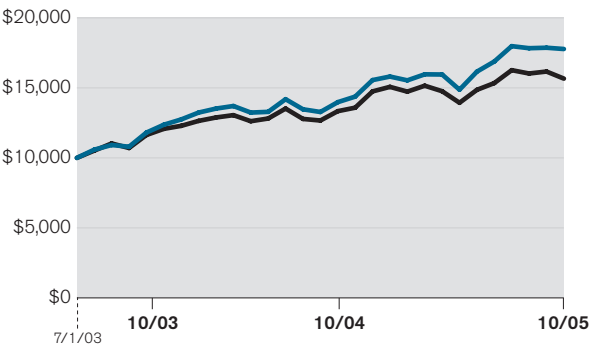


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Performance of a Hypothetical \$10,000 Investment¹

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.

■ \$17,778 **Investor Shares**
■ \$15,663 **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.

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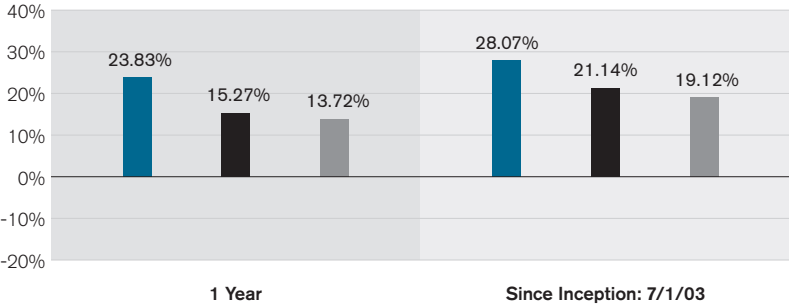
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

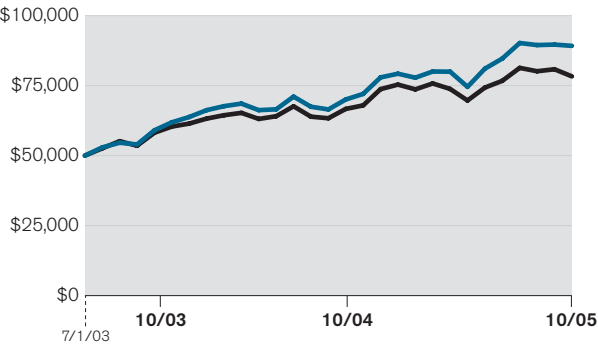


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$50,000 Investment¹

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.

- \$89,205 **Select Shares**
- \$78,315 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹



Statistics

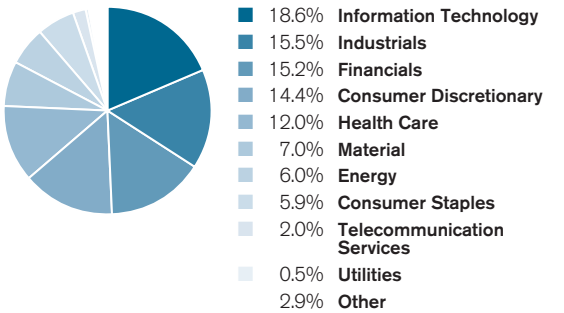
| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 131 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$1,628 |
| Price/Earnings Ratio (P/E) | 22.1 |
| Price/Book Ratio (P/B) | 2.3 |
| Portfolio Turnover Rate | 90% |
| Minimum Initial Investment ² | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Top Holdings³

| | % of Net Assets |
|-------------------------------------|-----------------|
| Security | |
| 1 Thomas & Betts Corp. | 3.1% |
| 2 Sierra Health Services, Inc. | 3.0% |
| 3 Investment Technology Group, Inc. | 2.8% |
| 4 Bank of Hawaii Corp. | 2.8% |
| 5 Crown Holdings, Inc. | 2.8% |
| 6 Helmerich & Payne, Inc. | 2.7% |
| 7 Vector Group Ltd. | 2.5% |
| 8 TRW Automotive Holdings Corp. | 2.4% |
| 9 GATX Corp. | 2.4% |
| 10 John Wiley & Sons, Class A | 2.2% |
| Total | 26.7% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

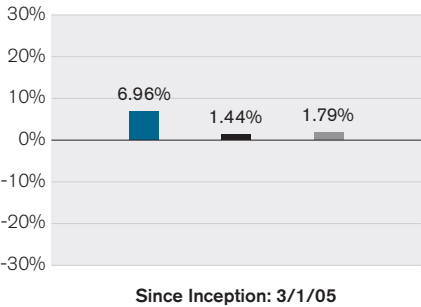
Schwab Hedged Equity Fund™

Investor Shares Performance as of 10/31/05

Total Returns^{1, 2}

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**

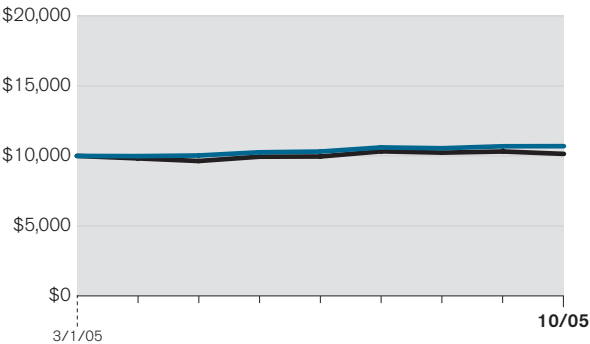


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment¹

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.

- \$10,696 **Investor Shares**
- \$10,144 **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.

¹ 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.

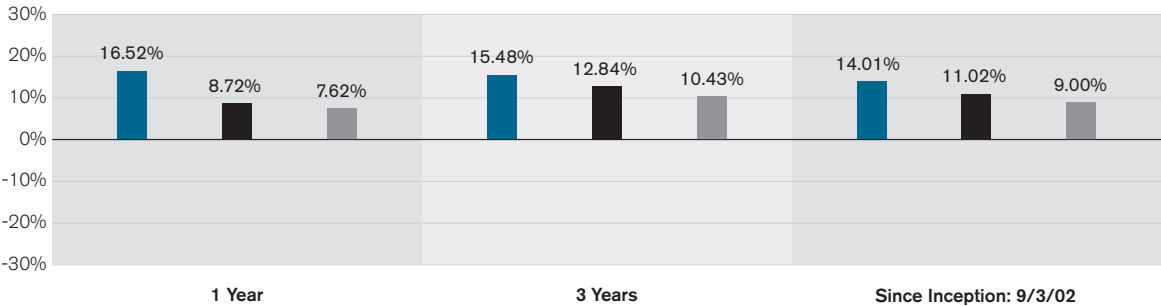
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

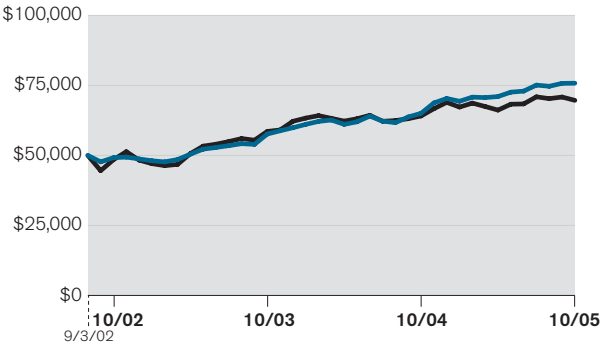


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$50,000 Investment¹

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.

- \$75,800 **Select Shares**
- \$69,674 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

| Top Long Holdings ¹ | |
|--------------------------------|-----------------|
| Security | % of Net Assets |
| ① Crown Holdings, Inc. | 3.3% |
| ② Kerr-McGee Corp. | 3.2% |
| ③ AON Corp. | 3.1% |
| ④ Loews Corp. | 3.1% |
| ⑤ Hewlett Packard Co. | 3.0% |
| Total | 15.7% |

| Top Short Positions ¹ | |
|---------------------------------------|-----------------|
| Security | % of Net Assets |
| ① Par Pharmaceutical Cos., Inc. | 1.9% |
| ② Werner Enterprises, Inc. | 1.6% |
| ③ Martek Biosciences Corp. | 1.6% |
| ④ Accredited Home Lenders Holding Co. | 1.6% |
| ⑤ Titanium Metals Corp. | 1.5% |
| Total | 8.2% |

| Statistics | |
|------------------------------------------------------------|----------|
| Number of Holdings | |
| Long Holdings | 133 |
| Short Positions | 55 |
| Weighted Average Market Cap (\$ x 1,000,000) | |
| Long Holdings | \$27,974 |
| Short Positions | \$3,492 |
| Price/Earnings Ratio (P/E) | |
| Long Holdings | 19.3 |
| Short Positions | 33.9 |
| Price/Book Ratio (P/B) | |
| Long Holdings | 2.4 |
| Short Positions | 2.6 |
| Portfolio Turnover Rate² | 87% |
| Minimum Initial Investment³ | |
| 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.

¹ This list is not a recommendation of any security by the investment adviser.

² 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.

³ Please see prospectus for further detail and eligibility requirements.

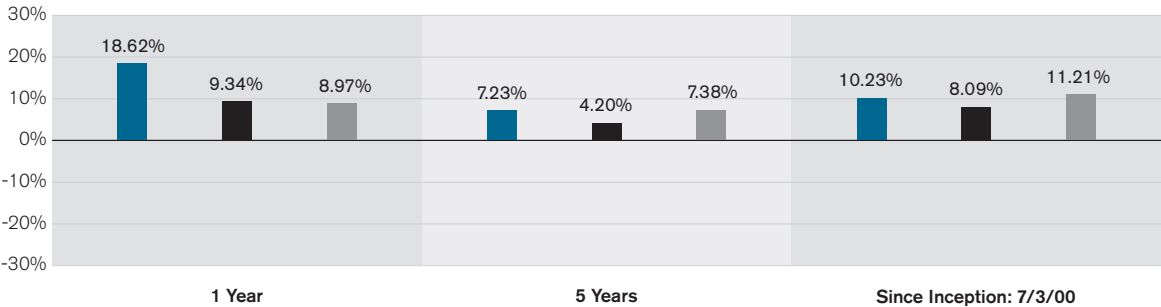
Schwab Financial Services Fund™

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

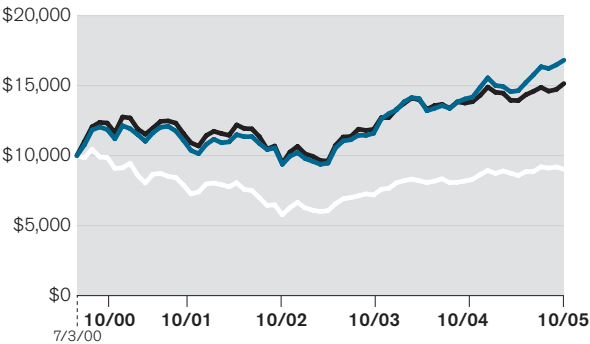


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Performance of a Hypothetical \$10,000 Investment¹

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.

- \$16,818 Fund
- \$15,148 S&P 1500 SuperComposite Financials Sector Index
- \$9,035 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.

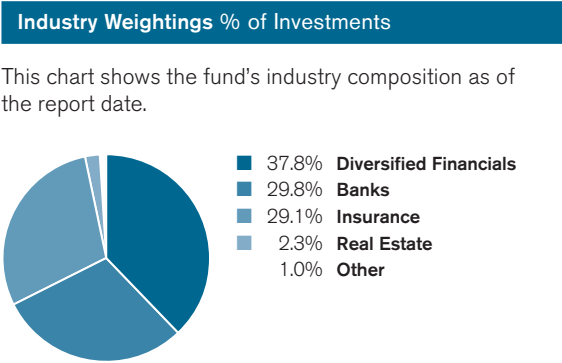
¹ Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|-----------------------------------|-----------------|
| Security | % of Net Assets |
| ① Comerica, Inc. | 5.9% |
| ② Principal Financial Group, Inc. | 5.4% |
| ③ Metlife, Inc. | 5.0% |
| ④ UnionBanCal Corp. | 4.9% |
| ⑤ Prudential Financial, Inc. | 4.8% |
| ⑥ AFLAC, Inc. | 4.7% |
| ⑦ Northern Trust Corp. | 4.7% |
| ⑧ Franklin Resources, Inc. | 4.7% |
| ⑨ Bank of Hawaii Corp. | 4.6% |
| ⑩ KeyCorp, Inc. | 4.6% |
| Total | 49.3% |

| Statistics | |
|------------------------------------------------------------|----------|
| Number of Holdings | 42 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$16,938 |
| Price/Earnings Ratio (P/E) | 14.5 |
| Price/Book Ratio (P/B) | 2.2 |
| Portfolio Turnover Rate | 74% |
| Minimum Initial Investment ² | \$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.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

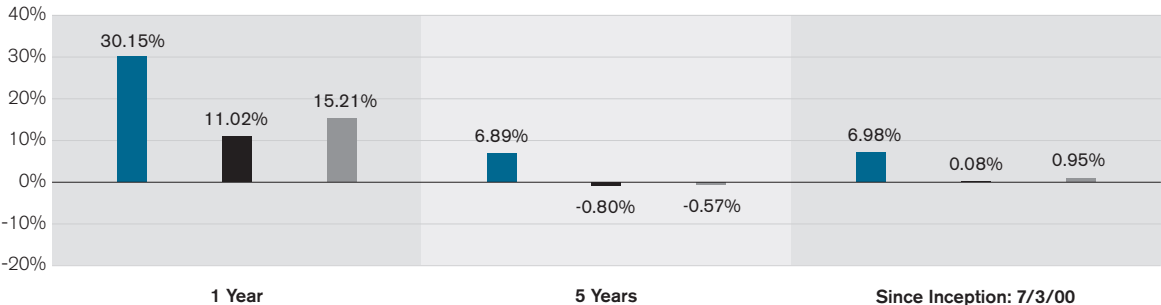
Schwab Health Care Fund™

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

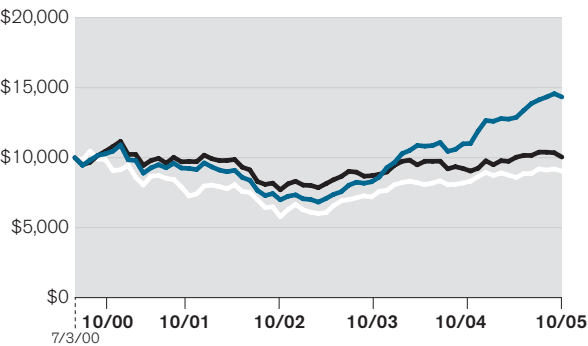


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Performance of a Hypothetical \$10,000 Investment¹

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.

- \$14,334 Fund
- \$10,041 S&P 1500 SuperComposite Health Care Sector Index
- \$9,035 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.

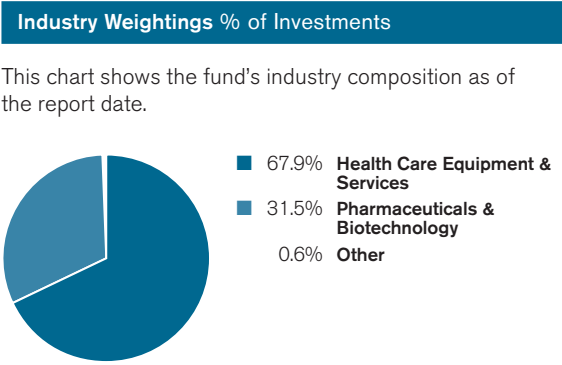
¹ Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|------------------------------|-----------------|
| Security | % of Net Assets |
| ① Express Scripts, Inc. | 4.2% |
| ② AmericourceBergen Corp. | 4.0% |
| ③ McKesson Corp. | 4.0% |
| ④ CIGNA Corp. | 3.9% |
| ⑤ Baxter International, Inc. | 3.9% |
| ⑥ UnitedHealth Group, Inc. | 3.7% |
| ⑦ Cardinal Health, Inc. | 3.7% |
| ⑧ Pfizer, Inc. | 3.5% |
| ⑨ Becton Dickinson & Co. | 3.4% |
| ⑩ Johnson & Johnson | 3.4% |
| Total | 37.7% |

| Statistics | |
|------------------------------------------------------------|----------|
| Number of Holdings | 49 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$29,393 |
| Price/Earnings Ratio (P/E) | 33.7 |
| Price/Book Ratio (P/B) | 3.4 |
| Portfolio Turnover Rate | 42% |
| Minimum Initial Investment ² | \$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.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

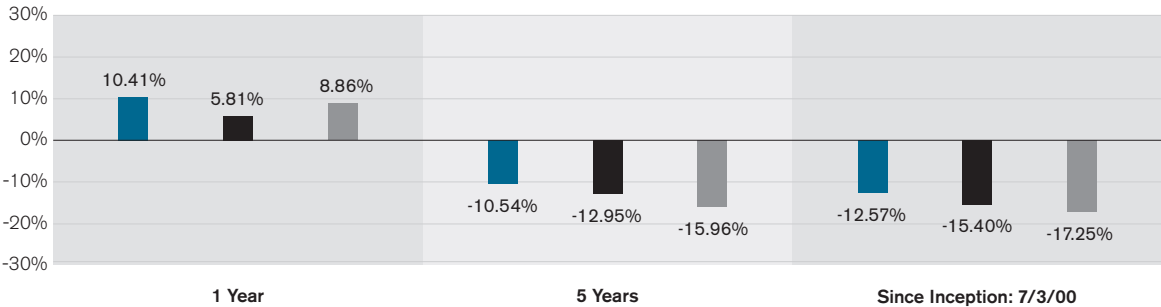
Schwab Technology Fund™

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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

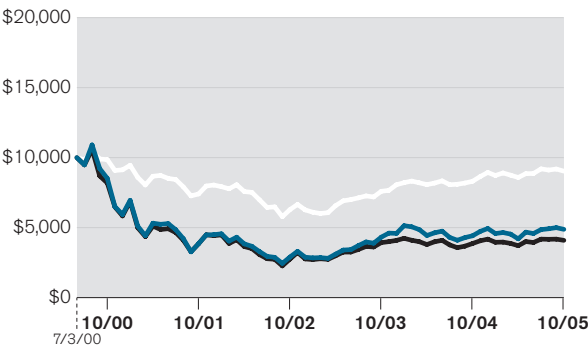


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Performance of a Hypothetical \$10,000 Investment¹

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.

\$4,880 Fund
\$4,093 S&P 1500 SuperComposite Technology Sector Index
\$9,035 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.

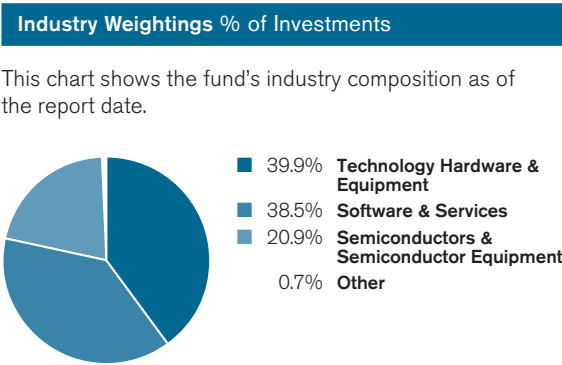
¹ Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|-----------------------------------------|-----------------|
| Security | % of Net Assets |
| ① International Business Machines Corp. | 8.1% |
| ② Hewlett-Packard Co. | 7.2% |
| ③ Motorola, Inc. | 7.2% |
| ④ Intel Corp. | 6.5% |
| ⑤ Texas Instruments, Inc. | 6.0% |
| ⑥ Oracle Corp. | 5.2% |
| ⑦ Autodesk, Inc. | 3.5% |
| ⑧ Applied Materials, Inc. | 3.1% |
| ⑨ Progress Software Corp. | 3.1% |
| ⑩ Apple Computer, Inc. | 3.0% |
| Total | 52.9% |

| Statistics | |
|------------------------------------------------------------|----------|
| Number of Holdings | 45 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$42,008 |
| Price/Earnings Ratio (P/E) | 23.0 |
| Price/Book Ratio (P/B) | 3.3 |
| Portfolio Turnover Rate | 89% |
| Minimum Initial Investment ² | \$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.

¹ This list is not a recommendation of any security by the investment adviser.

² Please see prospectus for further detail and eligibility requirements.

Fund Expenses (unaudited)

Examples for a \$1,000 Investment

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

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

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$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 ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period 5/1/05–10/31/05 |
|------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|---------------------------------------------------|
| Schwab Premier Equity Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 0.88% | \$1,000 | \$1,122.80 | \$4.69 ² |
| Hypothetical 5% Return | 0.88% | \$1,000 | \$1,020.78 | \$4.47 ² |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.77% | \$1,000 | \$1,123.80 | \$4.10 ² |
| Hypothetical 5% Return | 0.77% | \$1,000 | \$1,021.34 | \$3.90 ² |
| Schwab Core Equity Fund™ | | | | |
| Actual Return | 0.75% | \$1,000 | \$1,077.00 | \$3.93 ³ |
| Hypothetical 5% Return | 0.75% | \$1,000 | \$1,021.42 | \$3.82 ³ |

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

² 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” would be: \$6.96 based on Actual Return and \$6.61 based on Hypothetical 5% Return for Investor Shares; and, \$6.16 based on Actual Return and \$5.85 based on Hypothetical 5% Return for Select Shares.

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

Fund Expenses continued

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period 5/1/05–10/31/05 |
|----------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|---------------------------------------------------|
| Schwab Dividend Equity Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.06% | \$1,000 | \$1,033.40 | \$5.45 ² |
| Hypothetical 5% Return | 1.06% | \$1,000 | \$1,019.85 | \$5.41 ² |
| <i>Select Shares*</i> | | | | |
| Actual Return | 0.91% | \$1,000 | \$1,034.20 | \$4.68 ² |
| Hypothetical 5% Return | 0.91% | \$1,000 | \$1,020.60 | \$4.65 ² |
| Schwab Large-Cap Growth Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.20% | \$1,000 | \$1,027.00 | \$1.00 ³ |
| Hypothetical 5% Return | 1.20% | \$1,000 | \$1,003.13 | \$0.99 ³ |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.99% | \$1,000 | \$1,027.00 | \$0.82 ³ |
| Hypothetical 5% Return | 0.99% | \$1,000 | \$1,003.30 | \$0.81 ³ |
| Schwab Small-Cap Equity Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.27% | \$1,000 | \$1,195.40 | \$7.05 ² |
| Hypothetical 5% Return | 1.27% | \$1,000 | \$1,018.78 | \$6.49 ² |
| <i>Select Shares</i> | | | | |
| Actual Return | 1.11% | \$1,000 | \$1,196.40 | \$6.12 ² |
| Hypothetical 5% Return | 1.11% | \$1,000 | \$1,019.63 | \$5.63 ² |
| Schwab Hedged Equity Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 2.32% | \$1,000 | \$1,066.40 | \$12.08 ² |
| Hypothetical 5% Return | 2.32% | \$1,000 | \$1,013.51 | \$11.77 ² |
| <i>Select Shares</i> | | | | |
| Actual Return | 2.12% | \$1,000 | \$1,067.20 | \$11.05 ² |
| Hypothetical 5% Return | 2.12% | \$1,000 | \$1,014.52 | \$10.76 ² |
| Schwab Financial Services Fund™ | | | | |
| Actual Return | 1.07% | \$1,000 | \$1,149.00 | \$5.80 ² |
| Hypothetical 5% Return | 1.07% | \$1,000 | \$1,019.80 | \$5.45 ² |
| Schwab Health Care Fund™ | | | | |
| Actual Return | 0.88% | \$1,000 | \$1,113.50 | \$4.71 ² |
| Hypothetical 5% Return | 0.88% | \$1,000 | \$1,020.74 | \$4.51 ² |
| Schwab Technology Fund™ | | | | |
| Actual Return | 0.96% | \$1,000 | \$1,161.90 | \$5.21 ² |
| Hypothetical 5% Return | 0.96% | \$1,000 | \$1,020.39 | \$4.87 ² |

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

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

³ Expenses for this share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 29 days of the period (from 10/3/05, commencement of operations through 10/31/05), and divided by 365 days of the fiscal year.

Schwab Premier Equity Fund™

Financial Statements

Financial Highlights

| Investor Shares | 3/21/05 ¹ – 10/31/05 |
|--------------------------------------------|------------------------------------|
| Per-Share Data (\$) | |
| Net asset value at beginning of period | 10.00 |
| Income or loss from investment operations: | |
| Net investment income | 0.02 |
| Net realized and unrealized gains | 0.68 |
| Total income from investment operations | 0.70 |
| Net asset value at end of period | 10.70 |
| Total return (%) | 7.00 ² |
| Ratios/Supplemental Data (%) | |
| Ratios to average net assets: | |
| Net operating expenses | 0.78 ³ |
| Gross operating expenses | 1.23 ³ |
| Net investment income | 0.52 ³ |
| Portfolio turnover rate | 33 ² |
| Net assets, end of period (\$ x 1,000,000) | 364 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

| Select Shares | 3/21/05 ¹ – 10/31/05 |
|--------------------------------------------|------------------------------------|
| Per-Share Data (\$) | |
| Net asset value at beginning of period | 10.00 |
| Income or loss from investment operations: | |
| Net investment income | 0.03 |
| Net realized and unrealized gains | 0.68 |
| Total income from investment operations | 0.71 |
| Net asset value at end of period | 10.71 |
| Total return (%) | 7.10 ² |
| Ratios/Supplemental Data (%) | |
| Ratios to average net assets: | |
| Net operating expenses | 0.68 ³ |
| Gross operating expenses | 1.08 ³ |
| Net investment income | 0.63 ³ |
| Portfolio turnover rate | 33 ² |
| Net assets, end of period (\$ x 1,000,000) | 481 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 99.4% | Common Stock | 800,543 | 839,981 |
| 0.3% | Short-Term Investment | 2,307 | 2,307 |
| 99.7% | Total Investments | 802,850 | 842,288 |
| 3.5% | Collateral Invested for Securities on Loan | 29,935 | 29,935 |
| (3.2)% | Other Assets and Liabilities, Net | | (27,084) |
| 100.0% | Total Net Assets | | 845,139 |

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

Common Stock 99.4% of net assets

Automobiles & Components 0.9%

| | | |
|--------------------|---------|--------------|
| ArvinMeritor, Inc. | 450,800 | 7,226 |
|--------------------|---------|--------------|

Banks 2.9%

| | | |
|----------------------|---------|-------|
| Bank of Hawaii Corp. | 173,100 | 8,894 |
| Comerica, Inc. | 163,600 | 9,453 |

| | | |
|-------------------------------|-----------------------|---------------|
| Security and Number of Shares | Value (\$ x 1,000) | |
| Wachovia Corp. | 128,500 | 6,492 |
| | | 24,839 |

Capital Goods 6.3%

| | | |
|---------------------------|---------|---------------|
| The Boeing Co. | 139,200 | 8,998 |
| Goodrich Corp. | 207,700 | 7,492 |
| Lockheed Martin Corp. | 149,200 | 9,036 |
| Northrop Grumman Corp. | 170,800 | 9,163 |
| Precision Castparts Corp. | 195,400 | 9,254 |
| Raytheon Co. | 242,900 | 8,975 |
| | | 52,918 |

Commercial Services & Supplies 2.0%

| | | |
|---------------------|---------|---------------|
| Equifax, Inc. | 267,300 | 9,214 |
| Herman Miller, Inc. | 277,900 | 7,617 |
| | | 16,831 |

Consumer Durables & Apparel 3.3%

| | | |
|-------------------------|---------|---------------|
| ■ Hasbro, Inc. | 300,000 | 5,652 |
| K-Swiss, Inc., Class A | 256,500 | 7,811 |
| Newell Rubbermaid, Inc. | 405,000 | 9,311 |
| VF Corp. | 105,000 | 5,486 |
| | | 28,260 |

Diversified Financials 6.2%

| | | |
|--------------------------------------|---------|---------------|
| American Express Co. | 157,400 | 7,834 |
| • AmeriCredit Corp. | 326,200 | 7,291 |
| Franklin Resources, Inc. | 107,800 | 9,526 |
| •② Investment Technology Group, Inc. | 320,600 | 10,423 |
| Mellon Financial Corp. | 263,800 | 8,360 |
| Principal Financial Group, Inc. | 185,000 | 9,181 |
| | | 52,615 |

Energy 8.6%

| | | |
|------------------------------|---------|---------------|
| Burlington Resources, Inc. | 124,200 | 8,970 |
| ChevronTexaco Corp. | 160,000 | 9,131 |
| Devon Energy Corp. | 141,600 | 8,550 |
| Exxon Mobil Corp. | 163,800 | 9,196 |
| ⑤ Helmerich & Payne, Inc. | 177,500 | 9,833 |
| •⑩ Pride International, Inc. | 343,000 | 9,628 |
| • Transocean, Inc. | 160,100 | 9,204 |
| • Veritas DGC, Inc. | 253,200 | 8,156 |
| | | 72,668 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|
| Food & Staples Retailing 2.0% | |
| • Kroger Co. 418,500 | 8,328 |
| Supervalu, Inc. 279,600 | 8,788 |
| | 17,116 |

| | |
|------------------------------------------|---------------|
| Food Beverage & Tobacco 6.8% | |
| Archer-Daniels-Midland Co. 392,600 | 9,568 |
| The Coca-Cola Co. 218,400 | 9,343 |
| Kellogg Co. 157,400 | 6,952 |
| PepsiAmericas, Inc. 348,000 | 8,115 |
| ■ Pilgrim's Pride Corp., Class B 275,000 | 8,657 |
| Tyson Foods, Inc., Class A 419,500 | 7,467 |
| ■ Vector Group Ltd. 365,000 | 7,286 |
| | 57,388 |

| | |
|--------------------------------------------------|---------------|
| Health Care Equipment & Services 9.2% | |
| Aetna, Inc. 95,460 | 8,454 |
| Bausch & Lomb, Inc. 113,600 | 8,428 |
| Baxter International, Inc. 236,300 | 9,034 |
| Becton Dickinson & Co. 156,200 | 7,927 |
| CIGNA Corp. 80,800 | 9,362 |
| • Express Scripts, Inc. 124,100 | 9,359 |
| • Haemonetics Corp. 133,000 | 6,444 |
| McKesson Corp. 203,200 | 9,231 |
| UnitedHealth Group, Inc. 163,600 | 9,471 |
| | 77,710 |

| | |
|----------------------------------------------|--------------|
| Hotels Restaurants & Leisure 0.7% | |
| Hilton Hotels Corp. 314,100 | 6,109 |

| | |
|-----------------------------------------------|--------------|
| Household & Personal Products 0.6% | |
| Kimberly-Clark Corp. 93,700 | 5,326 |

| | |
|------------------------------------------------------|-------|
| Insurance 9.6% | |
| AFLAC, Inc. 171,200 | 8,180 |
| • Allmerica Financial Corp. 218,300 | 8,317 |
| Chubb Corp. 103,000 | 9,576 |
| Hartford Financial Services Group, Inc. 89,300 | 7,122 |
| Loews Corp. 101,000 | 9,391 |
| • Metlife, Inc. 185,700 | 9,175 |
| Nationwide Financial Services, Inc., Class A 230,700 | 9,318 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------|-----------------------|
| ⑧ Prudential Financial, Inc. 134,400 | 9,783 |
| ③ W.R. Berkley Corp. 234,300 | 10,239 |
| | 81,101 |

| | |
|-----------------------------------------|---------------|
| Materials 3.5% | |
| • Crown Holdings, Inc. 576,000 | 9,343 |
| Martin Marietta Materials, Inc. 112,500 | 8,877 |
| Rohm & Haas Co. 118,100 | 5,141 |
| Vulcan Materials Co. 90,300 | 5,869 |
| | 29,230 |

| | |
|------------------------------------------|---------------|
| Media 2.0% | |
| • DreamWorks Animation SKG, Inc. 354,000 | 9,077 |
| • Getty Images, Inc. 94,700 | 7,861 |
| | 16,938 |

| | |
|-----------------------------------------------------|---------------|
| Pharmaceuticals & Biotechnology 5.4% | |
| Applied Biosystems Group – Applera Corp. 393,200 | 9,543 |
| • Invitrogen Corp. 65,300 | 4,152 |
| Johnson & Johnson 130,700 | 8,185 |
| • King Pharmaceuticals, Inc. 609,200 | 9,400 |
| Merck & Co., Inc. 226,900 | 6,403 |
| Pfizer, Inc. 357,500 | 7,772 |
| | 45,455 |

| | |
|------------------------------------------------|---------------|
| Retailing 4.1% | |
| American Eagle Outfitters, Inc. 330,900 | 7,793 |
| ⑦ J.C. Penney Co., Inc. Holding Co. 191,100 | 9,784 |
| Nordstrom, Inc. 210,600 | 7,297 |
| • Payless Shoesource, Inc. 527,600 | 9,692 |
| | 34,566 |

| | |
|----------------------------------------------------------|---------------|
| Semiconductors & Semiconductor Equipment 3.2% | |
| Intel Corp. 394,800 | 9,278 |
| National Semiconductor Corp. 411,300 | 9,307 |
| Texas Instruments, Inc. 285,700 | 8,157 |
| | 26,742 |

| | |
|-------------------------------------|-------|
| Software & Services 9.7% | |
| ④ Autodesk, Inc. 217,900 | 9,834 |
| • BEA Systems, Inc. 838,300 | 7,394 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|
| • Compuware Corp. 831,600 | 6,728 |
| • Earthlink, Inc. 853,100 | 9,393 |
| Fair Isaac Corp. 222,200 | 9,279 |
| • Oracle Corp. 522,200 | 6,621 |
| The Reynolds & Reynolds Co., Class A 288,100 | 7,646 |
| • Sybase, Inc. 405,900 | 9,031 |
| • Synopsys, Inc. 496,000 | 9,399 |
| United Online, Inc. 485,800 | 6,515 |
| | 81,840 |

Technology Hardware & Equipment 5.0%

| | |
|----------------------------------|---------------|
| • ① Apple Computer, Inc. 181,300 | 10,441 |
| • Emulex Corp. 452,100 | 8,368 |
| • NCR Corp. 299,300 | 9,045 |
| Scientific-Atlanta, Inc. 197,600 | 7,003 |
| ■• Xerox Corp. 512,400 | 6,953 |
| | 41,810 |

Telecommunication Services 1.1%

| | |
|-----------------------------------------------|--------------|
| • Crown Castle International Corp. 377,900 | 9,266 |
|-----------------------------------------------|--------------|

Transportation 3.3%

| | |
|------------------------|---------------|
| ■• ⑥ AMR Corp. 727,200 | 9,824 |
| CNF, Inc. 158,400 | 8,913 |
| CSX Corp. 208,400 | 9,547 |
| | 28,284 |

Utilities 3.0%

| | |
|---------------------------|---------------|
| Duke Energy Corp. 263,300 | 6,972 |
| FirstEnergy Corp. 195,000 | 9,262 |
| PPL Corp. 303,400 | 9,509 |
| | 25,743 |

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

Short-Term Investment

0.3% of net assets

Wachovia Bank, Grand Cayman
Time Deposit3.48%, 11/01/05 2,307 **2,307****End of investments.**

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

Collateral Invested for Securities on Loan

3.5% of net assets

Short-Term Investment 3.5%Securities Lending Investments
Fund 29,934,856**29,935****End of collateral invested for securities on loan.**

Statement of

Assets and Liabilities

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

Assets

| | |
|---------------------------------------------------------------------|----------------|
| Investments, at value (including \$29,453 of securities on loan) | \$842,288 |
| Collateral invested for securities on loan | 29,935 |
| Receivables: | |
| Fund shares sold | 4,476 |
| Dividends | 134 |
| Investments sold | 9,419 |
| Reimbursement from adviser | 4 |
| Income from securities on loan | + 17 |
| Total assets | 886,273 |

Liabilities

| | |
|---------------------------------------------|---------------|
| Collateral invested for securities on loan | 29,935 |
| Payables: | |
| Fund shares redeemed | 806 |
| Investments bought | 10,329 |
| Transfer agent and shareholder service fees | 11 |
| Trustees' fees | 1 |
| Accrued expenses | + 52 |
| Total liabilities | 41,134 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 886,273 |
| Total liabilities | - 41,134 |
| Net assets | \$845,139 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 804,014 |
| Net investment income not yet distributed | 2,233 |
| Net realized capital losses | (546) |
| Net unrealized capital gains | 39,438 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$364,185 | | 34,032 | | \$10.70 |
| Select Shares | \$480,954 | | 44,921 | | \$10.71 |

Unless stated, all numbers x 1,000.

The fund paid \$802,850 for these securities.

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

| | |
|------------------|-------------|
| Purchases | \$1,013,795 |
| Sales/maturities | \$211,757 |

The fund's total security transactions with other Schwab Funds® during the period were \$23,120.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$802,850 |
| Net unrealized gains and losses: | |
| Gains | \$65,938 |
| Losses | + (26,500) |
| | \$39,438 |

Net undistributed earnings:

| | |
|-------------------------|---------|
| Ordinary income | \$2,233 |
| Long-term capital gains | \$- |

Unused capital losses:

| | |
|-------------------|--------------|
| Expires 10/31 of: | Loss amount |
| 2013 | \$546 |

Statement of

Operations

For March 21, 2005 through October 31, 2005. All numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$4,809 |
| Interest | 161 |
| Securities on loan | + 23 |
| Total investment income | 4,993 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|--------------|
| Net realized losses on investments sold | (689) |
| Net realized gains on futures contracts | + 143 |
| Net realized losses | (546) |

Net Unrealized Gains and Losses

| | |
|-------------------------------------|---------------|
| Net unrealized gains on investments | 39,438 |
|-------------------------------------|---------------|

Expenses

| | |
|---------------------------------------------|--------------|
| Investment adviser and administrator fees | 3,476 |
| Transfer agent and shareholder service fees | |
| Investor Shares | 407 |
| Select Shares | 222 |
| Trustees' fees | 6 |
| Custodian fees | 25 |
| Portfolio accounting fees | 58 |
| Professional fees | 19 |
| Registration fees | 105 |
| Shareholder reports | 58 |
| Other expenses | + 3 |
| Total expenses | 4,379 |
| Expense reduction | - 1,619 |
| Net expenses | 2,760 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 4,993 |
| Net expenses | - 2,760 |
| Net investment income | 2,233 |
| Net realized losses | (546) |
| Net unrealized gains | + 39,438 |
| Increase in net assets from operations | \$41,125 |

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 \$1,401 from the investment adviser (CSIM) and \$218 from the transfer agent and shareholder service agent (Schwab). 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 net operating expenses of this fund as follows:

| Share Class | % of Average Daily Net Assets |
|-----------------|-------------------------------|
| Investor Shares | 1.30 |
| Select Shares | 1.15 |

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

These add up to a net gain on investments of \$38,892.

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

| | 3/21/05–10/31/05 |
|-----------------------------------------------|------------------|
| Net investment income | \$2,233 |
| Net realized losses | (546) |
| Net unrealized gains | + 39,438 |
| Increase in net assets from operations | \$41,125 |

Transactions in Fund Shares

| | 3/21/05–10/31/05 | |
|----------------------------------------|------------------|-------------------|
| | SHARES | VALUE |
| Shares Sold | | |
| Investor Shares | 37,370 | \$381,553 |
| Select Shares | + 48,755 | 497,896 |
| Total shares sold | 86,125 | \$879,449 |
| Shares Redeemed | | |
| Investor Shares | (3,338) | (\$35,148) |
| Select Shares | + (3,834) | (40,287) |
| Total shares redeemed | (7,172) | (\$75,435) |
| Net transactions in fund shares | 78,953 | \$804,014 |

Shares Outstanding and Net Assets

| | 3/21/05–10/31/05 | |
|----------------------|------------------|------------------|
| | SHARES | NET ASSETS |
| Beginning of period | — | \$— |
| Total increase | + 78,953 | 845,139 |
| End of period | 78,953 | \$845,139 |

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 | \$25 |
| Select Shares | + 28 |
| Total | \$53 |

Dollar amounts are net of the redemption fee 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 \$2,233.

Schwab Core Equity Fund™

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$)¹ | | | | | |
| Net asset value at beginning of period | 13.81 | 12.71 | 10.89 | 12.53 | 18.53 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.13 | 0.12 | 0.10 | 0.08 | 0.08 |
| Net realized and unrealized gains or losses | 2.03 | 1.09 | 1.79 | (1.64) | (4.57) |
| Total income or loss from investment operations | 2.16 | 1.21 | 1.89 | (1.56) | (4.49) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.16) | (0.11) | (0.07) | (0.08) | (0.07) |
| Distributions from net realized gains | — | — | — | — | (1.44) |
| Total distributions | (0.16) | (0.11) | (0.07) | (0.08) | (1.51) |
| Net asset value at end of period | 15.81 | 13.81 | 12.71 | 10.89 | 12.53 |
| Total return (%) | 15.74 | 9.57 | 17.54 | (12.58) | (25.93) |
| Ratios/Supplemental Data (%)¹ | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Gross operating expenses | 0.85 | 0.88 | 0.88 | 0.91 | 0.88 |
| Net investment income | 0.93 | 0.89 | 0.94 | 0.63 | 0.55 |
| Portfolio turnover rate | 48 | 86 | 73 | 114 | 106 |
| Net assets, end of period (\$ x 1,000,000) | 547 | 263 | 237 | 179 | 210 |

¹ Prior to June 1, 2002, the fund's day-to-day investment management was handled by a subadviser, Symphony Asset Management LLC.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 98.7% | Common Stock | 482,220 | 540,259 |
| 1.6% | Short-Term Investment | 8,649 | 8,649 |
| 0.1% | U.S. Treasury Obligations | 339 | 339 |
| 100.4% | Total Investments | 491,208 | 549,247 |
| 3.5% | Collateral Invested for Securities on Loan | 18,941 | 18,941 |
| (3.9)% | Other Assets and Liabilities, Net | | (21,354) |
| 100.0% | Total Net Assets | | 546,834 |

Security and Number of Shares Value
(\$ x 1,000)

Common Stock 98.7% of net assets

Automobiles & Components 0.6%

■ Ford Motor Co. 385,300 **3,206**

Banks 4.8%

Comerica, Inc. 72,000 4,160

Security and Number of Shares Value
(\$ x 1,000)

⑥ UnionBanCal Corp. 322,600 22,092

26,252

Capital Goods 10.6%

▲② The Boeing Co. 401,200 25,934

▲ Emerson Electric Co. 88,800 6,176

▲⑩ Lockheed Martin Corp. 300,700 18,210

Northrop Grumman Corp. 83,000 4,453

▲ Raytheon Co. 80,000 2,956

57,729

Commercial Services & Supplies 0.4%

Equifax, Inc. 70,000 **2,413**

Consumer Durables & Apparel 1.2%

Black & Decker Corp. 24,900 2,045

Nike, Inc., Class B 32,900 2,765

The Stanley Works 35,000 1,678

6,488

Diversified Financials 12.0%

① American Express Co. 552,000 27,473

• AmeriCredit Corp. 87,000 1,944

⑧ Franklin Resources, Inc. 227,600 20,113

▲ Moody's Corp. 54,800 2,919

▲• Northern Trust Corp. 17,500 938

Principal Financial Group, Inc. 243,600 12,090

65,477

Energy 7.2%

Burlington Resources, Inc. 90,500 6,536

■ ChevronTexaco Corp. 130,000 7,419

③ Exxon Mobil Corp. 424,600 23,837

• Pride International, Inc. 65,000 1,825

39,617

Food & Staples Retailing 0.8%

Supervalu, Inc. 145,000 **4,557**

Food Beverage & Tobacco 4.4%

⑤ The Coca-Cola Co. 540,500 23,123

Kellogg Co. 26,700 1,179

24,302

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------------|-----------------------|----------------------------------------------------------|-----------------------|
| Health Care Equipment & Services 8.7% | | Pharmaceuticals & Biotechnology 6.3% | |
| ▲ Aetna, Inc. 51,200 | 4,534 | ▲ Applied Biosystems Group – Applera Corp. 32,500 | 789 |
| AmerisourceBergen Corp. 10,000 | 763 | ▲ Johnson & Johnson 253,100 | 15,849 |
| Baxter International, Inc. 5,000 | 191 | • King Pharmaceuticals, Inc. 630,000 | 9,721 |
| Becton Dickinson & Co. 122,300 | 6,207 | • Kos Pharmaceuticals, Inc. 23,000 | 1,380 |
| CIGNA Corp. 39,500 | 4,577 | Pfizer, Inc. 310,000 | 6,739 |
| • Coventry Health Care, Inc. 54,775 | 2,957 | | 34,478 |
| McKesson Corp. 110,000 | 4,997 | | |
| • Pacificare Health Systems, Inc. 51,400 | 4,233 | | |
| PerkinElmer, Inc. 63,000 | 1,391 | | |
| ■ UnitedHealth Group, Inc. 216,828 | 12,552 | | |
| • WellPoint, Inc. 68,000 | 5,078 | | |
| | 47,480 | | |
| Hotels Restaurants & Leisure 1.2% | | Retailing 2.4% | |
| Hilton Hotels Corp. 346,500 | 6,739 | J.C. Penney Co., Inc. Holding Co. 255,000 | 13,056 |
| Insurance 8.6% | | Semiconductors & Semiconductor Equipment 5.2% | |
| ▲ AFLAC, Inc. 169,900 | 8,118 | ④ Intel Corp. 1,005,000 | 23,618 |
| ▲ Allmerica Financial Corp. 14,000 | 533 | National Semiconductor Corp. 182,500 | 4,130 |
| ▲ AON Corp. 48,000 | 1,625 | Texas Instruments, Inc. 22,000 | 628 |
| ■ Chubb Corp. 33,400 | 3,105 | | 28,376 |
| • CNA Financial Corp. 109,500 | 3,372 | | |
| ▲ Loews Corp. 48,500 | 4,510 | | |
| ▲ Metlife, Inc. 366,000 | 18,084 | | |
| ▲ Nationwide Financial Services, Inc., Class A 10,000 | 404 | | |
| Prudential Financial, Inc. 43,500 | 3,166 | | |
| W.R. Berkley Corp. 92,000 | 4,020 | | |
| | 46,937 | | |
| Materials 0.6% | | Software & Services 5.6% | |
| Monsanto Co. 50,000 | 3,150 | ▲ Autodesk, Inc. 169,000 | 7,627 |
| Nucor Corp. 6,500 | 389 | ▲ BMC Software, Inc. 87,000 | 1,704 |
| | 3,539 | ▲ Checkfree Corp. 16,000 | 680 |
| | | ▲ Citrix Systems, Inc. 26,500 | 731 |
| | | ■ Computer Associates International, Inc. 56,100 | 1,569 |
| | | • Compuware Corp. 155,000 | 1,254 |
| | | ▲ Electronic Data Systems Corp. 80,200 | 1,869 |
| | | • McAfee, Inc. 150,500 | 4,520 |
| | | ▲ Microsoft Corp. 85,000 | 2,184 |
| | | • Oracle Corp. 213,500 | 2,707 |
| | | The Reynolds & Reynolds Co., Class A 65,000 | 1,725 |
| | | ▲ Sybase, Inc. 62,200 | 1,384 |
| | | ▲ Synopsys, Inc. 152,500 | 2,890 |
| | | | 30,844 |
| Media 0.8% | | Technology Hardware & Equipment 9.2% | |
| ▲ Time Warner, Inc. 150,000 | 2,674 | • Apple Computer, Inc. 111,800 | 6,438 |
| Viacom, Inc., Class B 50,000 | 1,549 | • Arrow Electronics, Inc. 77,000 | 2,272 |
| | 4,223 | ⑦ Hewlett-Packard Co. 776,500 | 21,773 |
| | | ▲ International Business Machines Corp. 10,000 | 819 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| Motorola, Inc. 336,900 | 7,466 |
| • NCR Corp. 126,000 | 3,808 |
| ▲ • Xerox Corp. 551,700 | 7,487 |
| | 50,063 |

Telecommunication Services 1.7%

| | |
|--------------------------------------|--------------|
| AT&T Corp. 58,020 | 1,148 |
| ■ BellSouth Corp. 81,500 | 2,121 |
| ■ SBC Communications, Inc. 112,200 | 2,676 |
| Verizon Communications, Inc. 112,300 | 3,538 |
| | 9,483 |

Transportation 4.7%

| | |
|---------------------|---------------|
| ▲ CNF, Inc. 113,500 | 6,386 |
| ⑨ CSX Corp. 416,500 | 19,080 |
| | 25,466 |

Utilities 1.7%

| | |
|-----------------------------------------|--------------|
| • The AES Corp. 170,400 | 2,708 |
| American Electric Power Co., Inc. 6,000 | 228 |
| ▲ Duke Energy Corp. 9,000 | 238 |
| ▲ Edison International 36,800 | 1,610 |
| FirstEnergy Corp. 100,000 | 4,750 |
| | 9,534 |

Short-Term Investment
 1.6% of net assets

| | |
|--------------------------------------------|--------------|
| Provident Institutional TempFund 8,649,050 | 8,649 |
|--------------------------------------------|--------------|

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

U.S. Treasury Obligations
 0.1% of net assets

| | | |
|-----------------------------------------------|-----|------------|
| ▲ U.S. Treasury Bill 3.35%-3.48%, 12/15/05 | 340 | 339 |
|-----------------------------------------------|-----|------------|

End of investments.
Collateral Invested for Securities on Loan
 3.5% of net assets
Commercial Paper & Other Corporate Obligations 2.2%

| | | |
|--------------------------------------------|--------|---------------|
| Skandinav Enskilda Bank 3.94%, 11/17/05 | 12,147 | 12,147 |
|--------------------------------------------|--------|---------------|

Security and Number of Shares**Short-Term Investments 1.3%**

| | | |
|--------------------------------------------|--|-------|
| Institutional Money Market Trust 3,405,146 | | 3,405 |
|--------------------------------------------|--|-------|

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | |
|--------------------------------------------------------|-----------------------------|--------------|
| National City Bank, Time Deposit 3.98%, 11/01/05 | 2,945 | 2,945 |
| Nordea Bank, Time Deposit 4.03%, 11/01/05 | 222 | 222 |
| Rabobank, Time Deposit 4.03%, 11/01/05 | 222 | 222 |
| | | 6,794 |

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Losses |
|-------------------------------------------------|------------------------|-------------------|----------------------|
| S&P 500 Index, e-mini, Long Expires 12/18/05 | 100 | 6,049 | (32) |

Statement of

Assets and Liabilities

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

Assets

| | |
|---------------------------------------------------------------------|----------------|
| Investments, at value (including \$18,588 of securities on loan) | \$549,247 |
| Collateral invested for securities on loan | 18,941 |
| Receivables: | |
| Fund shares sold | 3,591 |
| Interest | 25 |
| Dividends | 238 |
| Investments sold | 4,986 |
| Due from brokers for futures | 51 |
| Income from securities on loan | 6 |
| Prepaid expenses | + 25 |
| Total assets | 577,110 |

Liabilities

| | |
|---------------------------------------------|---------------|
| Collateral invested for securities on loan | 18,941 |
| Payables: | |
| Fund shares redeemed | 323 |
| Investments bought | 10,905 |
| Investment adviser and administrator fees | 13 |
| Transfer agent and shareholder service fees | 11 |
| Accrued expenses | + 83 |
| Total liabilities | 30,276 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 577,110 |
| Total liabilities | - 30,276 |
| Net assets | \$546,834 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 490,455 |
| Net investment income not yet distributed | 2,244 |
| Net realized capital losses | (3,872) |
| Net unrealized capital gains | 58,007 |

Net Asset Value (NAV)

| Net Assets | ÷ | Shares Outstanding | = | NAV |
|-------------------|----------|---------------------------|----------|------------|
| \$546,834 | | 34,590 | | \$15.81 |

Unless stated, all numbers x 1,000.

The fund paid \$491,208 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$416,789 |
| Sales/maturities | \$178,134 |

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$491,255 |
| Net unrealized gains and losses: | |
| Gains | \$69,299 |
| Losses | + (11,307) |
| | \$57,992 |

Net undistributed earnings:

| | |
|-------------------------|---------|
| Ordinary income | \$2,244 |
| Long-term capital gains | \$- |

Capital losses utilized \$14,568

Unused capital losses:

| | |
|-------------------|----------------|
| Expires 10/31 of: | Loss amount |
| 2011 | \$3,857 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$6,090 |
| Interest | 178 |
| Securities on loan | + 26 |
| Total investment income | 6,294 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|---------------|
| Net realized gains on investments | 14,357 |
| Net realized gains on futures contracts | + 353 |
| Net realized gains | 14,710 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|---------------|
| Net unrealized gains on investments | 28,324 |
| Net unrealized losses on futures contracts | + (58) |
| Net unrealized gains | 28,266 |

Expenses

| | |
|---------------------------------------------|--------------|
| Investment adviser and administrator fees | 2,018 |
| Transfer agent and shareholder service fees | 935 |
| Trustees' fees | 8 |
| Custodian fees | 38 |
| Portfolio accounting fees | 48 |
| Professional fees | 28 |
| Registration fees | 51 |
| Shareholder reports | 50 |
| Other expenses | + 6 |
| Total expenses | 3,182 |
| Expense reduction | - 377 |
| Net expenses | 2,805 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 6,294 |
| Net expenses | - 2,805 |
| Net investment income | 3,489 |
| Net realized gains | 14,710 |
| Net unrealized gains | + 28,266 |
| Increase in net assets from operations | \$46,465 |

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 net 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 \$42,976.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$3,489 | \$2,298 |
| Net realized gains | 14,710 | 27,990 |
| Net unrealized gains or losses | + 28,266 | (7,414) |
| Increase in net assets from operations | 46,465 | 22,874 |

Distributions Paid

| | | |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | \$3,112 | \$2,074 |
|--------------------------------------|----------------|----------------|

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|------------------|------------------|----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 19,737 | \$304,359 | 4,444 | \$59,997 |
| Shares reinvested | 184 | 2,745 | 144 | 1,891 |
| Shares redeemed | + (4,354) | (66,406) | (4,213) | (56,963) |
| Net transactions in fund shares | 15,567 | \$240,698 | 375 | \$4,925 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 15,567 | 284,051 | 375 | 25,725 |
| End of period | 34,590 | \$546,834 | 19,023 | \$262,783 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$3,112 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$3,112 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|---------|
| 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.

Current period

\$17

Dollar amounts are net of the redemption fee 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 from transactions in fund shares, minus distributions paid.

Includes distributable net investment income in the amount of \$2,244 and \$1,867 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 Target Funds

| | |
|-------------------------|------|
| Schwab Target 2010 Fund | 0.6% |
| Schwab Target 2020 Fund | 0.6% |
| Schwab Target 2030 Fund | 0.4% |
| Schwab Target 2040 Fund | 0.2% |

Schwab Dividend Equity Fund™

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 9/2/03¹– 10/31/03 |
|--------------------------------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | |
| Net asset value at beginning of period | 12.06 | 10.60 | 10.00 |
| Income from investment operations: | | | |
| Net investment income | 0.26 | 0.29 | 0.05 |
| Net realized and unrealized gains | 0.93 | 1.49 | 0.55 |
| Total income from investment operations | 1.19 | 1.78 | 0.60 |
| Less distributions: | | | |
| Dividends from net investment income | (0.26) | (0.32) | — |
| Distributions from net realized gains | (0.19) | — | — |
| Total distributions | (0.45) | (0.32) | — |
| Net asset value at end of period | 12.80 | 12.06 | 10.60 |
| Total return (%) | 9.98 | 17.00 | 6.00² |
| Ratios/Supplemental Data (%) | | | |
| Ratios to average net assets: | | | |
| Net operating expenses | 1.07 | 0.65 | — |
| Gross operating expenses | 1.09 | 1.19 | 1.34³ |
| Net investment income | 2.17 | 2.71 | 3.41³ |
| Portfolio turnover rate | 26 | 39 | 2² |
| Net assets, end of period (\$ x 1,000,000) | 528 | 267 | 94 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Financial Highlights

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 9/2/03¹– 10/31/03 |
|--------------------------------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | |
| Net asset value at beginning of period | 12.06 | 10.60 | 10.00 |
| Income from investment operations: | | | |
| Net investment income | 0.28 | 0.31 | 0.05 |
| Net realized and unrealized gains | 0.93 | 1.48 | 0.55 |
| Total income from investment operations | 1.21 | 1.79 | 0.60 |
| Less distributions: | | | |
| Dividends from net investment income | (0.28) | (0.33) | — |
| Distributions from net realized gains | (0.19) | — | — |
| Total distributions | (0.47) | (0.33) | — |
| Net asset value at end of period | 12.80 | 12.06 | 10.60 |
| Total return (%) | 10.17 | 17.07 | 6.00² |
| Ratios/Supplemental Data (%) | | | |
| Ratios to average net assets: | | | |
| Net operating expenses | 0.92 | 0.54 | — |
| Gross operating expenses | 0.94 | 1.04 | 1.19³ |
| Net investment income | 2.32 | 2.83 | 3.41³ |
| Portfolio turnover rate | 26 | 39 | 2² |
| Net assets, end of period (\$ x 1,000,000) | 509 | 252 | 111 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 99.3% | Common Stock | 958,749 | 1,029,934 |
| 0.3% | Short-Term Investment | 3,095 | 3,095 |
| 0.0% | U.S. Treasury Obligation | 254 | 254 |
| 99.6% | Total Investments | 962,098 | 1,033,283 |
| 0.0% | Collateral Invested for Securities on Loan | 142 | 142 |
| 0.4% | Other Assets and Liabilities, Net | | 3,664 |
| 100.0% | Total Net Assets | | 1,037,089 |

Security and Number of Shares Value
(\$ x 1,000)

Common Stock 99.3% of net assets

Automobiles & Components 0.6%

Ford Motor Co. 765,200 **6,366**

Security and Number of Shares Value
(\$ x 1,000)

Banks 12.9%

| | | |
|--------------------------------------|---------|----------------|
| AmSouth Bancorp. | 247,900 | 6,255 |
| ▲ Bank of America Corp. | 280,400 | 12,265 |
| Comerica, Inc. | 212,500 | 12,278 |
| Huntington Bancshares, Inc. | 228,000 | 5,303 |
| KeyCorp, Inc. | 367,500 | 11,848 |
| National City Corp. | 356,400 | 11,487 |
| Peoples Bank-Bridgeport | 202,500 | 6,520 |
| 4 PNC Financial Services Group, Inc. | 233,400 | 14,170 |
| SunTrust Banks, Inc. | 158,487 | 11,487 |
| ▲ U.S. Bancorp | 449,300 | 13,290 |
| UnionBanCal Corp. | 114,000 | 7,807 |
| Wachovia Corp. | 255,700 | 12,918 |
| Wells Fargo & Co. | 139,200 | 8,380 |
| | | 134,008 |

Capital Goods 11.1%

| | | |
|-----------------------------|---------|----------------|
| 3M Co. | 158,200 | 12,020 |
| ▲ The Boeing Co. | 190,000 | 12,282 |
| Emerson Electric Co. | 194,300 | 13,514 |
| ■ GATX Corp. | 220,000 | 8,221 |
| Goodrich Corp. | 275,000 | 9,919 |
| Harsco Corp. | 87,200 | 5,603 |
| Lockheed Martin Corp. | 205,000 | 12,415 |
| Masco Corp. | 150,000 | 4,275 |
| Northrop Grumman Corp. | 125,000 | 6,706 |
| Raytheon Co. | 292,000 | 10,789 |
| ▲ Rockwell Automation, Inc. | 156,600 | 8,323 |
| Textron, Inc. | 156,000 | 11,238 |
| | | 115,305 |

Commercial Services & Supplies 1.8%

| | | |
|---------------------------|---------|---------------|
| Pitney Bowes, Inc. | 150,700 | 6,341 |
| R.R. Donnelley & Sons Co. | 290,000 | 10,156 |
| • The ServiceMaster Co. | 167,800 | 2,111 |
| | | 18,608 |

Consumer Durables & Apparel 3.3%

| | | |
|-------------------------|---------|---------------|
| Fortune Brands, Inc. | 108,500 | 8,243 |
| Newell Rubbermaid, Inc. | 467,600 | 10,750 |
| The Stanley Works | 153,000 | 7,333 |
| VF Corp. | 142,900 | 7,467 |
| | | 33,793 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------------------|-----------------------|----------------------------------------------------------|-----------------------|
| Diversified Financials 4.3% | | | |
| The Bank of New York Co., Inc. 150,000 | 4,693 | Chubb Corp. 138,000 | 12,830 |
| Citigroup, Inc. 100,000 | 4,578 | Fidelity National Financial, Inc. 135,000 | 5,057 |
| ▲ 6 JPMorgan Chase & Co. 375,584 | 13,754 | Jefferson-Pilot Corp. 125,000 | 6,860 |
| Mellon Financial Corp. 408,900 | 12,958 | Lincoln National Corp. 254,200 | 12,865 |
| SLM Corp. 160,000 | 8,885 | Mercury General Corp. 82,100 | 4,963 |
| | 44,868 | Safeco Corp. 64,200 | 3,576 |
| | | 5 The St. Paul Travelers Cos., Inc. 308,000 | 13,869 |
| | | | 82,786 |
| Energy 5.5% | | Materials 4.4% | |
| 1 ChevronTexaco Corp. 292,756 | 16,708 | The Dow Chemical Co. 212,700 | 9,754 |
| 3 ConocoPhillips 218,600 | 14,292 | MeadWestvaco Corp. 254,000 | 6,660 |
| Exxon Mobil Corp. 225,800 | 12,676 | PPG Industries, Inc. 145,500 | 8,726 |
| 7 Marathon Oil Corp. 228,400 | 13,741 | Rohm & Haas Co. 219,000 | 9,533 |
| | 57,417 | Weyerhaeuser Co. 167,000 | 10,578 |
| | | | 45,251 |
| Food Beverage & Tobacco 8.7% | | Media 0.8% | |
| 10 Altria Group, Inc. 180,300 | 13,531 | The McGraw-Hill Cos., Inc. 180,000 | 8,809 |
| The Coca-Cola Co. 311,000 | 13,305 | Pharmaceuticals & Biotechnology 4.4% | |
| General Mills, Inc. 225,000 | 10,858 | Abbott Laboratories 165,000 | 7,103 |
| H.J. Heinz Co. 206,500 | 7,331 | Johnson & Johnson 207,000 | 12,962 |
| Hershey Foods Corp. 17,000 | 966 | Merck & Co., Inc. 404,700 | 11,421 |
| 2 Kellogg Co. 323,900 | 14,307 | Pfizer, Inc. 483,000 | 10,500 |
| PepsiCo, Inc. 140,000 | 8,271 | Wyeth 80,000 | 3,565 |
| Reynolds American, Inc. 153,000 | 13,005 | | 45,551 |
| ▲ UST, Inc. 200,500 | 8,299 | | |
| | 89,873 | | |
| Health Care Equipment & Services 2.3% | | Retailing 0.5% | |
| Becton Dickinson & Co. 179,000 | 9,084 | Genuine Parts Co. 121,000 | 5,369 |
| HCA, Inc. 190,000 | 9,156 | Semiconductors & Semiconductor Equipment 1.1% | |
| PerkinElmer, Inc. 250,500 | 5,529 | ▲ Intel Corp. 484,000 | 11,374 |
| | 23,769 | Software & Services 2.8% | |
| Household & Personal Products 3.5% | | Automatic Data Processing, Inc. 80,500 | 3,756 |
| Clorox Co. 151,500 | 8,199 | Electronic Data Systems Corp. 380,000 | 8,858 |
| Colgate-Palmolive Co. 150,000 | 7,944 | Microsoft Corp. 510,000 | 13,107 |
| Kimberly-Clark Corp. 191,000 | 10,856 | The Reynolds & Reynolds Co., Class A 115,000 | 3,052 |
| Procter & Gamble Co. 168,950 | 9,460 | | 28,773 |
| | 36,459 | | |
| Insurance 8.0% | | | |
| The Allstate Corp. 193,200 | 10,199 | | |
| AON Corp. 371,250 | 12,567 | | |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|
| Technology Hardware & Equipment 4.4% | |
| Harris Corp. 120,000 | 4,932 |
| ⑧ Hewlett-Packard Co. 490,000 | 13,740 |
| International Business Machines Corp. 160,000 | 13,101 |
| ⑨ Motorola, Inc. 615,000 | 13,628 |
| | 45,401 |

Telecommunication Services 6.2%

| | |
|--------------------------------------|---------------|
| ▲ Alltel Corp. 194,800 | 12,050 |
| AT&T Corp. 415,100 | 8,211 |
| BellSouth Corp. 451,600 | 11,751 |
| Citizens Communications Co. 535,000 | 6,549 |
| SBC Communications, Inc. 331,500 | 7,906 |
| Sprint Corp. (FON Group) 295,800 | 6,895 |
| Verizon Communications, Inc. 337,300 | 10,628 |
| | 63,990 |

Utilities 12.7%

| | |
|-------------------------------------------|--------|
| American Electric Power Co., Inc. 336,000 | 12,755 |
| Centerpoint Energy, Inc. 447,500 | 5,925 |
| Consolidated Edison, Inc. 183,100 | 8,331 |
| Constellation Energy Group, Inc. 196,700 | 10,779 |
| Duke Energy Corp. 435,814 | 11,540 |
| Edison International 304,000 | 13,303 |
| Entergy Corp. 168,000 | 11,881 |
| Exelon Corp. 171,400 | 8,918 |
| FirstEnergy Corp. 249,100 | 11,832 |
| National Fuel Gas Co. 139,300 | 4,199 |
| Pinnacle West Capital Corp. 148,000 | 6,180 |
| PPL Corp. 250,000 | 7,835 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| TECO Energy, Inc. 225,000 | 3,892 |
| TXU Corp. 125,000 | 12,594 |
| Xcel Energy, Inc. 120,000 | 2,200 |
| | 132,164 |

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

Short-Term Investment

0.3% of net assets

| | | |
|------------------------------------------|-------|-------|
| Wachovia Bank, Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 3,095 | 3,095 |

U.S. Treasury Obligation

0.0% of net assets

| | | |
|----------------------|-----|------------|
| ▲ U.S. Treasury Bill | | |
| 3.35%, 12/15/05 | 255 | 254 |

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

0.0% of net assets

Short-Term Investment 0.0%

| | |
|---------------------------------------------|------------|
| Securities Lending Investments Fund 141,740 | 142 |
|---------------------------------------------|------------|

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Losses |
|-------------------------------------------------|------------------------|-------------------|----------------------|
| S&P 500 Index, e-mini, Long expires 12/18/05 | 40 | 2,420 | (58) |

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------------------|------------------|
| Investments, at value (including \$142 of securities on loan) | \$1,033,283 |
| Collateral invested for securities on loan | 142 |
| Receivables: | |
| Fund shares sold | 2,494 |
| Dividends | 1,655 |
| Investments sold | 9,418 |
| Due from brokers for futures | 20 |
| Income from securities on loan | 1 |
| Prepaid expenses | + 50 |
| Total assets | 1,047,063 |

Liabilities

| | |
|---------------------------------------------|--------------|
| Collateral invested for securities on loan | 142 |
| Payables: | |
| Fund shares redeemed | 889 |
| Investments bought | 8,743 |
| Investment adviser and administrator fees | 57 |
| Transfer agent and shareholder service fees | 15 |
| Accrued expenses | + 128 |
| Total liabilities | 9,974 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 1,047,063 |
| Total liabilities | - 9,974 |
| Net assets | \$1,037,089 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 950,687 |
| Net investment income not yet distributed | 1,911 |
| Net realized capital gains | 13,364 |
| Net unrealized capital gains | 71,127 |

Net asset value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$527,642 | | 41,235 | | \$12.80 |
| Select Shares | \$509,447 | | 39,813 | | \$12.80 |

Unless stated, all numbers x 1,000.

The fund paid \$962,098 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$685,487 |
| Sales/maturities | \$210,175 |

The fund's total security transactions with other Schwab Funds® during the period were \$3,702.

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$962,098 |
| Net unrealized gains and losses: | |
| Gains | \$87,200 |
| Losses | + (16,015) |
| | \$71,185 |
| Net undistributed earnings: | |
| Ordinary income | \$1,911 |
| Long-term capital gains | \$13,306 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|---------------|
| Dividends | \$26,625 |
| Interest | 233 |
| Securities on loan | + 2 |
| Total investment income | 26,860 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|---------------|
| Net realized gains on investments sold | 13,305 |
| Net realized gains on futures contracts | + 59 |
| Net realized gains | 13,364 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|---------------|
| Net unrealized gains on investments | 29,658 |
| Net unrealized losses on futures contracts | + (58) |
| Net unrealized gains | 29,600 |

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 6,570 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 1,073 |
| Select Shares | 401 |
| Trustees' fees | 10 |
| Custodian fees | 41 |
| Portfolio accounting fees | 122 |
| Professional fees | 35 |
| Registration fees | 124 |
| Shareholder reports | 72 |
| Other expenses | + 10 |
| Total expenses | 8,458 |
| Expense reduction | - 155 |
| Net expenses | 8,303 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 26,860 |
| Net expenses | - 8,303 |
| Net investment income | 18,557 |
| Net realized gains | 13,364 |
| Net unrealized gains | + 29,600 |
| Increase in net assets from operations | \$61,521 |

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 net 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 \$42,964.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$18,557 | \$10,630 |
| Net realized gains | 13,364 | 9,619 |
| Net unrealized gains | + 29,600 | 31,897 |
| Increase in net assets from operations | 61,521 | 52,146 |

Distributions paid**Dividends from net investment income**

| | | |
|---------------------------------------------------|---------------|---------------|
| Investor Shares | 8,840 | 5,107 |
| Select Shares | + 8,874 | 5,389 |
| Total dividends from net investment income | 17,714 | 10,496 |

Distributions from net realized gains

| | | |
|----------------------------------------------------|--------------|----------|
| Investor Shares | 4,838 | — |
| Select Shares | + 4,386 | — |
| Total distributions from net realized gains | 9,224 | — |

| | | |
|----------------------------|-----------------|-----------------|
| Total distributions | \$26,938 | \$10,496 |
|----------------------------|-----------------|-----------------|

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|--------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 27,892 | \$355,147 | 16,485 | \$189,992 |
| Select Shares | + 24,348 | 310,884 | 13,314 | 153,084 |
| Total shares sold | 52,240 | \$666,031 | 29,799 | \$343,076 |
| Shares Reinvested | | | | |
| Investor Shares | 854 | \$10,806 | 331 | \$3,809 |
| Select Shares | + 731 | 9,263 | 307 | 3,531 |
| Total shares reinvested | 1,585 | \$20,069 | 638 | \$7,340 |
| Shares Redeemed | | | | |
| Investor Shares | (9,697) | (\$124,160) | (3,492) | (\$40,556) |
| Select Shares | + (6,148) | (78,680) | (3,202) | (37,066) |
| Total shares redeemed | (15,845) | (\$202,840) | (6,694) | (\$77,622) |
| Net transactions in fund shares | 37,980 | \$483,260 | 23,743 | \$272,794 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 37,980 | 517,843 | 23,743 | 314,444 |
| End of period | 81,048 | \$1,037,089 | 43,068 | \$519,246 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 88% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$23,020 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

| | Current period | Prior period |
|-------------------------|----------------|--------------|
| Ordinary income | \$26,230 | \$10,496 |
| Long-term capital gains | \$708 | \$— |

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

| | Current period |
|-----------------|----------------|
| Investor Shares | \$15 |
| Select Shares | + 19 |
| Total | \$34 |

Dollar amounts are net of the redemption fee proceeds.

Includes distributable net investment income in the amount of \$1,911 and \$1,068 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 Target Funds | |
| Schwab Target 2010 Fund | 0.2% |
| Schwab Target 2020 Fund | 0.3% |
| Schwab Target 2030 Fund | 0.2% |
| Schwab Target 2040 Fund | 0.1% |
| Schwab Retirement Income Fund | 0.2% |

Schwab Large-Cap Growth Fund™

Financial Statements

Financial Highlights

| Investor Shares | 10/3/05 ¹ – 10/31/05 |
|--------------------------------------------|------------------------------------|
| Per-Share Data (\$) | |
| Net asset value at beginning of period | 10.00 |
| Income or loss from investment operations: | |
| Net investment loss | (0.00) ² |
| Net realized and unrealized losses | (0.27) |
| Total loss from investment operations | (0.27) |
| Net asset value at end of period | 9.73 |
| Total return (%) | (2.70) ³ |
| Ratios/Supplemental Data (%) | |
| Ratios to average net assets: | |
| Net operating expenses | 1.20 ⁴ |
| Gross operating expenses | 1.71 ⁴ |
| Net investment loss | (0.61) ⁴ |
| Portfolio turnover rate | 4 ³ |
| Net assets, end of period (\$ x 1,000,000) | 25 |

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Financial Highlights

| Select Shares | 10/3/05 ¹ – 10/31/05 |
|--------------------------------------------|------------------------------------|
| Per-share data (\$) | |
| Net asset value at beginning of period | 10.00 |
| Income or loss from investment operations: | |
| Net investment loss | (0.00) ² |
| Net realized and unrealized losses | (0.27) |
| Total loss from investment operations | (0.27) |
| Net asset value at end of period | 9.73 |
| Total return (%) | (2.70) ³ |
| Ratios/Supplemental Data (%) | |
| Ratios to average net assets: | |
| Net operating expenses | 0.99 ⁴ |
| Gross operating expenses | 1.56 ⁴ |
| Net investment loss | (0.40) ⁴ |
| Portfolio turnover rate | 4 ³ |
| Net assets, end of period (\$ x 1,000,000) | 33 |

¹ Commencement of operations.² Per share amount was less than \$0.01.³ Not annualized.⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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.

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

| Holdings by Category | Cost (\$x1,000) | Value (\$x1,000) |
|-------------------------------------------------|---------------------------|----------------------------|
| 99.4% Common Stock | 59,235 | 58,047 |
| 0.7% Short-Term Investment | 401 | 401 |
| 100.1% Total Investments | 59,636 | 58,448 |
| (0.1)% Other Assets and Liabilities, Net | | (67) |
| 100.0% Total Net Assets | | 58,381 |

| Security and number of shares | Value (\$ x 1,000) |
|--------------------------------------|------------------------------|
|--------------------------------------|------------------------------|

Common Stock 99.4% of net assets

Capital Goods 9.3%

| | | |
|---------------------------|--------|--------------|
| The Boeing Co. | 18,800 | 1,215 |
| 7 General Dynamics Corp. | 15,600 | 1,815 |
| Lockheed Martin Corp. | 16,300 | 987 |
| Precision Castparts Corp. | 14,000 | 663 |
| Rockwell Collins, Inc. | 16,000 | 733 |
| | | 5,413 |

| Security and number of shares | Value (\$ x 1,000) |
|--------------------------------------|------------------------------|
|--------------------------------------|------------------------------|

Commercial Services & Supplies 2.4%

| | | |
|---------------------------|--------|--------------|
| Equifax, Inc. | 18,000 | 621 |
| • Monster Worldwide, Inc. | 24,000 | 787 |
| | | 1,408 |

Consumer Durables & Apparel 2.0%

| | | |
|---------------------------------------|-------|--------------|
| Harman International Industries, Inc. | 8,300 | 829 |
| The Stanley Works | 7,000 | 335 |
| | | 1,164 |

Diversified Financials 7.2%

| | | |
|------------------------------------|--------|--------------|
| American Express Co. | 14,000 | 697 |
| Capital One Financial Corp. | 8,500 | 649 |
| Federated Investors, Inc., Class B | 10,000 | 350 |
| Franklin Resources, Inc. | 9,600 | 848 |
| Moody's Corp. | 16,000 | 852 |
| Northern Trust Corp. | 15,000 | 804 |
| | | 4,200 |

Energy 6.2%

| | | |
|-------------------------|--------|--------------|
| ChevronTexaco Corp. | 15,600 | 890 |
| 4 Exxon Mobil Corp. | 35,800 | 2,010 |
| Helmerich & Payne, Inc. | 12,800 | 709 |
| | | 3,609 |

Food Beverage & Tobacco 5.6%

| | | |
|----------------------|--------|--------------|
| Altria Group, Inc. | 12,000 | 901 |
| 10 The Coca-Cola Co. | 31,300 | 1,339 |
| Kellogg Co. | 16,000 | 707 |
| PepsiCo, Inc. | 5,900 | 348 |
| | | 3,295 |

Health Care Equipment & Services 10.2%

| | | |
|----------------------------|--------|--------------|
| Baxter International, Inc. | 24,500 | 937 |
| Becton Dickinson & Co. | 15,000 | 761 |
| • Express Scripts, Inc. | 13,500 | 1,018 |
| • Lincare Holdings, Inc. | 17,000 | 695 |
| 8 UnitedHealth Group, Inc. | 26,600 | 1,540 |
| • WellPoint, Inc. | 13,300 | 993 |
| | | 5,944 |

Portfolio Holdings continued

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

Hotels Restaurants & Leisure 1.1%

| | |
|----------------------------|-----|
| Hilton Hotels Corp. 34,000 | 661 |
|----------------------------|-----|

Insurance 5.1%

| | |
|-------------------------------------------|--------------|
| AFLAC, Inc. 18,500 | 884 |
| American International Group, Inc. 19,800 | 1,283 |
| W.R. Berkley Corp. 18,000 | 787 |
| | 2,954 |

Materials 1.7%

| | |
|------------------------------------------------------|-----|
| Freeport-McMoran Copper & Gold, Inc., Class B 20,000 | 988 |
|------------------------------------------------------|-----|

Media 2.1%

| | |
|----------------------------------|--------------|
| • Getty Images, Inc. 10,500 | 872 |
| The McGraw-Hill Cos., Inc. 7,500 | 367 |
| | 1,239 |

Pharmaceuticals & Biotechnology 12.3%

| | |
|------------------------------------|--------------|
| • Amgen, Inc. 16,200 | 1,227 |
| • Barr Pharmaceuticals, Inc. 8,000 | 460 |
| ① Johnson & Johnson 41,200 | 2,580 |
| ③ Pfizer, Inc. 93,100 | 2,024 |
| Schering-Plough Corp. 44,000 | 895 |
| | 7,186 |

Retailing 5.0%

| | |
|----------------------------------------------|--------------|
| • eBay, Inc. 32,100 | 1,271 |
| J.C. Penney Co., Inc. Holding Co. 15,400 | 789 |
| • Weight Watchers International, Inc. 16,100 | 846 |
| | 2,906 |

Semiconductors & Semiconductor Equipment 7.7%

| | |
|-------------------------------------|--------------|
| • Broadcom Corp., Class A 18,500 | 786 |
| ② Intel Corp. 94,300 | 2,216 |
| National Semiconductor Corp. 13,000 | 294 |
| Texas Instruments, Inc. 43,200 | 1,233 |
| | 4,529 |

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

Software & Services 7.9%

| | |
|---------------------------------------|--------------|
| Autodesk, Inc. 17,000 | 767 |
| • Cadence Design Systems, Inc. 41,000 | 655 |
| • DST Systems, Inc. 13,000 | 730 |
| • Google, Inc., Class A 2,000 | 744 |
| • McAfee, Inc. 20,000 | 601 |
| Microsoft Corp. 43,000 | 1,105 |
| | 4,602 |

Technology Hardware & Equipment 12.5%

| | |
|------------------------------------------------|--------------|
| Corning, Inc. 51,500 | 1,035 |
| ⑥ Hewlett-Packard Co. 66,800 | 1,873 |
| ⑤ International Business Machines Corp. 22,900 | 1,875 |
| Motorola, Inc. 52,500 | 1,163 |
| ⑨ Qualcomm, Inc. 34,400 | 1,368 |
| | 7,314 |

Utilities 1.1%

| | |
|-----------------|-----|
| TXU Corp. 6,300 | 635 |
|-----------------|-----|

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

Short-Term Investment

0.7% of net assets

| | | |
|--------------------------------------------------------|-----|------------|
| Wells Fargo, Grand Cayman Time Deposit 3.48%, 11/01/05 | 401 | 401 |
|--------------------------------------------------------|-----|------------|

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | |
|-----------------------|---------------|
| Investments, at value | \$58,448 |
| Receivables: | |
| Fund shares sold | 719 |
| Dividends | 14 |
| Investments sold | 1,290 |
| Prepaid expenses | + 19 |
| Total assets | 60,490 |

Liabilities

| | |
|---------------------------------------------|--------------|
| Payables: | |
| Fund shares redeemed | 32 |
| Investments bought | 2,048 |
| Investment adviser and administrator fees | 4 |
| Transfer agent and shareholder service fees | 1 |
| Accrued expenses | + 24 |
| Total liabilities | 2,109 |

Net Assets

| | |
|--------------------------|-----------------|
| Total assets | 60,490 |
| Total liabilities | – 2,109 |
| Net assets | \$58,381 |

Net Assets by Source

| | |
|---------------------------------|---------|
| Capital received from investors | 59,740 |
| Net realized capital losses | (171) |
| Net unrealized capital losses | (1,188) |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|--------|
| Investor Shares | \$25,447 | | 2,616 | | \$9.73 |
| Select Shares | \$32,934 | | 3,385 | | \$9.73 |

Unless stated, all numbers x 1,000.

The fund paid \$59,636 for these securities.

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

| | |
|------------------|----------|
| Purchases | \$61,519 |
| Sales/maturities | \$2,113 |

The fund's total security transactions with other Schwab Funds® during the period were \$824.

Federal Tax Data

| | |
|-----------------------------------------|------------------|
| Portfolio cost | \$59,649 |
| Net unrealized gains and losses: | |
| Gains | \$867 |
| Losses | + (2,068) |
| | (\$1,201) |

Unused capital losses:

| | |
|-------------------|--------------|
| Expires 10/31 of: | Loss amount |
| 2013 | \$158 |

Reclassifications:

| | |
|-------------------------------------------|--------|
| Net investment income not yet distributed | \$21 |
| Reclassified as: | |
| Capital received from investors | (\$21) |

Statement of

Operations

For October 3, 2005 through October 31, 2005. All numbers x 1,000.

Investment Income

| | | |
|--------------------------------|---|-----------|
| Dividends | | \$14 |
| Interest | + | 12 |
| Total investment income | | <u>26</u> |

Net Realized Gains and Losses

| | |
|-----------------------------------------|--------------|
| Net realized losses on investments sold | (171) |
|-----------------------------------------|--------------|

Net Unrealized Gains and Losses

| | |
|--------------------------------------|----------------|
| Net unrealized losses on investments | (1,188) |
|--------------------------------------|----------------|

Expenses

| | |
|---------------------------------------------|-----------|
| Investment adviser and administrator fees | 38 |
| Transfer agent and shareholder service fees | |
| Investor Shares | 5 |
| Select Shares | 2 |
| Custodian fees | 1 |
| Portfolio accounting fees | 2 |
| Professional fees | 17 |
| Registration fees | 5 |
| Shareholder reports | + 1 |
| Total expenses | 71 |
| Expense reduction | - 24 |
| Net expenses | 47 |

Decrease in Net Assets from Operations

| | |
|----------------------------------------|-----------|
| Total investment income | 26 |
| Net expenses | — 47 |
| Net investment loss | (21) |
| Net realized losses | (171) |
| Net unrealized losses | + (1,188) |
| Decrease in net assets from operations | (\$1,380) |

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.87% of the first \$500 million; 0.85% of the next \$500 million; 0.83% of the next billion; and 0.81% 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).

Includes \$22 from the investment adviser (CSIM) and \$2 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the net operating expenses of this fund through February 27, 2007 as follows:

| Share Class | % of Average Daily Net Assets |
|--------------------|--------------------------------------|
| Investor Shares | 1.20 |
| Select Shares | 0.99 |

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

These add up to a net loss on investments of \$1,359.

Statements of

Changes in Net Assets

For the current period only. Because the fund commenced operations on October 3, 2005, it has no prior report period. All numbers x 1,000.

Operations

| | 10/3/05–10/31/05 | |
|-----------------------------------------------|------------------|------------------|
| Net investment loss | | (\$21) |
| Net realized losses | | (171) |
| Net unrealized losses | + | (1,188) |
| Decrease in net assets from operations | | (\$1,380) |

Transactions in Fund Shares

| | 10/3/05–10/31/05 | |
|----------------------------------------|------------------|-----------------|
| | SHARES | VALUE |
| Shares Sold | | |
| Investor Shares | 2,636 | \$26,231 |
| Select Shares | + | 3,385 33,718 |
| Total shares sold | 6,021 | \$59,949 |
| Shares Redeemed | | |
| Investor Shares | (20) | (\$188) |
| Select Shares | + | — — |
| Total shares redeemed | (20) | (\$188) |
| Net transactions in fund shares | 6,001 | \$59,761 |

Shares Outstanding and Net Assets

| | 10/3/05–10/31/05 | |
|----------------------|------------------|-----------------|
| | SHARES | NET ASSETS |
| Beginning of period | — | \$— |
| Total increase | + | 6,001 58,381 |
| End of period | 6,001 | \$58,381 |

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 | \$3 |
| Select Shares | + |
| Total | \$3 |

Dollar amounts are net of the redemption fee 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 \$—.

Schwab Small-Cap Equity Fund™

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 7/1/03 ¹ – 10/31/03 |
|--------------------------------------------|----------------------|----------------------|-----------------------------------|
| Per-Share Data (\$) | | | |
| Net asset value at beginning of period | 14.13 | 11.81 | 10.00 |
| Income or loss from investment operations: | | | |
| Net investment income or loss | 0.01 | (0.04) | (0.02) |
| Net realized and unrealized gains | 3.12 | 2.58 | 1.83 |
| Total income from investment operations | 3.13 | 2.54 | 1.81 |
| Less distributions: | | | |
| Distributions from net realized gains | (1.54) | (0.22) | — |
| Net asset value at end of period | 15.72 | 14.13 | 11.81 |
| Total return (%) | 23.65 | 21.74 | 18.10 ² |
| Ratios/Supplemental Data (%) | | | |
| Ratios to average net assets: | | | |
| Net operating expenses | 1.28 | 1.30 | 1.30 ³ |
| Gross operating expenses | 1.38 | 1.61 | 1.73 ³ |
| Net investment income or loss | 0.11 | (0.35) | (0.54) ³ |
| Portfolio turnover rate | 90 | 118 | 39 ² |
| Net assets, end of period (\$ x 1,000,000) | 170 | 37 | 26 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 7/1/03 ¹ – 10/31/03 |
|--------------------------------------------|----------------------|----------------------|-----------------------------------|
| Per-share data (\$) | | | |
| Net asset value at beginning of period | 14.16 | 11.81 | 10.00 |
| Income or loss from investment operations: | | | |
| Net investment income or loss | 0.00 ⁴ | (0.02) | (0.01) |
| Net realized and unrealized gains | 3.16 | 2.59 | 1.82 |
| Total income from investment operations | 3.16 | 2.57 | 1.81 |
| Less distributions: | | | |
| Distributions from net realized gains | (1.54) | (0.22) | — |
| Net asset value at end of period | 15.78 | 14.16 | 11.81 |
| Total return (%) | 23.83 | 22.00 | 18.10 ² |
| Ratios/Supplemental Data (%) | | | |
| Ratios to average net assets: | | | |
| Net operating expenses | 1.11 | 1.12 | 1.12 ³ |
| Gross operating expenses | 1.23 | 1.46 | 1.58 ³ |
| Net investment income or loss | 0.09 | (0.16) | (0.36) ³ |
| Portfolio turnover rate | 90 | 118 | 39 ² |
| Net assets, end of period (\$ x 1,000,000) | 80 | 18 | 14 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

⁴ Per share amount was less than \$0.01.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|--------------------------------------------------------|--------------------|---------------------|
| 98.4% Common Stock | 225,837 | 246,489 |
| 2.8% Short-Term Investments | 7,026 | 7,026 |
| 0.1% U.S. Treasury Obligation | 249 | 249 |
| 101.3% Total Investments | 233,112 | 253,764 |
| 6.8% Collateral Invested for Securities on Loan | 17,065 | 17,065 |
| (8.1)% Other Assets and Liabilities, Net | | (20,231) |
| 100.0% Total Net Assets | | 250,598 |

Security and Number of Shares Value
(\$ x 1,000)

Common Stock 98.4% of net assets

Automobiles & Components 4.8%

| | | |
|------------------------------|---------|-------|
| ArvinMeritor, Inc. | 206,600 | 3,312 |
| ■ Goodyear Tire & Rubber Co. | 178,400 | 2,790 |

66 See financial notes.

Security and Number of Shares Value
(\$ x 1,000)

| | | |
|------------------------------------------|---------|---------------|
| • 8 TRW Automotive Holdings Corp. | 222,100 | 6,008 |
| | | 12,110 |

Banks 4.0%

| | | |
|----------------------------------------------|---------|---------------|
| Bancfirst Corp. | 11,100 | 922 |
| • 4 Bank of Hawaii Corp. | 136,100 | 6,993 |
| ■ Corus Bankshares, Inc. | 2,700 | 148 |
| Federal Agricultural Mortgage Corp., Class C | 11,900 | 310 |
| First Indiana Corp. | 42,200 | 1,475 |
| TierOne Corp. | 5,700 | 161 |
| | | 10,009 |

Business Services 0.6%

| | | |
|---------------------------|---------|--------------|
| • SYKES Enterprises, Inc. | 109,500 | 1,581 |
|---------------------------|---------|--------------|

Capital Goods 9.6%

| | | |
|---------------------------------|---------|---------------|
| A.O. Smith Corp., Class B | 36,900 | 1,195 |
| • Alleghany Corp. | 11,000 | 3,311 |
| • EMCOR Group, Inc. | 56,700 | 3,458 |
| ▲ ESCO Technologies, Inc. | 22,400 | 969 |
| ▲ 9 GATX Corp. | 157,900 | 5,901 |
| Teleflex, Inc. | 22,900 | 1,516 |
| • 1 Thomas & Betts Corp. | 197,000 | 7,667 |
| | | 24,017 |

Commercial Services & Supplies 4.2%

| | | |
|-------------------------------|---------|---------------|
| Administaff, Inc. | 101,350 | 4,289 |
| • CBIZ, Inc. | 33,500 | 193 |
| • Consolidated Graphics, Inc. | 12,950 | 505 |
| Herman Miller, Inc. | 125,500 | 3,440 |
| • Labor Ready, Inc. | 22,700 | 530 |
| Rollins, Inc. | 9,800 | 186 |
| • Sitel Corp. | 55,100 | 166 |
| Steelcase, Inc., Class A | 83,900 | 1,201 |
| | | 10,510 |

Consumer Durables & Apparel 3.3%

| | | |
|-----------------------------------|---------|--------------|
| American Greetings Corp., Class A | 156,800 | 3,959 |
| • Cavco Industries, Inc. | 36,000 | 1,421 |
| ▲ K-Swiss, Inc., Class A | 94,000 | 2,862 |
| | | 8,242 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------------|-----------------------|
| Diversified Financials 3.0% | |
| • EZCORP, Inc. 21,400 | 315 |
| ▲•③ Investment Technology Group, Inc. 219,600 | 7,139 |
| | 7,454 |
| Energy 6.1% | |
| Cabot Oil & Gas Corp. 63,100 | 2,889 |
| • CAL Dive International, Inc. 1,220 | 75 |
| • Giant Industries, Inc. 53,100 | 3,037 |
| ⑥ Helmerich & Payne, Inc. 120,600 | 6,681 |
| • Parker Drilling Co. 46,800 | 414 |
| • Veritas DGC, Inc. 33,500 | 1,079 |
| W&T Offshore, Inc. 34,400 | 1,005 |
| | 15,180 |
| Food & Staples Retailing 1.9% | |
| • 7-Eleven, Inc. 20,300 | 760 |
| ■ Rite Aid Corp. 1,125,200 | 3,938 |
| | 4,698 |
| Food Beverage & Tobacco 4.1% | |
| • Boston Beer Co., Inc., Class A 23,700 | 607 |
| ■ Pilgrim's Pride Corp., Class B 108,100 | 3,403 |
| ■⑦ Vector Group Ltd. 318,219 | 6,351 |
| | 10,361 |
| Health Care Equipment & Services 8.1% | |
| • Cutera, Inc. 4,000 | 109 |
| ▲• Haemonetics Corp. 81,500 | 3,949 |
| • Hologic, Inc. 21,100 | 1,170 |
| • Medcath Corp. 4,500 | 83 |
| • Odyssey HealthCare, Inc. 39,400 | 681 |
| • OraSure Technologies, Inc. 16,500 | 182 |
| ▲•② Sierra Health Services, Inc. 100,000 | 7,500 |
| ■ SurModics, Inc. 40,800 | 1,612 |
| • Trizetto Group, Inc. 36,340 | 515 |
| • United Surgical Partners International, Inc. 88,100 | 3,158 |
| Vital Signs, Inc. 26,900 | 1,264 |
| | 20,223 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------|-----------------------|
| Hotels Restaurants & Leisure 0.4% | |
| Ambassadors Group, Inc. 35,200 | 915 |
| Insurance 8.2% | |
| American Financial Group, Inc. 132,200 | 4,519 |
| • American Physicians Capital, Inc. 25,600 | 1,082 |
| • CNA Surety Corp. 22,600 | 317 |
| ▲ Delphi Financial Group, Inc., Class A 50,050 | 2,344 |
| Nationwide Financial Services, Inc., Class A 111,300 | 4,496 |
| Ohio Casualty Corp. 23,700 | 647 |
| Protective Life Corp. 28,700 | 1,258 |
| Safety Insurance Group, Inc. 43,500 | 1,636 |
| Selective Insurance Group, Inc. 5,900 | 324 |
| Stancorp Financial Group, Inc. 3,300 | 304 |
| Zenith National Insurance Corp. 78,150 | 3,518 |
| | 20,445 |
| Materials 7.1% | |
| Balchem Corp. 23,150 | 635 |
| ▲•⑤ Crown Holdings, Inc. 429,300 | 6,963 |
| ▲• FMC Corp. 94,300 | 5,134 |
| Quanex Corp. 49,900 | 2,890 |
| Silgan Holdings, Inc. 68,700 | 2,210 |
| | 17,832 |
| Media 2.3% | |
| • Insight Communications Co., Class A 9,200 | 106 |
| ⑩ John Wiley & Sons, Class A 140,500 | 5,507 |
| • Playboy Enterprises, Inc., Class B 15,900 | 241 |
| | 5,854 |
| Pharmaceuticals & Biotechnology 4.0% | |
| • Albany Molecular Research, Inc. 109,700 | 1,470 |
| Alpharma, Inc., Class A 158,200 | 3,938 |
| • Celera Genomics Group — Applera Corp. 75,100 | 892 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------------|-----------------------|-------------------------------------------------------|-----------------------|
| CNS, Inc. 67,900 | 1,770 | • Parametric Technology Corp. 99,200 | 646 |
| • Kendle International, Inc. 64,400 | 1,551 | • Progress Software Corp. 77,891 | 2,425 |
| • Kos Pharmaceuticals, Inc. 2,300 | 138 | • The Reynolds & Reynolds Co., Class A 134,800 | 3,578 |
| • Regeneron Pharmaceuticals, Inc. 32,400 | 405 | • SonicWALL, Inc. 93,000 | 647 |
| | 10,164 | • SPSS, Inc. 76,100 | 1,735 |
| | | • Sybase, Inc. 4,700 | 105 |
| | | • Synopsys, Inc. 185,500 | 3,515 |
| | | • United Online, Inc. 113,400 | 1,521 |
| | | | 26,229 |
| Real Estate 0.2% | | Technology Hardware & Equipment 4.3% | |
| Capital Automotive Real Estate Investment Trust 3,000 | 116 | ▲ Agilysys, Inc. 100,000 | 1,494 |
| Essex Property Trust, Inc. 1,500 | 135 | • AVX Corp. 54,200 | 671 |
| Kilroy Realty Corp. 2,000 | 112 | • Brightpoint, Inc. 21,200 | 457 |
| New Century Financial Corp. 3,000 | 93 | • Coherent, Inc. 38,200 | 1,131 |
| Shurgard Storage Centers, Inc., Class A 3,200 | 180 | • Emulex Corp. 80,700 | 1,494 |
| | 636 | • Imation Corp. 119,900 | 5,133 |
| | | • PAR Technology Corp. 12,700 | 310 |
| | | • Staktek Holdings, Inc. 5,000 | 17 |
| | | | 10,707 |
| Retailing 3.8% | | Telecommunication Services 2.0% | |
| The Buckle, Inc. 43,600 | 1,606 | ▲ Commonwealth Telephone Enterprises, Inc. 100,300 | 3,600 |
| The Cato Corp., Class A 73,050 | 1,460 | • CT Communications, Inc. 30,900 | 350 |
| • Charming Shoppes, Inc. 188,300 | 2,109 | • North Pittsburgh Systems, Inc. 10,700 | 215 |
| ▲ Payless Shoesource, Inc. 181,300 | 3,330 | ■ Talk America Holdings, Inc. 87,500 | 843 |
| • Wilsons The Leather Expert 205,800 | 1,035 | | 5,008 |
| | 9,540 | Transportation 2.0% | |
| | | ■ AMR Corp. 111,700 | 1,509 |
| Semiconductors & Semiconductor Equipment 3.4% | | • CNF, Inc. 27,000 | 1,519 |
| • Agere Systems, Inc. 22,340 | 232 | ■ Continental Airlines, Inc., Class B 105,600 | 1,368 |
| • Cirrus Logic, Inc. 114,900 | 754 | • Landstar Systems, Inc. 14,000 | 539 |
| • Cymer, Inc. 68,100 | 2,373 | | 4,935 |
| • DSP Group, Inc. 39,700 | 976 | Utilities 0.5% | |
| • LSI Logic Corp. 201,400 | 1,633 | Allete, Inc. 3,800 | 167 |
| • Micrel, Inc. 4,400 | 44 | • Westar Energy, Inc. 46,900 | 1,037 |
| • ON Semiconductor Corp. 303,100 | 1,407 | | 1,204 |
| • Triquint Semiconductor, Inc. 289,600 | 1,216 | | |
| | 8,635 | | |
| Software & Services 10.5% | | | |
| • Advent Software, Inc. 15,700 | 482 | | |
| • CSG Systems International, Inc. 151,300 | 3,557 | | |
| ▲ Earthlink, Inc. 473,200 | 5,210 | | |
| • Global Payments, Inc. 45,400 | 1,945 | | |
| • Intrado, Inc. 44,600 | 863 | | |

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

Short-Term Investments

2.8% of net assets

| | | |
|-----------------------------------------------------------------------|-------|--------------|
| Brown Brothers Harriman, Grand Cayman Time Deposit 3.48%, 11/01/05 | 26 | 26 |
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 7,000 | 7,000 |
| | | 7,026 |

U.S. Treasury Obligation

0.1% of net assets

| | | |
|-----------------------------------------|-----|------------|
| ▲ U.S. Treasury Bill 3.35%, 12/15/05 | 250 | 249 |
|-----------------------------------------|-----|------------|

End of investments.

Security and Number of Shares

Collateral Invested for Securities on Loan

6.8% of net assets

Short-Term Investment 6.8%

| | |
|---------------------------------------------------|---------------|
| Securities Lending Investments Fund 17,064,955 | 17,065 |
|---------------------------------------------------|---------------|

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Losses |
|------------------------------------------------------|------------------------|-------------------|----------------------|
| Russell 2000 Index, e-mini, Long expires 12/17/05 | 33 | 2,142 | (69) |
| Russell 2000 Index, Long expires 12/17/05 | 4 | 1,298 | (42) |
| | | | (111) |

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------------------|----------------|
| Investments, at value (including \$16,909 of securities on loan) | \$253,764 |
| Collateral invested for securities on loan | 17,065 |
| Receivables: | |
| Fund shares sold | 2,152 |
| Interest | 1 |
| Dividends | 29 |
| Investments sold | 6,591 |
| Due from brokers for futures | 74 |
| Securities on loan | 15 |
| Prepaid expenses | + 21 |
| Total assets | 279,712 |

Liabilities

| | |
|---------------------------------------------|---------------|
| Collateral invested for securities on loan | 17,065 |
| Payables: | |
| Fund shares redeemed | 255 |
| Investments bought | 11,716 |
| Investment adviser and administrator fees | 16 |
| Transfer agent and shareholder service fees | 4 |
| Accrued expenses | + 58 |
| Total liabilities | 29,114 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 279,712 |
| Total liabilities | - 29,114 |
| Net assets | \$250,598 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 221,723 |
| Net investment income not yet distributed | 135 |
| Net realized capital gains | 8,199 |
| Net unrealized capital gains | 20,541 |

Net asset value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$170,416 | | 10,842 | | \$15.72 |
| Select Shares | \$80,182 | | 5,081 | | \$15.78 |

Unless stated, all numbers x 1,000.

The fund paid \$233,112 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$287,168 |
| Sales/maturities | \$116,354 |

The fund's total security transactions with other Schwab Funds® during the period were \$5,561.

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$233,112 |
| Net unrealized gains and losses: | |
| Gains | \$26,862 |
| Losses | + (6,210) |
| | \$20,652 |

Net undistributed earnings:

| | |
|-------------------------|---------|
| Ordinary income | \$1,708 |
| Long-term capital gains | \$6,515 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$1,548 |
| Interest | 104 |
| Securities on loan | + 80 |
| Total investment income | 1,732 |

Net Realized Gains and Losses

| | |
|------------------------------------------|--------------|
| Net realized gains on investments sold | 8,255 |
| Net realized losses on futures contracts | + (13) |
| Net realized gains | 8,242 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|---------------|
| Net unrealized gains on investments | 14,014 |
| Net unrealized losses on futures contracts | + (155) |
| Net unrealized gains | 13,859 |

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 1,281 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 229 |
| Select Shares | 38 |
| Trustees' fees | 6 |
| Custodian fees | 47 |
| Portfolio accounting fees | 32 |
| Professional fees | 33 |
| Registration fees | 53 |
| Shareholder reports | 14 |
| Other expenses | + 4 |
| Total expenses | 1,737 |
| Expense reduction | - 140 |
| Net expenses | 1,597 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 1,732 |
| Net expenses | - 1,597 |
| Net investment income | 135 |
| Net realized gains | 8,242 |
| Net unrealized gains | + 13,859 |
| Increase in net assets from operations | \$22,236 |

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 \$130 from the investment adviser (CSIM) and \$10 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the net 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 gain on investments of \$22,101.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income or loss | \$135 | (\$143) |
| Net realized gains | 8,242 | 7,183 |
| Net unrealized gains | + 13,859 | 2,253 |
| Increase in net assets from operations | 22,236 | 9,293 |

Distributions Paid**Distributions from net realized gains**

| | | |
|----------------------------------------------------|----------------|--------------|
| Investor Shares | 4,802 | 499 |
| Select Shares | + 2,252 | 266 |
| Total distributions from net realized gains | \$7,054 | \$765 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|--------------------------|------------------|------------------|------------------|-----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 9,837 | \$146,160 | 1,153 | \$15,053 |
| Select Shares | + 4,714 | 71,745 | 301 | 3,944 |
| Total shares sold | 14,551 | \$217,905 | 1,454 | \$18,997 |

Shares Reinvested

| | | | | |
|--------------------------------|------------|----------------|-----------|--------------|
| Investor Shares | 313 | \$4,324 | 37 | \$453 |
| Select Shares | + 118 | 1,635 | 17 | 204 |
| Total shares reinvested | 431 | \$5,959 | 54 | \$657 |

Shares Redeemed

| | | | | |
|------------------------------|----------------|-------------------|--------------|-------------------|
| Investor Shares | (1,902) | (\$27,944) | (763) | (\$10,029) |
| Select Shares | + (1,055) | (15,623) | (221) | (2,885) |
| Total shares redeemed | (2,957) | (\$43,567) | (984) | (\$12,914) |

Net transactions in fund shares

| | | | |
|--------|-----------|-----|---------|
| 12,025 | \$180,297 | 524 | \$6,740 |
|--------|-----------|-----|---------|

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 12,025 | 195,479 | 524 | 15,268 |
| End of period | 15,923 | \$250,598 | 3,898 | \$55,119 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 9% of the fund's dividends for the report period qualify for the dividends received deduction.

The fund designates \$447 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$4,863 |
| Long-term capital gains | \$2,191 |

Prior period

| | |
|-------------------------|-------|
| 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.

| | Current period |
|-----------------|-----------------------|
| Investor Shares | \$14 |
| Select Shares | + 16 |
| Total | \$30 |

Dollar amounts are net of the redemption fee proceeds.

Includes distributable net investment income in the amount of \$135 and \$— 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 Target Funds

| | |
|-------------------------|------|
| Schwab Target 2010 Fund | 0.2% |
| Schwab Target 2020 Fund | 0.2% |
| Schwab Target 2030 Fund | 0.1% |
| Schwab Target 2040 Fund | 0.1% |

Schwab Hedged Equity Fund™

Financial Statements

Financial Highlights

| Investor Shares | 3/1/05 ¹ – 10/31/05 |
|--------------------------------------------------------------------|-----------------------------------|
| Per-Share Data (\$) | |
| Net asset value at beginning of period | 13.51 |
| Income from investment operations: | |
| Net investment income | 0.03 |
| Net realized and unrealized gains | 0.91 |
| Total income from investment operations | 0.94 |
| Net asset value at end of period | 14.45 |
| Total return (%) | 6.96 ² |
| Ratios/Supplemental Data (%) | |
| Ratios to average net assets: | |
| Net operating expenses (including dividend expense on short sales) | 2.32 ³ |
| Net operating expenses (excluding dividend expense on short sales) | 2.05 ^{3,4} |
| Gross operating expenses | 2.35 ³ |
| Net investment income | 0.56 ³ |
| Portfolio turnover rate | 87 ² |
| Net assets, end of period (\$ x 1,000,000) | 33 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 2.00% if interest expense had not been included.

Financial Highlights

| Select Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 9/3/02 ¹ – 10/31/02 |
|--------------------------------------------------------------------|----------------------|----------------------|----------------------|-----------------------------------|
| Per-Share Data (\$) | | | | |
| Net asset value at beginning of period | 13.01 | 11.53 | 9.84 | 10.00 |
| Income or loss from investment operations: | | | | |
| Net investment income or loss | 0.04 | (0.09) | (0.09) | (0.01) |
| Net realized and unrealized gains or losses | 2.05 | 1.57 | 1.78 | (0.15) |
| Total income or loss from investment operations | 2.09 | 1.48 | 1.69 | (0.16) |
| Less distributions: | | | | |
| Distributions from net realized gains | (0.64) | — | — | — |
| Net asset value at end of period | 14.46 | 13.01 | 11.53 | 9.84 |
| Total return (%) | 16.52 | 12.84 | 17.17 | (1.60) ² |
| Ratios/Supplemental Data (%) | | | | |
| Ratios to average net assets: | | | | |
| Net operating expenses (including dividend expense on short sales) | 2.26 | 2.43 | 2.37 | 2.39 ³ |
| Net operating expenses (excluding dividend expense on short sales) | 1.92 ⁴ | 2.10 ⁵ | 2.00 | 2.00 ³ |
| Gross operating expenses | 2.39 | 2.71 | 2.77 | 3.33 ³ |
| Net investment income or loss | 0.55 | (0.86) | (0.90) | (0.79) ³ |
| Portfolio turnover rate | 87 | 99 | 114 | 68 ² |
| Net assets, end of period (\$ x 1,000,000) | 229 | 68 | 44 | 32 |

¹ Commencement of operations.² Not annualized.³ Annualized.⁴ The ratio of net operating expenses would have been 1.82% if interest expense had not been included.⁵ The ratio of net operating expenses would have been 2.00% if interest expense had not been included.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|----------------------|-------------------------------------|-----------------------------|---------------------|
| 100.8% | Common Stock | 249,539 | 264,277 |
| 5.0% | Short-Term Investments | 13,206 | 13,206 |
| 105.8% | Total Investments | 262,745 | 277,483 |
| (33.8)% | Short Sales | (92,277) | (88,656) |
| 28.0% | Other Assets and Liabilities | | 73,522 |
| 100.0% | Total Net Assets | | 262,349 |

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

Common Stock 100.8% of net assets

Automobile Products / Motor Vehicles 1.3%

| | | |
|-----------------------------|---------|--------------|
| Smith (A.O.) Corp., Class B | 103,300 | 3,345 |
|-----------------------------|---------|--------------|

Automobiles & Components 1.5%

| | | |
|-----------------------|---------|-------|
| ■ Arvin Meritor, Inc. | 7,300 | 117 |
| Ford Motor Co. | 191,600 | 1,594 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|---------------------------------|--------|-----------------------|
| • TRW Automotive Holdings Corp. | 81,500 | 2,205 |
| | | <hr/> 3,916 |

Banks 3.3%

| | | |
|------------------------|--------|--------------|
| ■ Bank of Hawaii Corp. | 22,600 | 1,161 |
| ■ Comerica, Inc. | 61,600 | 3,559 |
| ■ UnionBanCal Corp. | 58,600 | 4,013 |
| | | 8,733 |

Business Machines & Software 3.1%

| | | |
|------------------------|---------|--------------|
| •■ BMC Software, Inc. | 17,300 | 339 |
| ■⑤ Hewlett Packard Co. | 281,000 | 7,879 |
| | | 8,218 |

Business Services 0.5%

| | | |
|----------------------------------|--------|--------------|
| Global Payments, Inc. | 9,000 | 386 |
| Reynolds & Reynolds Co., Class A | 34,900 | 926 |
| | | 1,312 |

Capital Goods 3.3%

| | | |
|-------------------------|--------|--------------|
| Emerson Electric Co. | 2,100 | 146 |
| ■ Lockheed Martin Corp. | 93,600 | 5,668 |
| Raytheon Co. | 13,100 | 484 |
| Textron, Inc. | 10,900 | 785 |
| ■ The Boeing Co. | 12,900 | 834 |
| • Thomas & Betts Corp. | 15,000 | 584 |
| | | 8,501 |

Commercial Services & Supplies 1.0%

| | | |
|-------------------|--------|--------------|
| Administaff, Inc. | 60,900 | 2,577 |
|-------------------|--------|--------------|

Consumer Durables & Apparel 6.1%

| | | |
|-----------------------------------|---------|---------------|
| American Greetings Corp., Class A | 199,900 | 5,048 |
| Black & Decker Corp. | 5,300 | 435 |
| K-Swiss, Inc., Class A | 600 | 18 |
| Newell Rubbermaid, Inc. | 269,700 | 6,200 |
| ■ The Stanley Works | 91,000 | 4,362 |
| | | 16,063 |

Diversified Financials 3.6%

| | | |
|----------------------|--------|-------|
| American Express Co. | 5,600 | 279 |
| •■ Americredit Co. | 86,800 | 1,940 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------|-----------------------|
| •Ameriprise Financial, Inc. 1,120 | 42 |
| •Ameritrade Holding Corp. 66,500 | 1,398 |
| Franklin Resources, Inc. 5,300 | 468 |
| Jefferies Group, Inc. 98,000 | 3,186 |
| Mellon Financial Corp. 70,200 | 2,225 |
| | 9,538 |

Electronics 2.4%

| | |
|-------------------------------------|--------------|
| •Broadcom Corp., Class A 45,800 | 1,945 |
| ■Motorola, Inc. 137,100 | 3,038 |
| National Semiconductor Corp. 35,900 | 812 |
| •ON Semiconductor Corp. 75,200 | 349 |
| ■Texas Instruments, Inc. 5,700 | 163 |
| | 6,307 |

Energy 4.6%

| | |
|------------------------------------|---------------|
| ■Burlington Resources, Inc. 47,700 | 3,445 |
| ■ChevronTexaco Corp. 51,100 | 2,916 |
| Devon Energy Corp. 2,600 | 157 |
| ■Exxon Mobil Corp. 96,500 | 5,418 |
| Valero Energy Corp. 1,600 | 168 |
| | 12,104 |

Energy: Raw Materials 1.8%

| | |
|---------------------------------|--------------|
| ■Helmerich & Payne, Inc. 84,300 | 4,670 |
|---------------------------------|--------------|

Food & Agriculture 0.7%

| | |
|----------------------------|--------------|
| Pilgrim Pride Corp. 56,700 | 1,785 |
|----------------------------|--------------|

Food & Staples Retailing 2.5%

| | |
|--------------------------|--------------|
| •Rite Aid Corp. 578,100 | 2,023 |
| ■Supervalu, Inc. 141,200 | 4,438 |
| | 6,461 |

Food Beverage & Tobacco 3.7%

| | |
|------------------------------|--------------|
| ■Coca-Cola Co. 124,100 | 5,309 |
| Kellogg Co. 16,300 | 720 |
| ■PepsiAmericas, Inc. 113,900 | 2,656 |
| Vector Group Ltd. 51,682 | 1,032 |
| | 9,717 |

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

Health Care Equipment & Services 3.5%

| | |
|-------------------------------------|--------------|
| Aetna, Inc. 12,200 | 1,080 |
| Bausch & Lomb, Inc. 6,200 | 460 |
| Becton Dickinson & Co. 32,200 | 1,634 |
| Dade Behring, Inc. 44,600 | 1,606 |
| •Haemonetics Corp. 16,300 | 790 |
| •Humana, Inc. 4,600 | 204 |
| •Sierra Health Services, Inc. 8,900 | 667 |
| United Healthcare Corp. 9,600 | 556 |
| •Wellchoice, Inc. 2,400 | 182 |
| •Wellpoint, Inc. 26,300 | 1,964 |
| | 9,143 |

Healthcare / Drugs & Medicine 7.1%

| | |
|-----------------------------------------------|---------------|
| Alpharma, Inc. 18,500 | 461 |
| •Applera Corp. – Celera Genomics Group 55,300 | 657 |
| Baxter International, Inc. 78,900 | 3,016 |
| Cardinal Health, Inc. 5,000 | 313 |
| •Express Scripts, Inc. 19,100 | 1,440 |
| ■King Pharmaceuticals, Inc. 369,500 | 5,701 |
| McKesson Corp. 153,800 | 6,987 |
| | 18,575 |

Insurance 0.1%

| | |
|-----------------------------|------------|
| Protective Life Corp. 8,100 | 355 |
|-----------------------------|------------|

Insurance 12.2%

| | |
|--------------------------------------------|---------------|
| AFLAC, Inc. 30,100 | 1,438 |
| •Allmerica Financial Corp. 7,900 | 301 |
| American Financial Group, Inc. 30,400 | 1,039 |
| ■③ AON Corp. 243,900 | 8,256 |
| ■Cigna Corp. 41,000 | 4,751 |
| •CNA Financial Corp. 8,500 | 262 |
| Genworth Financial Inc., Class A 2,400 | 76 |
| ④ Loews Corp. 87,000 | 8,089 |
| Metlife, Inc. 8,700 | 430 |
| Nationwide Financial Services, Inc. 40,200 | 1,624 |
| Prudential Financial, Inc. 33,000 | 2,402 |
| StanCorp. Financial Group, Inc. 3,200 | 295 |
| ■W.R. Berkley Corp. 71,175 | 3,110 |
| | 32,073 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|
| Materials 5.0% | |
| • Crown Holdings, Inc. 533,200 | 8,648 |
| • FMC Corp. 19,100 | 1,040 |
| ■ Martin Marietta Materials, Inc. 29,700 | 2,344 |
| Monsanto Co. 15,100 | 951 |
| | 12,983 |
| Media 1.7% | |
| • Getty Images, Inc. 7,100 | 589 |
| John Wiley & Sons, Inc. 101,200 | 3,967 |
| | 4,556 |
| Oil: Domestic 4.1% | |
| • Kerr-McGee Corp. 99,500 | 8,462 |
| • Pride International, Inc. 84,900 | 2,383 |
| | 10,845 |
| Optical & Photo 0.4% | |
| Imation Corp. 22,500 | 963 |
| Pharmaceuticals & Biotechnology 5.2% | |
| Amerisource Bergen Corp. 77,300 | 5,896 |
| ■ Applied Biosystems Group 94,600 | 2,296 |
| ■ Johnson & Johnson, Inc. 58,500 | 3,663 |
| Merck & Co., Inc. 60,300 | 1,702 |
| | 13,557 |
| Producer Goods & Manufacturing 1.1% | |
| ■ Herman Miller, Inc. 79,400 | 2,176 |
| • Micrel, Inc. 8,100 | 81 |
| Precision Castparts Corp. 13,600 | 644 |
| | 2,901 |
| Real Estate 0.6% | |
| • CB Richard Ellis 30,900 | 1,510 |
| Retailing 3.4% | |
| American Eagle Outfitters, Inc. 13,000 | 306 |
| ■ J.C. Penny Co., Inc. 93,900 | 4,808 |
| ■ Nordstrom, Inc. 34,800 | 1,206 |
| ■ Payless Shoesource, Inc. 142,400 | 2,616 |
| | 8,936 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------------|-----------------------|
| Semiconductors & Semiconductor Equipment 2.2% | |
| • Agere Systems, Inc., Class B 16,570 | 173 |
| ■ Intel Corp. 196,600 | 4,620 |
| ■ LSI Logic Corp. 128,500 | 1,042 |
| | 5,835 |
| Software & Services 4.4% | |
| • Alliance Data Sysems Corp. 3,000 | 107 |
| Autodesk, Inc. 16,262 | 734 |
| • Bea Systems, Inc. 24,000 | 212 |
| • CheckFree Corp. 19,800 | 842 |
| • Citrix Systems, Inc. 21,716 | 599 |
| • Computer Sciences Corp. 9,100 | 466 |
| ■ Earthlink, Inc. 327,200 | 3,602 |
| Electronic Data Systems Corp. 19,400 | 452 |
| Fair, Isaac & Co., Inc. 18,400 | 768 |
| • McAfee, Inc. 16,800 | 505 |
| • Sybase, Inc. 31,500 | 701 |
| ■ Synopsys, Inc. 119,900 | 2,272 |
| • United Online, Inc. 21,944 | 294 |
| | 11,554 |
| Steel 1.0% | |
| • Nucor Corp. 44,800 | 2,681 |
| Technology Hardware & Equipment 1.2% | |
| • Agilent Technologies, Inc. 33,100 | 1,060 |
| • Apple Computer, Inc. 23,800 | 1,371 |
| • NCR Corp. 19,400 | 586 |
| Scientific Atlanta, Inc. 4,600 | 163 |
| | 3,180 |
| Telecommunication Services 0.7% | |
| ■ Commonwealth Telephone Enterprises, Inc. 46,472 | 1,668 |
| • Qwest Communication International, Inc. 29,400 | 128 |
| | 1,796 |
| Telephone 0.1% | |
| • Crown Castle International Corp. 9,800 | 240 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| Transportation 2.1% | |
| CNF, Inc. 15,600 | 878 |
| ■ CSX Corp. 85,000 | 3,894 |
| Norfolk Southern Corp. 18,400 | 739 |
| | 5,511 |

| | |
|-------------------------------------|--------------|
| Travel & Recreation 1.5% | |
| ■ Hilton Hotels Corp. 202,000 | 3,929 |

| | |
|---------------------------------------|--------------|
| Utilities 3.8% | |
| • Allegheny Power System, Inc. 54,600 | 1,543 |
| Duke Energy Corp. 51,300 | 1,359 |
| ■ FirstEnergy Corp. 125,900 | 5,980 |
| PPL Corp. 32,700 | 1,025 |
| | 9,907 |

Short-Term Investments 5.0% of net assets**Other Investment Companies 5.0%**

| | |
|-----------------------------------------------------|---------------|
| Provident Institutional Funds – TempFund 13,205,916 | 13,206 |
|-----------------------------------------------------|---------------|

End of investments.

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

Short Sales 33.8% of net assets**Automobiles & Components 0.1%**

| | |
|----------------------------------------------------|------------|
| American Axle & Manufacturing Holdings, Inc. 5,200 | 113 |
|----------------------------------------------------|------------|

Banks 1.6%

| | |
|-----------------------------------------------|--------------|
| ④ Accredited Home Lenders Holding Co. 113,700 | 4,109 |
|-----------------------------------------------|--------------|

Business Services 1.0%

| | |
|---------------------------------------------|--------------|
| Take Two Interactive Software, Inc. 132,900 | 2,744 |
|---------------------------------------------|--------------|

Capital Goods 1.2%

| | |
|------------------------------------|--------------|
| Bucyrus International, Inc. 70,800 | 2,942 |
| UAP Holding Corp. 14,500 | 277 |
| | 3,219 |

Construction 1.3%

| | |
|------------------------------------|--------------|
| Hovnanian Enterprises, Inc. 73,500 | 3,307 |
|------------------------------------|--------------|

Consumer Durables & Apparel 0.1%

| | |
|---------------------|------------|
| Fossil, Inc. 15,800 | 247 |
|---------------------|------------|

Consumer Services 1.9%

| | |
|--------------------------------|--------------|
| Life Time Fitness, Inc. 52,600 | 1,954 |
| WMS Industries, Inc. 3,300 | 83 |
| Wynn Resorts Ltd. 60,700 | 2,833 |
| | 4,870 |

Drugs 0.2%

| | |
|------------------------------|------------|
| IMClone Systems, Inc. 17,000 | 590 |
|------------------------------|------------|

Energy 5.8%

| | |
|------------------------------------|-------|
| ATP Oil & Gas Corp. 69,700 | 2,212 |
| Delta Petroleum Corp. 221,900 | 3,914 |
| Encore Acquisition Co. 46,050 | 1,580 |
| James River Coal Co. 29,800 | 1,274 |
| Quicksilver Resources, Inc. 72,700 | 2,816 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|
| Syntroleum Corp. 91,400 | 654 |
| Whiting Petroleum Corp. 66,100 | 2,680 |
| | 15,130 |
| Food & Agriculture 0.2% | |
| Smithfield Foods, Inc. 16,000 | 473 |
| Food & Staples Retailing 1.5% | |
| Sanderson Farms, Inc. 33,300 | 1,149 |
| United Natural Foods, Inc. 95,122 | 2,674 |
| | 3,823 |
| Food Beverage & Tobacco 1.7% | |
| Molson Coors Brewing Co. 41,200 | 2,542 |
| Universal Corp. 51,500 | 1,928 |
| | 4,470 |
| Healthcare / Drugs & Medicine 0.1% | |
| Advanced Medical Optics 2,700 | 96 |
| Centene Corp. 13,300 | 268 |
| | 364 |
| Materials 0.1% | |
| GrafTech International Ltd. 63,000 | 309 |
| Non-Durables & Entertainment 0.6% | |
| CBRL Group, Inc. 21,800 | 756 |
| Red Robin Gourmet Burgers, Inc. 15,300 | 738 |
| | 1,494 |
| Non-Ferrous Metals 1.5% | |
| ⑤ Titanium Metals Corp. 85,500 | 4,036 |
| Pharmaceuticals & Biotechnology 6.2% | |
| Amylin Pharmaceuticals, Inc. 32,100 | 1,079 |
| Encysive Pharmaceuticals, Inc. 142,800 | 1,499 |
| Intermagnetics General Corp. 5,800 | 166 |
| ③ Martek Biosciences Corp. 136,984 | 4,229 |
| MGI Pharmaceuticals, Inc. 48,421 | 908 |
| North American Biology, Inc. 44,100 | 567 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------------|-----------------------|
| ① Par Pharmaceutical Cos., Inc. 194,000 | 5,021 |
| Perrigo Co. 218,700 | 2,924 |
| | 16,393 |
| Retail 1.8% | |
| Hot Topic, Inc. 6,300 | 94 |
| Pep Boys-Manny Moe & Jack, Inc. 127,800 | 1,764 |
| Pier 1 Imports, Inc. 209,500 | 2,162 |
| Wal-Mart Stores, Inc. 16,400 | 776 |
| | 4,796 |
| Retailing 2.8% | |
| Cabela, Inc. 75,200 | 1,233 |
| Dick's Sporting Goods, Inc. 26,600 | 796 |
| Family Dollar Stores, Inc. 8,400 | 186 |
| Finish Line, Inc. 8,400 | 131 |
| GSI Commerce, Inc. 177,200 | 2,832 |
| New York & Co., Inc. 49,200 | 664 |
| Sears Holdings Corp. 11,900 | 1,431 |
| | 7,273 |
| Software & Services 0.8% | |
| Henry Jack and Associates, Inc. 43,600 | 784 |
| Midway Games, Inc. 74,600 | 1,394 |
| | 2,178 |
| Steel 0.2% | |
| Oregon Steel Mills, Inc. 21,700 | 551 |
| Trucking & Freight 1.8% | |
| Knight Transportation, Inc. 13,500 | 367 |
| ② Werner Enterprises, Inc. 240,700 | 4,313 |
| | 4,680 |
| Utilities 1.3% | |
| MGE Energy, Inc. 14,700 | 522 |
| New Jersey Resources Corp. 68,700 | 2,965 |
| | 3,487 |

End of short sale positions.

Statement of

Assets and Liabilities

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

Assets

| | |
|--------------------------------------|----------------|
| Investments, at value | \$277,483 |
| Deposits with broker for short sales | 78,219 |
| Receivables: | |
| Fund shares sold | 3,401 |
| Interest | 159 |
| Dividends | 124 |
| Investments sold | 5,370 |
| Investments sold short | 8,644 |
| Prepaid expenses | + 38 |
| Total assets | 373,438 |

Liabilities

| | |
|-------------------------------------------|----------------|
| Securities sold short, at value | 88,656 |
| Payables: | |
| Fund shares redeemed | 87 |
| Dividends on short sales | 49 |
| Investments bought | 20,913 |
| Covered short sales | 1,292 |
| Investment adviser and administrator fees | 37 |
| Accrued expenses | + 55 |
| Total liabilities | 111,089 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 373,438 |
| Total liabilities | - 111,089 |
| Net assets | \$262,349 |

Net Assets by Source

| | |
|------------------------------------|---------|
| Capital received from investors | 235,553 |
| Net investment not yet distributed | 743 |
| Net realized capital gains | 7,694 |
| Net unrealized capital gains | 18,359 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$ 33,470 | | 2,316 | | \$14.45 |
| Select Shares | \$228,879 | | 15,828 | | \$14.46 |

Unless stated, all numbers x 1,000.

The fund paid \$262,745 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$298,092 |
| Sales/maturities | \$118,676 |

The proceeds for securities sold short is \$92,277.

These derive from investments and short sales.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$262,809 |
| Net unrealized gains and losses: | |
| Gains | \$20,358 |
| Losses | + (5,684) |
| | \$14,674 |

Net undistributed earnings:

| | |
|-------------------------|---------|
| Ordinary income | \$1,428 |
| Long-term capital gains | \$7,073 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$2,736 |
| Interest | + 1,068 |
| Total investment income | 3,804 |

Net of \$1 foreign withholding tax.

Net Realized Gains and Losses

| | |
|----------------------------------------|--------------|
| Net realized gains on investments | 12,378 |
| Net realized losses on short sales | (4,557) |
| Net realized gains on future contracts | + 99 |
| Net realized gains | 7,920 |

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.

Net Unrealized Gains and Losses

| | |
|-------------------------------------|--------------|
| Net unrealized gains on investments | 5,518 |
| Net unrealized gains on short sales | + 3,712 |
| Net unrealized gains | 9,230 |

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 2,285 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 26 |
| Select Shares | 165 |
| Trustees' fees | 6 |
| Custodian and portfolio accounting fees | 79 |
| Professional fees | 44 |
| Registration fees | 26 |
| Shareholder reports | 3 |
| Interest expense | 134 |
| Other expenses | + 7 |
| Total expenses before short sales | 2,775 |
| Dividends on short sales | 448 |
| Expense reduction | + (162) |
| Net expenses | 3,061 |

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 \$88 from the investment adviser (CSIM) and \$74 from the transfer agent and shareholder service agent (Schwab). CSIM and Schwab have guaranteed through February 27, 2006 to limit the annual net operating expenses.

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 3,804 |
| Net expenses | - 3,061 |
| Net investment income | 743 |
| Net realized gains | 7,920 |
| Net unrealized gains | + 9,230 |
| Increase in net assets from operations | \$17,893 |

| Share Class | % of Average Daily Net Assets |
|--------------------|--------------------------------------|
| Investor Shares | 2.00% |
| Select Shares | 1.77% |

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

These add up to a net gain on investments of \$17,150.

Statement of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income or loss | 743 | (\$455) |
| Net realized gains | 7,920 | 4,186 |
| Net unrealized gains | + 9,230 | 2,597 |
| Increase in net assets from operations | 17,893 | 6,328 |

Distributions Paid**Distributions from net realized gains**

| | | |
|-----------------|----------------|-------------|
| Investor Shares | — | — |
| Select Shares | + 3,789 | — |
| | \$3,789 | \$ — |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|-------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 2,530 | \$35,429 | — | \$ — |
| Select Shares | + 11,743 | 163,791 | 2,509 | 31,194 |
| Total shares sold | 14,273 | \$199,220 | 2,509 | \$31,194 |
| Shares Reinvested | | | | |
| Investor Shares | — | \$ — | — | \$ — |
| Select Shares | + 255 | 3,389 | — | — |
| Total shares reinvested | 255 | \$3,389 | — | \$ — |
| Shares Redeemed | | | | |
| Investor Shares | (214) | (\$3,027) | — | \$ — |
| Select Shares | + (1,421) | (19,628) | (1,073) | (13,199) |
| Total shares redeemed | (1,635) | (\$22,655) | (1,073) | (\$13,199) |
| Net transactions in fund shares | 12,893 | \$179,954 | 1,436 | \$17,995 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 12,893 | 194,058 | 1,436 | 24,323 |
| End of period | 18,144 | 262,349 | 5,251 | \$68,291 |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions paid are:

| | |
|-------------------------|---------|
| Current period | |
| Ordinary income | \$— |
| Long-term capital gains | \$3,789 |
| Prior period | |
| Ordinary income | \$— |
| Long-term capital gains | \$— |

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 | \$ 3 |
| Select Shares | + \$40 |
| Total | \$43 |
| 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 distributable net investment income in the amount of \$743 and \$— at the end of the current period and prior period, respectively.

Schwab Financial Services Fund™

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 13.12 | 11.77 | 9.44 | 9.75 | 11.86 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.12 | 0.08 | 0.11 | 0.12 | 0.09 |
| Net realized and unrealized gains or losses | 2.21 | 1.37 | 2.37 | (0.28) | (1.76) |
| Total income or loss from investment operations | 2.33 | 1.45 | 2.48 | (0.16) | (1.67) |
| 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 | 14.42 | 13.12 | 11.77 | 9.44 | 9.75 |
| Total return (%) | 18.62 | 12.39 | 26.68 | (1.78) | (14.51) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 1.07 | 1.05 | 1.04 ¹ | 0.89 | 0.89 |
| Gross operating expenses | 1.15 | 1.25 | 1.49 | 1.32 | 1.23 |
| Net investment income | 1.01 | 0.62 | 1.05 | 1.20 | 0.75 |
| Portfolio turnover rate | 74 | 85 | 181 | 131 | 151 |
| Net assets, end of period (\$ x 1,000,000) | 29 | 20 | 18 | 17 | 21 |

¹ The ratio of net operating expenses would have been 1.03% if interest expense had not been included.

Portfolio Holdings as of October 31, 2005

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.

We use the symbol below to designate certain characteristics of the security.

- ① Top ten holdings
 - Non-income producing security
- All or a portion of this security is held as collateral for short sales

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 98.3% | Common Stock | 24,101 | 28,117 |
| 0.9% | Short-Term Investment | 271 | 271 |
| 99.2% | Total Investments | 24,372 | 28,388 |
| 0.4% | Collateral Invested for Securities on Loan | 118 | 118 |
| 0.4% | Other Assets and Liabilities, Net | | 101 |
| 100.0% | Total Net Assets | | 28,607 |

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

Common Stock 98.3% of net assets

Banks 29.6%

| | | |
|---------------------------|--------|-------|
| ⑥ Bank of Hawaii Corp. | 25,800 | 1,326 |
| City National Corp. | 15,100 | 1,108 |
| ① Comerica, Inc. | 29,000 | 1,676 |
| Commerce Bancshares, Inc. | 6,700 | 356 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|------------------------------------|--------|-----------------------|
| Countrywide Financial Corp. | 14,498 | 460 |
| First Indiana Corp. | 1,000 | 35 |
| ⑩ KeyCorp, Inc. | 40,400 | 1,302 |
| M&T Bank Corp. | 3,800 | 409 |
| PNC Financial Services Group, Inc. | 6,700 | 407 |
| ④ UnionBanCal Corp. | 20,300 | 1,390 |
| | | 8,469 |

Diversified Financials 37.5%

| | | |
|-------------------------------------|--------|---------------|
| American Express Co. | 24,700 | 1,229 |
| • AmeriCredit Corp. | 24,800 | 554 |
| • Ameriprise Financial, Inc. | 4,940 | 184 |
| ■ Ameritrade Holding Corp. | 5,900 | 124 |
| Capital One Financial Corp. | 10,200 | 779 |
| CIT Group, Inc. | 3,000 | 137 |
| • E*TRADE Financial Corp. | 38,600 | 716 |
| ⑧ Franklin Resources, Inc. | 15,100 | 1,335 |
| • Investment Technology Group, Inc. | 33,500 | 1,089 |
| Mellon Financial Corp. | 32,900 | 1,043 |
| Moody's Corp. | 4,600 | 245 |
| Morgan Stanley | 7,500 | 408 |
| ⑦ Northern Trust Corp. | 25,100 | 1,345 |
| ② Principal Financial Group, Inc. | 31,300 | 1,554 |
| | | 10,742 |

Insurance 28.9%

| | | |
|----------------------------------------------|--------|-------|
| ⑥ AFLAC, Inc. | 28,200 | 1,347 |
| American Financial Group, Inc. | 700 | 24 |
| • American Physicians Capital, Inc. | 5,500 | 233 |
| AON Corp. | 6,000 | 203 |
| Chubb Corp. | 12,700 | 1,181 |
| • CNA Financial Corp. | 9,400 | 289 |
| Delphi Financial Group, Inc., Class A | 3,900 | 183 |
| Lincoln National Corp. | 9,900 | 501 |
| Loews Corp. | 1,800 | 167 |
| • ③ Metlife, Inc. | 29,100 | 1,438 |
| Nationwide Financial Services, Inc., Class A | 9,900 | 400 |
| ⑤ Prudential Financial, Inc. | 18,700 | 1,361 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------------|-----------------------|
| Safeco Corp. 800 | 45 |
| The St. Paul Travelers Cos., Inc. 7,400 | 333 |
| W.R. Berkley Corp. 12,750 | 557 |
| | 8,262 |

Real Estate 2.3%

| | |
|--------------------------------------------------|------------|
| • CB Richard Ellis Group, Inc., Class A 6,800 | 332 |
| • Trammell Crow Co. 12,200 | 312 |
| | 644 |

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

Short-Term Investment
0.9% of net assets

| | | |
|----------------------------------------------------------------|-----|------------|
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 271 | 271 |
|----------------------------------------------------------------|-----|------------|

End of investments.

Collateral Invested for Securities on Loan
0.4% of net assets

Short-Term Investment 0.4%

| | |
|------------------------------------------------|------------|
| Securities Lending Investments Fund 117,705 | 118 |
|------------------------------------------------|------------|

End of collateral invested for securities on loan.

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------------------|---------------|
| Investments, at value (including \$118 of securities on loan) | \$28,388 |
| Collateral invested for securities on loan | 118 |
| Receivables: | |
| Fund shares sold | 141 |
| Dividends | 14 |
| Investments sold | 562 |
| Prepaid expenses | + 3 |
| Total assets | 29,226 |

Liabilities

| | |
|---------------------------------------------|------------|
| Collateral invested for securities on loan | 118 |
| Payables: | |
| Fund shares redeemed | 18 |
| Investments bought | 457 |
| Investment adviser and administrator fees | 1 |
| Transfer agent and shareholder service fees | 1 |
| Accrued expenses | + 24 |
| Total liabilities | 619 |

Net Assets

| | |
|--------------------------|-----------------|
| Total assets | 29,226 |
| Total liabilities | - 619 |
| Net assets | \$28,607 |

Net Assets by Source

| | |
|-------------------------------------------|--------|
| Capital received from investors | 22,844 |
| Net investment income not yet distributed | 172 |
| Net realized capital gains | 1,575 |
| Net unrealized capital gains | 4,016 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|-------------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$28,607 | | 1,984 | | \$14.42 |

Unless stated, all numbers x 1,000.

The fund paid \$24,372 for these securities.

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

| | |
|------------------|----------|
| Purchases | \$21,398 |
| Sales/maturities | \$16,363 |

Federal Tax Data

| | |
|-----------------------------------------|----------------|
| Portfolio cost | \$24,377 |
| Net unrealized gains and losses: | |
| Gains | \$4,204 |
| Losses | + (193) |
| | \$4,011 |

Net undistributed earnings:

| | |
|-------------------------|---------|
| Ordinary income | \$525 |
| Long-term capital gains | \$1,227 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | | |
|--------------------------------|---|------------|
| Dividends | | \$455 |
| Interest | | 3 |
| Securities on loan | + | 1 |
| Total investment income | | 459 |

Net Realized Gains and Losses

| | |
|----------------------------------------|--------------|
| Net realized gains on investments sold | 1,583 |
|----------------------------------------|--------------|

Net Unrealized Gains and Losses

| | |
|-------------------------------------|--------------|
| Net unrealized gains on investments | 1,980 |
|-------------------------------------|--------------|

Expenses

| | |
|---------------------------------------------|-------------------|
| Investment adviser and administrator fees | 119 |
| Transfer agent and shareholder service fees | 55 |
| Trustees' fees | 4 |
| Custodian fees | 26 |
| Portfolio accounting fees | 3 |
| Professional fees | 27 |
| Registration fees | 15 |
| Shareholder reports | 2 |
| Other expenses | + 3 |
| Total expenses | <u>254</u> |
| Expense reduction | - 19 |
| Net expenses | <u>235</u> |

Increase in Net Assets from Operations

| | | |
|----------------------------------------|---|----------------|
| Total investment income | | 459 |
| Net expenses | — | 235 |
| Net investment income | | <u>224</u> |
| Net realized gains | | 1,583 |
| Net unrealized gains | + | 1,980 |
| Increase in net assets from operations | | <u>\$3,787</u> |

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 net 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 \$3,563.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$224 | \$123 |
| Net realized gains | 1,583 | 2,314 |
| Net unrealized gains or losses | + 1,980 | (253) |
| Increase in net assets from operations | 3,787 | 2,184 |

Distributions Paid

| | | |
|-----------------------------------------------|----------------|--------------|
| Dividends from net investment income | 139 | 158 |
| Distributions from net realized gains | + 1,403 | — |
| Total dividends and distributions paid | \$1,542 | \$158 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|----------------|------------------|----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 885 | \$11,993 | 369 | \$4,651 |
| Shares reinvested | 103 | 1,356 | 12 | 142 |
| Shares redeemed | + (495) | (6,547) | (457) | (5,709) |
| Net transactions in fund shares | 493 | \$6,802 | (76) | (\$916) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 493 | 9,047 | (76) | 1,110 |
| End of period | 1,984 | \$28,607 | 1,491 | \$19,560 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 91% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$139 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

| | Current period | Prior period |
|-------------------------|----------------|--------------|
| Ordinary income | \$139 | \$158 |
| Long-term capital gains | \$1,403 | \$— |

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 | \$7 |
| Prior period | \$5 |

Dollar amounts are net of the redemption fee 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 from transactions in fund shares, minus distributions paid.

Includes distributable net investment income in the amount of \$172 and \$87 at the end of the current period and prior period, respectively.

Schwab Health Care Fund™

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 10.78 | 8.43 | 7.12 | 9.00 | 10.27 |
| Income or loss from investment operations: | | | | | |
| Net investment income or loss | (0.02) | (0.06) | 0.01 | 0.03 | 0.00 ¹ |
| Net realized and unrealized gains or losses | 3.27 | 2.41 | 1.33 | (1.90) | (1.10) |
| Total income or loss from investment operations | 3.25 | 2.35 | 1.34 | (1.87) | (1.10) |
| Less distributions: | | | | | |
| Dividends from net investment income | — | — | (0.03) | (0.01) | (0.00) ¹ |
| Distributions from net realized gains | — | — | — | — | (0.17) |
| Total distributions | — | — | (0.03) | (0.01) | (0.17) |
| Net asset value at end of period | 14.03 | 10.78 | 8.43 | 7.12 | 9.00 |
| Total return (%) | 30.15 | 27.88 | 18.96 | (20.84) | (10.94) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.89 | 1.04 | 1.04 | 0.89 | 0.89 |
| Gross operating expenses | 0.89 | 1.07 | 1.34 | 1.18 | 1.17 |
| Net investment income or loss | (0.28) | (0.73) | 0.13 | 0.25 | 0.06 |
| Portfolio turnover rate | 42 | 105 | 200 | 99 | 92 |
| Net assets, end of period (\$ x 1,000,000) | 397 | 54 | 25 | 21 | 32 |

¹ Per share amount was less than \$0.01.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 99.3% | Common Stock | 353,749 | 393,925 |
| 0.6% | Short-Term Investment | 2,493 | 2,493 |
| 0.0% | Rights | — | — |
| 99.9% | Total Investments | 356,242 | 396,418 |
| 2.4% | Collateral Invested for Securities on Loan | 9,451 | 9,451 |
| (2.3)% | Other Assets and Liabilities, Net | | (9,013) |
| 100.0% | Total Net Assets | | 396,856 |

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

Common Stock 99.3% of net assets

Health Care Equipment & Services 67.8%

| | | |
|------------------------------|---------|--------|
| Aetna, Inc. | 136,800 | 12,115 |
| ② AmerisourceBergen Corp. | 210,000 | 16,017 |
| Bausch & Lomb, Inc. | 168,000 | 12,464 |
| ⑤ Baxter International, Inc. | 401,100 | 15,334 |
| ⑨ Becton Dickinson & Co. | 269,600 | 13,682 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|------------------------------------------------|---------|-----------------------|
| ⑦ Cardinal Health, Inc. | 234,000 | 14,627 |
| • Caremark Rx, Inc. | 218,500 | 11,449 |
| ■ Cerner Corp. | 97,000 | 8,192 |
| ④ CIGNA Corp. | 134,500 | 15,585 |
| • Coventry Health Care, Inc. | 201,600 | 10,884 |
| Dade Behring Holdings, Inc. | 150,000 | 5,402 |
| • DaVita, Inc. | 27,025 | 1,329 |
| ① Express Scripts, Inc. | 218,700 | 16,492 |
| • Haemonetics Corp. | 112,300 | 5,441 |
| • Humana, Inc. | 201,600 | 8,949 |
| • Lincare Holdings, Inc. | 203,300 | 8,305 |
| ③ McKesson Corp. | 349,200 | 15,864 |
| • Medco Health Solutions, Inc. | 72,000 | 4,068 |
| • Pacificare Health Systems, Inc. | 116,700 | 9,611 |
| PerkinElmer, Inc. | 200,000 | 4,414 |
| • Sierra Health Services, Inc. | 136,900 | 10,268 |
| ■ SurModics, Inc. | 43,000 | 1,699 |
| • Tenet Healthcare Corp. | 317,000 | 2,669 |
| • Thermo Electron Corp. | 93,600 | 2,826 |
| • Trizetto Group, Inc. | 100,500 | 1,424 |
| • United Surgical Partners International, Inc. | 70,100 | 2,513 |
| ⑥ UnitedHealth Group, Inc. | 255,400 | 14,785 |
| • WellChoice, Inc. | 131,000 | 9,910 |
| • WellPoint, Inc. | 171,300 | 12,793 |
| | | 269,111 |

Pharmaceuticals & Biotechnology 31.5%

| | | |
|------------------------------------------|---------|--------|
| • Albany Molecular Research, Inc. | 140,000 | 1,876 |
| Alpharma, Inc., Class A | 385,700 | 9,600 |
| • Amgen, Inc. | 56,000 | 4,243 |
| Applied Biosystems Group — Applera Corp. | 403,800 | 9,800 |
| • Celera Genomics Group — Applera Corp. | 80,000 | 950 |
| CNS, Inc. | 117,717 | 3,069 |
| • Endo Pharmaceutical Holdings, Inc. | 103,200 | 2,778 |
| • Gene Logic, Inc. | 130,800 | 495 |
| • Invitrogen Corp. | 90,200 | 5,736 |
| ⑩ Johnson & Johnson | 217,600 | 13,626 |
| • Kendle International, Inc. | 100,000 | 2,408 |
| • King Pharmaceuticals, Inc. | 638,000 | 9,844 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------|-----------------------|
| • Kos Pharmaceuticals, Inc. 123,500 | 7,410 |
| Merck & Co., Inc. 314,000 | 8,861 |
| 8 Pfizer, Inc. 631,700 | 13,733 |
| Schering-Plough Corp. 621,500 | 12,641 |
| • Techne Corp. 77,500 | 4,202 |
| Wyeth 303,900 | 13,542 |
| | 124,814 |

Rights

0.0% of net assets

Pharmaceuticals & Biotechnology 0.0%

| | |
|-----------------------------------------------------|---|
| • OSI Pharmaceuticals, Inc. expires 06/12/08 458 | — |
|-----------------------------------------------------|---|

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

Short-Term Investment

0.6% of net assets

| | | |
|----------------------------------------------------------------|-------|--------------|
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 2,493 | 2,493 |
|----------------------------------------------------------------|-------|--------------|

End of investments.

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

Collateral Invested for Securities on Loan

2.4% of net assets

Short-Term Investment 2.4%

| | |
|--------------------------------------------------|--------------|
| Securities Lending Investments Fund 9,450,902 | 9,451 |
|--------------------------------------------------|--------------|

End of collateral invested for securities on loan.

Statement of

Assets and Liabilities

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

Assets

| | |
|-----------------------------------------------------------------|----------------|
| Investments, at value (including \$9,304 of securities on loan) | \$396,418 |
| Collateral invested for securities on loan | 9,451 |
| Receivables: | |
| Fund shares sold | 3,278 |
| Dividends | 77 |
| Investments sold | 7,099 |
| Income from securities on loan | 18 |
| Prepaid expenses | + 20 |
| Total assets | 416,361 |

Liabilities

| | |
|---------------------------------------------|---------------|
| Collateral invested for securities on loan | 9,451 |
| Payables: | |
| Fund shares redeemed | 181 |
| Investments bought | 9,774 |
| Investment adviser and administrator fees | 17 |
| Transfer agent and shareholder service fees | 8 |
| Accrued expenses | + 74 |
| Total liabilities | 19,505 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 416,361 |
| Total liabilities | – 19,505 |
| Net assets | \$396,856 |

Net Assets by Source

| | |
|---------------------------------|---------|
| Capital received from investors | 361,074 |
| Net realized capital losses | (4,394) |
| Net unrealized capital gains | 40,176 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$396,856 | | 28,286 | | \$14.03 |

Unless stated, all numbers x 1,000.

The fund paid \$356,242 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$386,046 |
| Sales/maturities | \$80,009 |

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$356,382 |
| Net unrealized gains and losses: | |
| Gains | \$51,705 |
| Losses | + (11,669) |
| | \$40,036 |

Capital losses utilized \$273

Unused capital losses:

| | |
|-------------------|----------------|
| Expires 10/31 of: | Loss amount |
| 2010 | \$617 |
| 2011 | + 3,637 |
| | \$4,254 |

Reclassifications:

| | |
|-------------------------------------------|---------|
| Net investment income not yet distributed | \$536 |
| Reclassified: | |
| Capital received from investors | (\$536) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$937 |
| Interest | 111 |
| Securities on loan | + 96 |
| Total investment income | 1,144 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|------------|
| Net realized gains on investments sold | 134 |
| Net realized gains on futures contracts | + 183 |
| Net realized gains | 317 |

Net Unrealized Gains and Losses

| | |
|-------------------------------------|---------------|
| Net unrealized gains on investments | 33,870 |
|-------------------------------------|---------------|

Expenses

| | |
|---------------------------------------------|--------------|
| Investment adviser and administrator fees | 1,019 |
| Transfer agent and shareholder service fees | 472 |
| Trustees' fees | 5 |
| Custodian fees | 32 |
| Portfolio accounting fees | 24 |
| Professional fees | 27 |
| Registration fees | 61 |
| Shareholder reports | 37 |
| Other expenses | + 3 |
| Total expenses | 1,680 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 1,144 |
| Net expenses | - 1,680 |
| Net investment loss | (536) |
| Net realized gains | 317 |
| Net unrealized gains | + 33,870 |
| Increase in net assets from operations | \$33,651 |

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 net 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 \$34,187.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment loss | (\$536) | (\$303) |
| Net realized gains | 317 | 4,394 |
| Net unrealized gains | + 33,870 | 3,441 |
| Increase in net assets from operations | \$33,651 | \$7,532 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|------------------|------------------|-----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 25,580 | \$339,672 | 3,244 | \$33,738 |
| Shares redeemed | + (2,299) | (30,399) | (1,206) | (12,342) |
| Net transactions in fund shares | 23,281 | \$309,273 | 2,038 | \$21,396 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 23,281 | 342,924 | 2,038 | 28,928 |
| End of period | 28,286 | \$396,856 | 5,005 | \$53,932 |

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 \$121

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 \$— and \$— at the end of the current period and prior period, respectively.

Schwab Technology Fund™

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 4.42 | 4.32 | 2.90 | 3.86 | 8.52 |
| Income or loss from investment operations: | | | | | |
| Net investment loss | (0.01) | (0.04) | (0.02) | (0.02) | (0.03) |
| Net realized and unrealized gains or losses | 0.47 | 0.14 | 1.44 | (0.94) | (4.63) |
| Total income or loss from investment operations | 0.46 | 0.10 | 1.42 | (0.96) | (4.66) |
| Net asset value at end of period | 4.88 | 4.42 | 4.32 | 2.90 | 3.86 |
| Total return (%) | 10.41 | 2.31 | 48.97 | (24.87) | (54.69) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.97 | 1.02 ¹ | 1.04 | 0.89 | 0.89 |
| Gross operating expenses | 0.97 | 1.02 | 1.25 | 1.15 | 1.16 |
| Net investment loss | (0.23) | (0.78) | (0.65) | (0.57) | (0.65) |
| Portfolio turnover rate | 89 | 109 | 165 | 117 | 120 |
| Net assets, end of period (\$ x 1,000,000) | 53 | 49 | 43 | 26 | 39 |

¹ The ratio of net operating expenses would have been 1.01% if interest expense had not been included.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|----------------------|---------------------------------------------------|--------------------|---------------------|
| 99.4% | Common Stock | 46,096 | 52,939 |
| 0.7% | Short-Term Investment | 375 | 375 |
| 100.1% | Total Investments | 46,471 | 53,314 |
| 2.8% | Collateral Invested for Securities on Loan | 1,490 | 1,490 |
| (2.9)% | Other Assets and Liabilities, Net | | (1,540) |
| 100.0% | Total Net Assets | | 53,264 |

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

Common Stock 99.4% of net assets

Semiconductors & Semiconductor Equipment 20.9%

| | | |
|---------------------------|---------|-------|
| • Agere Systems, Inc. | 32,630 | 339 |
| ⑧ Applied Materials, Inc. | 101,300 | 1,659 |
| • Broadcom Corp., Class A | 7,800 | 331 |
| ④ Intel Corp. | 146,960 | 3,454 |
| • LSI Logic Corp. | 81,200 | 659 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------|-----------------------|
| • Micrel, Inc. 15,600 | 156 |
| National Semiconductor Corp. 41,000 | 928 |
| • ON Semiconductor Corp. 90,100 | 418 |
| • Texas Instruments, Inc. 111,600 | 3,186 |
| | 11,130 |

Software & Services 38.5%

| | | |
|----------------------------------------|---------|---------------|
| • Alliance Data Systems Corp. | 8,400 | 299 |
| ⑦ Autodesk, Inc. | 41,600 | 1,877 |
| • BEA Systems, Inc. | 4,600 | 41 |
| • BMC Software, Inc. | 43,000 | 842 |
| • Cadence Design Systems, Inc. | 70,300 | 1,123 |
| • Checkfree Corp. | 33,100 | 1,407 |
| • Citrix Systems, Inc. | 39,800 | 1,097 |
| • Computer Sciences Corp. | 15,600 | 800 |
| • DST Systems, Inc. | 18,100 | 1,016 |
| • Earthlink, Inc. | 113,100 | 1,245 |
| • Electronic Data Systems Corp. | 45,900 | 1,070 |
| • Global Payments, Inc. | 6,200 | 266 |
| • McAfee, Inc. | 26,100 | 784 |
| • Oracle Corp. | 217,000 | 2,752 |
| • Parametric Technology Corp. | 95,900 | 624 |
| • ⑨ Progress Software Corp. | 52,800 | 1,644 |
| • The Reynolds & Reynolds Co., Class A | 32,800 | 871 |
| • Sybase, Inc. | 48,900 | 1,088 |
| • Synopsys, Inc. | 33,000 | 625 |
| • United Online, Inc. | 79,000 | 1,059 |
| | | 20,530 |

Technology Hardware & Equipment 40.0%

| | | |
|-----------------------------------------|---------|-------|
| • Agilent Technologies, Inc. | 28,400 | 909 |
| ■•⑩ Apple Computer, Inc. | 28,200 | 1,624 |
| • Arrow Electronics, Inc. | 44,400 | 1,310 |
| • AVX Corp. | 33,000 | 409 |
| • Electronics for Imaging | 800 | 20 |
| • Harris Corp. | 11,900 | 489 |
| ② Hewlett-Packard Co. | 136,100 | 3,816 |
| • Imation Corp. | 23,600 | 1,010 |
| ① International Business Machines Corp. | 53,000 | 4,340 |
| ③ Motorola, Inc. | 171,900 | 3,809 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------|-----------------------|
| •NCR Corp. 46,200 | 1,396 |
| Qualcomm, Inc. 14,900 | 592 |
| Scientific-Atlanta, Inc. 32,800 | 1,163 |
| •Soletron Corp. 23,000 | 81 |
| •Tellabs, Inc. 32,500 | 311 |
| | 21,279 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | |
|----------------------------------------------------------------|-----------------------------|------------|
| Short-Term Investment 0.7% of net assets | | |
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 375 | 375 |

End of investments.

| |
|-------------------------------------------------------------------------|
| Collateral Invested for Securities on Loan 2.8% of net assets |
|-------------------------------------------------------------------------|

| | |
|-----------------------------------|--------------|
| Short-Term Investment 2.8% | |
| <hr/> | |
| Securities Lending Investments | |
| Fund 1,489,524 | 1,490 |

End of collateral invested for securities on loan.

Statement of

Assets and liabilities

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

Assets

| | |
|--------------------------------------------------------------------|---------------|
| Investments, at value (including \$1,543 of securities on loan) | \$53,314 |
| Collateral invested for securities on loan | 1,490 |
| Receivables: | |
| Fund shares sold | 206 |
| Dividends | 3 |
| Investments sold | 736 |
| Prepaid expenses | + 4 |
| Total assets | 55,753 |

Liabilities

| | |
|---------------------------------------------|--------------|
| Collateral invested for securities on loan | 1,490 |
| Payables: | |
| Fund shares redeemed | 19 |
| Investments bought | 949 |
| Investment adviser and administrator fees | 2 |
| Transfer agent and shareholder service fees | 1 |
| Accrued expenses | + 28 |
| Total liabilities | 2,489 |

Net Assets

| | |
|--------------------------|-----------------|
| Total assets | 55,753 |
| Total liabilities | – 2,489 |
| Net assets | \$53,264 |

Net Assets by Source

| | |
|---------------------------------|----------|
| Capital received from investors | 85,298 |
| Net realized capital losses | (38,877) |
| Net unrealized capital gains | 6,843 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$53,264 | | 10,923 | | \$4.88 |

Unless stated, all numbers x 1,000.

The fund paid \$46,471 for these securities.

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

| | |
|------------------|----------|
| Purchases | \$43,484 |
| Sales/maturities | \$44,568 |

Federal Tax Data

| | |
|-----------------------------------------|----------------|
| Portfolio cost | \$46,477 |
| Net unrealized gains and losses: | |
| Gains | \$8,257 |
| Losses | + (1,420) |
| | \$6,837 |

Capital losses utilized \$2,249

Unused capital losses:

| | |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount |
| 2009 | \$14,027 |
| 2010 | 18,148 |
| 2011 | + 6,696 |
| | \$38,871 |

Reclassifications:

| | |
|-------------------------------------------|---------|
| Net investment income not yet distributed | \$111 |
| Reclassified as: | |
| Capital received from investors | (\$111) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Investment Income

| | | |
|--------------------------------|---|------------|
| Dividends | | \$357 |
| Interest | + | 6 |
| Total investment income | | 363 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|---------------------|
| Net realized gains on investments sold | 2,352 |
| Net realized gains on futures contracts | + 2 |
| Net realized gains | <u>2,354</u> |

Net Unrealized Gains and Losses

| | |
|-------------------------------------|--------------|
| Net unrealized gains on investments | 2,534 |
|-------------------------------------|--------------|

Expenses

| | | |
|---------------------------------------------|-----|------------|
| Investment adviser and administrator fees | 263 | |
| Transfer agent and shareholder service fees | 122 | |
| Trustees' fees | 5 | |
| Custodian fees | 27 | |
| Portfolio accounting fees | 6 | |
| Professional fees | 27 | |
| Registration fees | 15 | |
| Shareholder reports | 4 | |
| Interest expense | 2 | |
| Other expenses | + | 3 |
| Total expenses | | 474 |

Increase in Net Assets from Operations

| | |
|----------------------------------------|---------|
| Total investment income | 363 |
| Net expenses | — 474 |
| Net investment loss | (111) |
| Net realized gains | 2,354 |
| Net unrealized gains | + 2,534 |
| Increase in net assets from operations | \$4,777 |

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 net 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 gain on investments of \$4,888.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|-----------------------------------------------------------|------------------|----------------|------------------|----------------|
| Net investment loss | | (\$111) | | (\$405) |
| Net realized gains | | 2,354 | | 2,569 |
| Net unrealized gains or losses | + | 2,534 | | (2,375) |
| Increase or decrease in net assets from operations | | \$4,777 | | (\$211) |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|----------------|------------------|----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 3,726 | \$17,658 | 4,936 | \$23,679 |
| Shares redeemed | + (3,904) | (18,286) | (3,798) | (17,389) |
| Net transactions in fund shares | (178) | (\$628) | 1,138 | \$6,290 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (178) | 4,149 | 1,138 | 6,079 |
| End of period | 10,923 | \$53,264 | 11,101 | \$49,115 |

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 | \$10 |
| Prior period | \$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 \$— and \$— 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.

Schwab Premier Equity Fund, Schwab Dividend Equity Fund, Schwab Large-Cap Growth 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 and the Schwab Large-Cap Growth Fund commenced operations on March 21, 2005 and October 3, 2005, respectively. 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

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 Institutional Select S&P 500 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 Large-Cap Growth Fund
Schwab Small-Cap Equity Fund
Schwab Hedged Equity Fund
Schwab Financial Services Fund
Schwab Health Care Fund
Schwab Technology Fund
 Schwab Target 2010 Fund
 Schwab Target 2020 Fund
 Schwab Target 2030 Fund
 Schwab Target 2040 Fund
 Schwab Retirement Income Fund

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 (“due to/from broker”).

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 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 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. If the value of the collateral falls below 100%, it will be adjusted the following day.

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, the funds may let other Schwab Funds® buy and sell fund shares, particularly Schwab Target Funds, which seek to provide investors with allocated portfolios of other Schwab Funds and Laudus 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 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 10/31/05 (\$ x 1,000) | Average borrowing* (\$ x 1,000) | Weighted average interest rate* (%) |
|--------------------------------|------------------------------------------------------|---------------------------------------|----------------------------------------------|
| Schwab Premier Equity Fund | — | 310 | 4.23 |
| Schwab Dividend Equity Fund | — | 14 | 3.72 |
| Schwab Small-Cap Equity Fund | — | 262 | 3.05 |
| Schwab Financial Services Fund | — | 55 | 3.12 |
| Schwab Technology Fund | — | 160 | 2.96 |

* 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 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.

- **Mutual funds:** valued at their respective net asset values as determined by those funds, in accordance with the 1940 Act.

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.

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders of:

Schwab Premier Equity Fund
Schwab Core Equity Fund
Schwab Dividend Equity Fund
Schwab Large-Cap Growth Fund
Schwab Small-Cap Equity Fund
Schwab Hedged Equity Fund
Schwab Financial Services Fund
Schwab Health Care Fund
Schwab Technology Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Premier Equity Fund, Schwab Core Equity Fund, Schwab Dividend Equity Fund, Schwab Large-Cap Growth Fund, Schwab Small-Cap Equity Fund, Schwab Hedged Equity Fund, Schwab Financial Services Fund, Schwab Health Care Fund, and Schwab Technology Fund, (nine of the portfolios constituting Schwab Capital Trust, hereafter referred to as the “Funds”) at October 31, 2005, the results of each of their operations for the year then ended, and the changes in each of their net assets and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
December 16, 2005

Investment Advisory Agreement Approval

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

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Capital Trust (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust operating as of December 31 of the previous year, including the Schwab Core Equity Fund, the Schwab Dividend Equity Fund, the Schwab Small-Cap Equity Fund, the Schwab Hedged Equity Fund, the Schwab Financial Services Fund, the Schwab Health Care Fund, and the Schwab Technology Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives

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

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

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

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

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

context of its full deliberations, that the performance of the funds supported renewal of the Agreement with respect to the funds.

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

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

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

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

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement with respect to the funds and concluded that the compensation under the Agreement with respect to the funds 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.

In addition, at the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the creation of the new Schwab Large-Cap Growth Fund (the "Large-Cap Growth Fund") and approved the amendment of the Agreement to appoint CSIM as investment adviser to the Large-Cap Growth 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 Large-Cap Growth Fund under the Agreement, including the resources of CSIM and its affiliates to be dedicated to the Large-Cap Growth 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 Large-Cap Growth 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 Large-Cap Growth Fund grows and whether fee levels relating to the Large-Cap Growth Fund in the Agreement reflect those economies of scale for the benefit of the Large-Cap Growth Fund's investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the Schwab Funds and the resources of CSIM and its affiliates dedicated to such funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees also considered the fact that Schwab's extensive branch network, Internet access, investment and research tools, telephone services, and array of account features benefit the funds. The trustees also considered Schwab's excellent reputation as a full service firm and its overall financial condition. The Board considered how these factors could apply to the Large-Cap Growth Fund under the terms of the 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 Large-Cap Growth Fund and the resources of CSIM and its affiliates to be dedicated to the Large-Cap Growth Fund supported approval of the Agreement with respect to the Large-Cap Growth Fund.

Fund Performance. The Board considered performance of Schwab Funds using related investment techniques in determining whether to renew the agreements with respect to such funds. Specifically, the trustees 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 Schwab Fund, the trustees considered both risk and shareholder risk expectations for such fund. The Board also considered how these factors could apply to the Large-Cap Growth Fund under the terms of the Agreement. Following

such evaluation, the Board concluded that, within the context of its full deliberations, the performance of the existing Schwab Funds using related investment techniques and performance of CSIM supported approval of the Agreement with respect to the Large-Cap Growth Fund.

Fund Expenses. With respect to the Large-Cap Growth Fund's expenses, the trustees considered the rate of compensation with respect to the Large-Cap Growth Fund called for by the Agreement, and the Large-Cap Growth 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 Large-Cap Growth 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 Large-Cap Growth Fund expenses from exceeding a specified cap for at least one year and that CSIM, through the waiver, will maintain the Large-Cap Growth 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 Large-Cap Growth Fund are reasonable and supported approval of the Agreement with respect to the Large-Cap Growth Fund.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. The trustees also considered any other benefits derived by CSIM from its relationship with the existing Schwab 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 considered whether the varied levels of

compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each existing fund by CSIM and its affiliates. The Board also considered how these factors could apply to the Large-Cap Growth Fund. However, because the Large-Cap Growth 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 Agreement with respect to the Large-Cap Growth Fund.

Economies of Scale. The trustees considered the possible existence of any economies of scale and whether those will be passed along to the Large-Cap Growth 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 the Large-Cap Growth 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 the Large-Cap Growth 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 Large-Cap Growth Fund, or funds with investment strategies that are currently 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 Large-Cap Growth 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 Agreement to reflect the addition of the Large-Cap Growth Fund and concluded that the compensation with respect to the Large-Cap Growth Fund under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

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

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

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

| Independent Trustees | | |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
| Mariann Byerwalter 1960 | 2000 (all trusts). | Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children’s Hospital; Director, Pacific Life Insurance Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ² <i>Until 2001:</i> Stanford University, Special Advisor to the President. <i>From 1996-2001:</i> Stanford University, Vice President of Business Affairs, Chief Financial Officer. |
| Donald F. Dorward 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> Executive Vice President, Managing Director, Grey Advertising San Francisco. <i>Until 1996:</i> President, Chief Executive Officer, Allen & Dorward Advertising. |

¹ 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.

² This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Independent Trustees continued

| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Hasler 1941 | 2000 (all trusts). | <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Soletron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ³ |
| Robert G. Holmes 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm). |
| Gerald B. Smith 1950 | 2000 (all trusts). | <i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy). |
| Donald R. Stephens 1938 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust). |
| Michael W. Wilsey 1943 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments). |

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Interested Trustees

| Name and Year of Birth | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charles R. Schwab ⁴ 1937 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art. |
| Randall W. Merk ⁴ 1954 | Trustee, 2005 (all trusts). | Executive Vice President and President, Asset Management Products & Services Enterprise, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (6/01 to 8/02); Chief Investment Officer, Fixed, American Century Companies, Inc. (1/97 to 6/01). |

Officers of the Trust

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|--------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Dilsaver 1955 | President, Chief Executive Officer (all trusts). | Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 1955 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|---------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kimon Daifotis 1959 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 1963 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 1960 | Chief Compliance Officer (all trusts). | Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc. |
| Koji E. Felton 1961 | Secretary (all trusts). | Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco. |
| George Pereira 1964 | Treasurer, Principal Financial Officer (all trusts) | Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. |

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.

Internet¹

www.schwab.com

Schwab by Phone™²

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

TeleBroker®

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

Mail

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

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

Proxy Voting Policies, Procedures and Results

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

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

The Schwab Funds Family®

Stock Funds

Schwab Institutional Select® S&P 500 Fund
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 Large-Cap Growth Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™

Asset Allocation Funds

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

Bond Funds

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

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ 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®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

³ 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[®] S&P 500 Fund

Annual Report

October 31, 2005

A fund which seeks high total return by tracking the performance of the S&P 500® Index.

In This Report

| | |
|--------------------------------------------------|----|
| Management’s Discussion | 2 |
| Performance | 6 |
| Fund Facts | 7 |
| Fund Expenses | 8 |
| Financial Statements | 9 |
| Financial Notes | 22 |
| Investment Advisory Agreement Approval | 26 |
| Trustees and Officers | 29 |
| Glossary | 33 |

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

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small-cap funds are subject to greater volatility than those in other asset categories.

Dear Shareholder,

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

I take particular pride in the Schwab Funds®. Founded over 15 years ago, they have now grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

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

This commitment and experience is evident in our funds' performance. I'm especially pleased to highlight the strong performance of the Schwab Small-Cap Equity Fund which ranked in the top 2% of its category for the one-year period ended October 31, 2005.¹

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

Sincerely,

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

¹ Source: Lipper Small Cap Core Funds. For the one-year period, rankings were: Select Shares #11 and Investor Shares #12 out of 604 funds. Numbers assume reinvestment of dividends and capital gains over each time period. Lipper, Inc. rankings are based on average total returns not including sales charges.

Management's Discussion for the year ended October 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for the Schwab Institutional Select S&P 500 Fund for the one-year period ended October 31, 2005.

With their market-tracking performance, broad diversification and lower costs, index funds can complement a portfolio of actively managed funds. For example, the Schwab 1000 Index Fund includes the stocks of the largest 1,000 publicly traded companies in the United States. This fund has delivered strong results and is a tax-efficient investment that can serve as the core stock portion of an asset allocation strategy.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. In terms of development, Schwab Funds launched seven new funds in 2005. Among the new funds is the Schwab Large-Cap Growth Fund, which commenced operations on October 3, 2005. This fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion and is actively managed by a team of investment professionals that understands how a disciplined investment strategy can help achieve competitive returns.

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

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black 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.

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



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



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

The Investment Environment and the Fund

Despite a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit all-time highs and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the Fed Funds Target eight consecutive times in the one-year report period. The moves had a limited impact on overall economic growth, due primarily to the record-low level of interest rates from which the increases began.

Despite concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.6%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past few months was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructure in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September. However, a quick action by the federal government to release Strategic Petroleum Reserves and soften oil demand led to a subsequent decline off that peak. While the full economic effect of the hurricanes was unknown at the end of the report period, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in the area.

Another significant event that occurred during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he has not yet been confirmed into office, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Source of Sector Classification: S&P and MSCI.



Tom Brown, an associate portfolio manager of the investment adviser, is responsible for day-to-day co-management of the equity portions of the fund. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

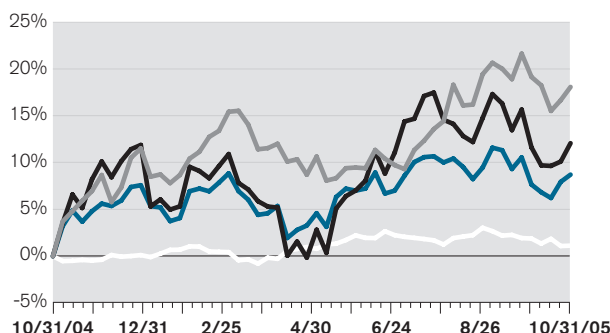
Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks held up well. The S&P 500 Index¹ posted gains of 8.72% for the one-year period ending on October 31, 2005 while the Russell 2000 Index also displayed a positive return of 12.08%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE (Morgan Stanley Capital International, Inc. Europe, Australasia, and Far East) Index also had an impressive return of 18.09% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 1.13%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we were in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

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.

- 8.72% **S&P 500® Index:** measures U.S. large-cap stocks
- 12.08% **Russell 2000® Index:** measures U.S. small-cap stocks
- 18.09% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.13% **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.

¹ 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.

Performance at a Glance

Total return for the 12 months ended 10/31/05

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

**Schwab Institutional Select®
S&P 500 Fund. 8.64%**
Benchmark **8.72%**
Performance Details page 6

The Schwab Institutional Select S&P 500 Fund ended the one-year report period up 8.64%, closely tracking its benchmark, the S&P 500 Index, which was up 8.72%. The fund in this report is an index fund and is designed to track the performance of the S&P 500 stock market index. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses.

Most of the fund's appreciation occurred during the second and third quarter of 2005. Within this fund, the best performing sectors were Utilities and Energy. With the price of crude oil increasing during the period, energy-related stocks were the overall top performers in the fund. Specifically, Exxon Mobil Corp. and Altria Group, Inc. were among the fund's best performing stocks. On the downside, Telecommunication Services and Consumer Discretionary were the worst performing industries and detracted from overall fund returns. Companies such as Pfizer, Inc., Wal-Mart Stores, Inc., and Fannie Mae were among the worst performers.

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. Expenses may be partially absorbed by CSIM and Schwab. Without these reductions, the fund's 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. 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.

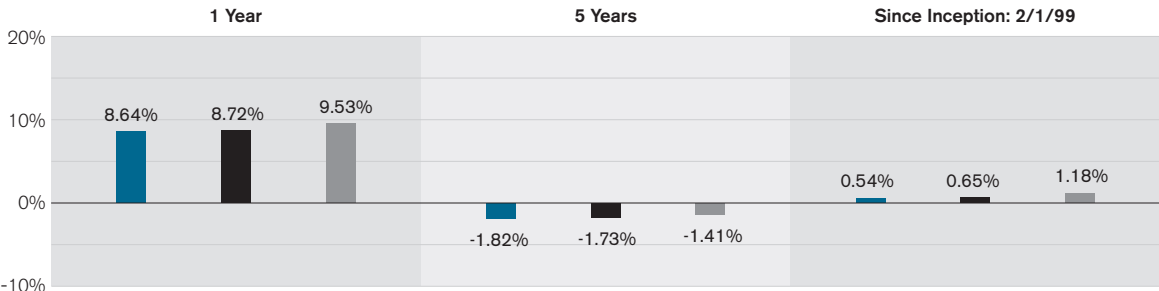
Schwab Institutional Select® S&P 500 Fund

Performance as of 10/31/05

Pre- and Post-Tax Average Annual Total Returns^{1,2}

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



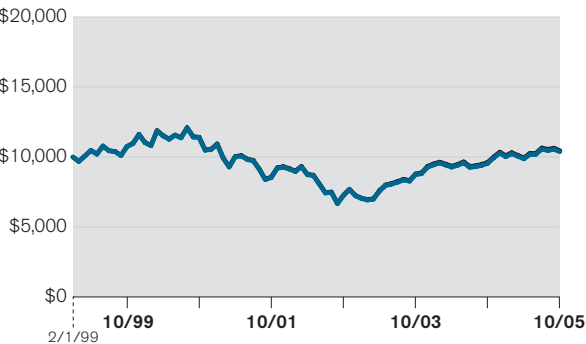
| Total Returns After Tax | 1 Year | 5 Years | Since Inception |
|-------------------------------------|--------|---------|-----------------|
| Pre-Liquidation (still own shares) | 8.38% | 7.38% | -2.22% |
| Post-Liquidation (shares were sold) | 5.94% | 5.25% | -1.74% |

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.

Performance of a Hypothetical \$10,000 Investment²

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

■ \$10,374 Fund
■ \$10,453 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.

¹ 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 10/31/05 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.

² 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 10/31/05

Style Assessment¹



Statistics

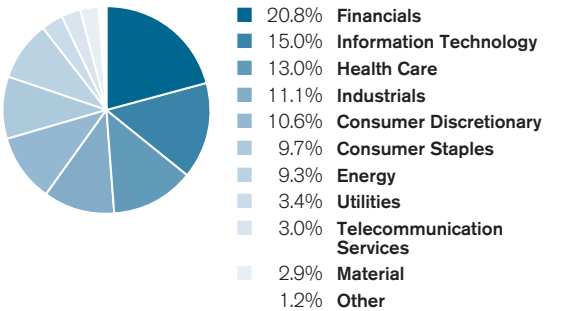
| | |
|----------------------------------------------|----------|
| Number of Holdings | 504 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$88,366 |
| Price/Earnings Ratio (P/E) | 18.0 |
| Price/Book Ratio (P/B) | 2.8 |
| Portfolio Turnover Rate | 3% |
| Minimum Initial Investment ² | \$75,000 |

Top Holdings³

| Security | % of Net Assets |
|--------------------------------------|-----------------|
| 1 General Electric Co. | 3.2% |
| 2 Exxon Mobil Corp. | 3.2% |
| 3 Microsoft Corp. | 2.2% |
| 4 Citigroup, Inc. | 2.1% |
| 5 Procter & Gamble Co. | 1.7% |
| 6 Johnson & Johnson | 1.7% |
| 7 Bank of America Corp. | 1.6% |
| 8 American International Group, Inc. | 1.5% |
| 9 Pfizer, Inc. | 1.4% |
| 10 Altria Group, Inc. | 1.4% |
| Total | 20.0% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

Fund Expenses (unaudited)

Examples for a \$1,000 Investment

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

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

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund 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 ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 5/1/05–10/31/05 |
|----------------------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------|
| Schwab Institutional Select® S&P 500 Fund | | | | |
| Actual Return | 0.10% | \$1,000 | \$1,051.60 | \$0.52 |
| Hypothetical 5% Return | 0.10% | \$1,000 | \$1,024.70 | \$0.51 |

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.
² Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by 365 days of the fiscal year.

Schwab Institutional Select[®]

S&P 500 Fund

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 8.95 | 8.30 | 7.00 | 8.36 | 11.26 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.15 | 0.13 | 0.12 | 0.12 | 0.12 |
| Net realized and unrealized gains or losses | 0.62 | 0.64 | 1.30 | (1.37) | (2.91) |
| Total income or loss from investment operations | 0.77 | 0.77 | 1.42 | (1.25) | (2.79) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.15) | (0.12) | (0.12) | (0.11) | (0.11) |
| Total distributions | (0.15) | (0.12) | (0.12) | (0.11) | (0.11) |
| Net asset value at end of period | 9.57 | 8.95 | 8.30 | 7.00 | 8.36 |
| Total return (%) | 8.64 | 9.36 | 20.65 | (15.18) | (24.95) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 0.10 | 0.15 | 0.15 | 0.15 | 0.15 |
| Gross operating expenses | 0.33 | 0.35 | 0.36 | 0.37 | 0.37 |
| Net investment income | 1.82 | 1.56 | 1.65 | 1.38 | 1.14 |
| Portfolio turnover rate | 3 | 3 | 4 | 12 | 13 |
| Net assets, end of period (\$ x 1,000,000) | 1,246 | 348 | 272 | 203 | 261 |

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|-----------------------------|---------------------------------------------------|---------------------------|----------------------------|
| 98.6% | Common Stock | 1,209,759 | 1,227,996 |
| 1.0% | Short-Term Investment | 12,222 | 12,222 |
| 0.2% | U.S. Treasury Obligations | 2,863 | 2,862 |
| 0.0% | Warrants | — | 8 |
| 99.8% | Total Investments | 1,224,844 | 1,243,088 |
| 3.8% | Collateral Invested for Securities on Loan | 47,258 | 47,258 |
| (3.6)% | Other Assets and Liabilities, Net | | (44,221) |
| 100.0% | Total Net Assets | | 1,246,125 |

Security and Number of Shares **Value**
(\$ x 1,000)

Common Stock 98.6% of net assets

Automobiles & Components 0.6%

| | | |
|------------------------------|---------|--------------|
| Cooper Tire & Rubber Co. | 4,835 | 66 |
| Dana Corp. | 15,581 | 117 |
| Ford Motor Co. | 217,171 | 1,807 |
| ■ General Motors Corp. | 61,643 | 1,689 |
| ■ Goodyear Tire & Rubber Co. | 21,774 | 341 |
| Harley-Davidson, Inc. | 29,867 | 1,479 |
| Johnson Controls, Inc. | 21,642 | 1,473 |
| Visteon Corp. | 17,660 | 147 |
| | | 7,119 |

Banks 7.2%

| | | |
|------------------------------------|---------|--------|
| AmSouth Bancorp. | 40,318 | 1,017 |
| ■ Bank of America Corp. | 455,047 | 19,904 |
| BB&T Corp. | 60,697 | 2,570 |
| Comerica, Inc. | 19,177 | 1,108 |
| Compass Bancshares, Inc. | 14,612 | 712 |
| Countrywide Financial Corp. | 64,002 | 2,033 |
| Fannie Mae | 109,692 | 5,213 |
| Fifth Third Bancorp. | 60,589 | 2,434 |
| First Horizon National Corp. | 13,331 | 516 |
| Freddie Mac | 78,275 | 4,802 |
| ■ Golden West Financial Corp. | 28,064 | 1,648 |
| ■ Huntington Bancshares, Inc. | 27,140 | 631 |
| KeyCorp, Inc. | 48,784 | 1,573 |
| M&T Bank Corp. | 10,548 | 1,135 |
| ■ Marshall & Ilsley Corp. | 23,168 | 995 |
| MGIC Investment Corp. | 10,904 | 646 |
| National City Corp. | 64,578 | 2,081 |
| North Fork Bancorp., Inc. | 51,999 | 1,318 |
| PNC Financial Services Group, Inc. | 33,251 | 2,019 |
| Regions Financial Corp. | 50,508 | 1,644 |
| Sovereign Bancorp, Inc. | 39,709 | 856 |
| SunTrust Banks, Inc. | 39,776 | 2,883 |
| Synovus Financial Corp. | 35,857 | 985 |
| U.S. Bancorp | 204,997 | 6,064 |
| Wachovia Corp. | 176,615 | 8,923 |
| Washington Mutual, Inc. | 108,197 | 4,285 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|
| Wells Fargo & Co. 187,000 | 11,257 |
| Zions Bancorp. 9,628 | 707 |
| | 89,959 |
| Capital Goods 8.6% | |
| 3M Co. 85,910 | 6,527 |
| American Power Conversion Corp. 19,723 | 422 |
| American Standard Cos., Inc. 20,582 | 783 |
| The Boeing Co. 92,885 | 6,004 |
| Caterpillar, Inc. 74,441 | 3,915 |
| Cooper Industries Ltd., Class A 9,948 | 705 |
| Cummins, Inc. 4,741 | 405 |
| ■ Danaher Corp. 29,904 | 1,558 |
| Deere & Co. 26,885 | 1,631 |
| Dover Corp. 23,332 | 910 |
| Eaton Corp. 16,435 | 967 |
| Emerson Electric Co. 47,404 | 3,297 |
| Fluor Corp. 9,510 | 605 |
| General Dynamics Corp. 23,190 | 2,697 |
| ▲① General Electric Co. 1,193,526 | 40,472 |
| Goodrich Corp. 15,867 | 572 |
| Honeywell International, Inc. 96,603 | 3,304 |
| Illinois Tool Works, Inc. 29,477 | 2,498 |
| Ingersoll-Rand Co., Class A 36,904 | 1,395 |
| ITT Industries, Inc. 10,691 | 1,086 |
| L-3 Communications Holdings, Inc. 13,677 | 1,064 |
| Lockheed Martin Corp. 43,814 | 2,653 |
| Masco Corp. 47,332 | 1,349 |
| • Navistar International Corp. 6,882 | 189 |
| Northrop Grumman Corp. 41,639 | 2,234 |
| Paccar, Inc. 18,990 | 1,330 |
| Pall Corp. 13,659 | 357 |
| Parker Hannifin Corp. 13,831 | 867 |
| Raytheon Co. 53,018 | 1,959 |
| Rockwell Automation, Inc. 21,184 | 1,126 |
| Rockwell Collins, Inc. 20,329 | 932 |
| Textron, Inc. 15,334 | 1,105 |
| Tyco International Ltd. 227,305 | 5,999 |
| United Technologies Corp. 111,465 | 5,716 |
| W.W. Grainger, Inc. 8,891 | 596 |
| | 107,229 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------|-----------------------|
| Commercial Services & Supplies 0.9% | |
| • ACCO Brands Corp. 3,478 | 85 |
| • Allied Waste Industries, Inc. 20,673 | 168 |
| • Apollo Group, Inc., Class A 15,836 | 998 |
| Avery Dennison Corp. 10,941 | 620 |
| Cendant Corp. 115,206 | 2,007 |
| Cintas Corp. 14,571 | 591 |
| Equifax, Inc. 15,474 | 533 |
| H&R Block, Inc. 36,134 | 898 |
| • Monster Worldwide, Inc. 14,582 | 478 |
| Pitney Bowes, Inc. 25,108 | 1,057 |
| R.R. Donnelley & Sons Co. 24,705 | 865 |
| Robert Half International, Inc. 19,838 | 732 |
| Waste Management, Inc. 61,904 | 1,827 |
| | 10,859 |
| Consumer Durables & Apparel 1.3% | |
| Black & Decker Corp. 10,243 | 841 |
| Brunswick Corp. 10,580 | 403 |
| Centex Corp. 14,018 | 902 |
| • Coach, Inc. 43,976 | 1,415 |
| D.R. Horton, Inc. 29,593 | 908 |
| ■ Eastman Kodak Co. 30,716 | 673 |
| Fortune Brands, Inc. 15,600 | 1,185 |
| Hasbro, Inc. 21,544 | 406 |
| Jones Apparel Group, Inc. 12,655 | 345 |
| KB Home 8,278 | 541 |
| Leggett & Platt, Inc. 20,296 | 407 |
| Lennar Corp., Class A 14,900 | 828 |
| Liz Claiborne, Inc. 11,848 | 417 |
| Mattel, Inc. 43,987 | 649 |
| Maytag Corp. 8,365 | 144 |
| Newell Rubbermaid, Inc. 32,014 | 736 |
| Nike, Inc., Class B 24,742 | 2,080 |
| Pulte Homes, Inc. 23,648 | 894 |
| Reebok International Ltd. 5,905 | 337 |
| Snap-On, Inc. 6,076 | 219 |
| ■ The Stanley Works 8,830 | 423 |
| VF Corp. 10,675 | 558 |
| Whirlpool Corp. 7,208 | 566 |
| | 15,877 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|----------------------------------------------|-----------------------|
| Diversified Financials 8.1% | | | |
| American Express Co. 140,574 | 6,996 | Halliburton Co. 57,065 | 3,373 |
| • Ameriprise Financial, Inc. 27,554 | 1,026 | Kerr-McGee Corp. 13,156 | 1,119 |
| ▲ The Bank of New York Co., Inc. 87,812 | 2,748 | Kinder Morgan, Inc. 10,477 | 952 |
| The Bear Stearns Cos., Inc. 12,738 | 1,348 | Marathon Oil Corp. 41,324 | 2,486 |
| Capital One Financial Corp. 32,656 | 2,493 | Murphy Oil Corp. 18,000 | 843 |
| ■ The Charles Schwab Corp. 120,050 | 1,825 | • Nabors Industries Ltd. 17,536 | 1,204 |
| CIT Group, Inc. 22,918 | 1,048 | • National-Oilwell Varco, Inc. 18,809 | 1,175 |
| ▲ ④ Citigroup, Inc. 580,162 | 26,560 | Noble Corp. 14,824 | 954 |
| • E*TRADE Financial Corp. 47,197 | 875 | Occidental Petroleum Corp. 44,325 | 3,496 |
| Federated Investors, Inc., Class B 9,880 | 346 | Rowan Cos., Inc. 13,021 | 430 |
| Franklin Resources, Inc. 21,364 | 1,888 | ■ Schlumberger Ltd. 66,053 | 5,996 |
| Goldman Sachs Group, Inc. 51,265 | 6,478 | Sunoco, Inc. 15,610 | 1,163 |
| Janus Capital Group, Inc. 23,873 | 419 | • Transocean, Inc. 37,185 | 2,138 |
| JPMorgan Chase & Co. 397,846 | 14,569 | Valero Energy Corp. 34,524 | 3,633 |
| Lehman Brothers Holdings, Inc. 30,146 | 3,608 | • Weatherford International Ltd. 13,216 | 827 |
| MBNA Corp. 141,295 | 3,613 | Williams Cos., Inc. 64,287 | 1,434 |
| Mellon Financial Corp. 47,565 | 1,507 | XTO Energy, Inc. 39,329 | 1,709 |
| Merrill Lynch & Co., Inc. 104,917 | 6,792 | | 115,972 |
| Moody's Corp. 30,004 | 1,598 | Food & Staples Retailing 2.4% | |
| Morgan Stanley 122,486 | 6,664 | Albertson's, Inc. 39,382 | 989 |
| Northern Trust Corp. 22,091 | 1,184 | Costco Wholesale Corp. 54,506 | 2,636 |
| Principal Financial Group, Inc. 31,995 | 1,588 | CVS Corp. 88,230 | 2,154 |
| SLM Corp. 46,892 | 2,604 | • Kroger Co. 82,258 | 1,637 |
| State Street Corp. 36,080 | 1,993 | Safeway, Inc. 50,409 | 1,172 |
| T. Rowe Price Group, Inc. 13,588 | 890 | Supervalu, Inc. 16,200 | 509 |
| | 100,660 | Sysco Corp. 68,917 | 2,199 |
| Energy 9.3% | | ▲ Wal-Mart Stores, Inc. 277,944 | 13,150 |
| Amerada Hess Corp. 9,338 | 1,168 | Walmart Co. 111,338 | 5,058 |
| Anadarko Petroleum Corp. 26,685 | 2,421 | | 29,504 |
| Apache Corp. 36,397 | 2,323 | Food Beverage & Tobacco 4.9% | |
| Baker Hughes, Inc. 38,476 | 2,115 | ▲ ⑩ Altria Group, Inc. 235,047 | 17,640 |
| BJ Services Co. 37,452 | 1,301 | Anheuser-Busch Cos., Inc. 84,602 | 3,491 |
| Burlington Resources, Inc. 42,926 | 3,100 | Archer-Daniels-Midland Co. 76,572 | 1,866 |
| ChevronTexaco Corp. 255,042 | 14,555 | Brown-Forman Corp., Class B 9,572 | 606 |
| ConocoPhillips 155,878 | 10,191 | Campbell Soup Co. 20,442 | 595 |
| Devon Energy Corp. 51,507 | 3,110 | The Coca-Cola Co. 244,709 | 10,469 |
| El Paso Corp. 72,589 | 861 | Coca-Cola Enterprises, Inc. 38,204 | 722 |
| EOG Resources, Inc. 26,646 | 1,806 | ConAgra Foods, Inc. 56,401 | 1,312 |
| ▲ ② Exxon Mobil Corp. 714,084 | 40,089 | • Constellation Brands, Inc., Class A 20,852 | 491 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------------|-----------------------|
| General Mills, Inc. 40,221 | 1,941 |
| H.J. Heinz Co. 38,123 | 1,353 |
| Hershey Foods Corp. 20,786 | 1,181 |
| Kellogg Co. 37,678 | 1,664 |
| McCormick & Co., Inc. 14,714 | 446 |
| Molson Coors Brewing Co., Class B 6,288 | 388 |
| The Pepsi Bottling Group, Inc. 20,642 | 587 |
| PepsiCo, Inc. 189,109 | 11,173 |
| ■ Reynolds American, Inc. 9,148 | 778 |
| Sara Lee Corp. 85,714 | 1,530 |
| Tyson Foods, Inc., Class A 29,700 | 529 |
| UST, Inc. 17,722 | 733 |
| Wm. Wrigley Jr. Co. 19,727 | 1,371 |
| | 60,866 |

Health Care Equipment & Services 5.1%

| | |
|-------------------------------------------------------|-------|
| Aetna, Inc. 32,756 | 2,901 |
| AmerisourceBergen Corp. 12,026 | 917 |
| Bausch & Lomb, Inc. 6,352 | 471 |
| Baxter International, Inc. 70,264 | 2,686 |
| Becton Dickinson & Co. 28,496 | 1,446 |
| Biomet, Inc. 27,430 | 955 |
| • Boston Scientific Corp. 64,602 | 1,623 |
| C.R. Bard, Inc. 12,297 | 767 |
| Cardinal Health, Inc. 48,078 | 3,005 |
| • Caremark Rx, Inc. 50,760 | 2,660 |
| CIGNA Corp. 14,619 | 1,694 |
| • Coventry Health Care, Inc. 18,450 | 996 |
| • Express Scripts, Inc. 17,097 | 1,289 |
| • Fisher Scientific International, Inc. 13,124 | 742 |
| Guidant Corp. 37,073 | 2,336 |
| HCA, Inc. 49,548 | 2,388 |
| Health Management Associates, Inc., Class A 26,389 | 565 |
| • Hospira, Inc. 19,087 | 761 |
| • Humana, Inc. 19,169 | 851 |
| IMS Health, Inc. 24,258 | 564 |
| • Laboratory Corp. of America Holdings 15,299 | 738 |
| Manor Care, Inc. 7,997 | 298 |
| McKesson Corp. 36,539 | 1,660 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------|-----------------------|
| • Medco Health Solutions, Inc. 34,203 | 1,932 |
| Medtronic, Inc. 137,159 | 7,771 |
| • Millipore Corp. 6,299 | 386 |
| • Patterson Cos., Inc. 9,630 | 398 |
| PerkinElmer, Inc. 15,885 | 351 |
| Quest Diagnostics 19,830 | 926 |
| • St. Jude Medical, Inc. 41,368 | 1,989 |
| Stryker Corp. 31,950 | 1,312 |
| • Tenet Healthcare Corp. 50,180 | 423 |
| • Thermo Electron Corp. 17,692 | 534 |
| UnitedHealth Group, Inc. 143,051 | 8,281 |
| • Waters Corp. 12,776 | 462 |
| • WellPoint, Inc. 68,839 | 5,141 |
| • Zimmer Holdings, Inc. 27,431 | 1,749 |
| | 63,968 |

Hotels Restaurants & Leisure 1.4%

| | |
|-----------------------------------------------------|---------------|
| Carnival Corp. 47,625 | 2,366 |
| Darden Restaurants, Inc. 15,526 | 503 |
| Harrah's Entertainment, Inc. 19,882 | 1,202 |
| Hilton Hotels Corp. 41,358 | 804 |
| International Game Technology 37,483 | 993 |
| Marriott International, Inc., Class A 19,388 | 1,156 |
| McDonald's Corp. 140,376 | 4,436 |
| • Starbucks Corp. 84,930 | 2,402 |
| Starwood Hotels & Resorts Worldwide, Inc. 23,492 | 1,373 |
| Wendy's International, Inc. 12,297 | 574 |
| Yum! Brands, Inc. 32,983 | 1,678 |
| | 17,487 |

Household & Personal Products 2.4%

| | |
|-----------------------------------|---------------|
| Alberto-Culver Co., Class B 7,698 | 334 |
| Avon Products, Inc. 51,431 | 1,388 |
| Clorox Co. 16,787 | 909 |
| Colgate-Palmolive Co. 56,938 | 3,015 |
| Kimberly-Clark Corp. 53,483 | 3,040 |
| ⑤ Procter & Gamble Co. 389,066 | 21,784 |
| | 30,470 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------|-----------------------|--------------------------------------------------|-----------------------|
| Insurance 4.7% | | | |
| ACE Ltd. 35,352 | 1,842 | Georgia-Pacific Corp. 28,371 | 923 |
| ▲ AFLAC, Inc. 56,652 | 2,707 | • Hercules, Inc. 11,769 | 131 |
| ▲ The Allstate Corp. 73,900 | 3,901 | International Flavors & Fragrances, Inc. 9,567 | 316 |
| AMBAC Financial Group, Inc. 11,620 | 824 | International Paper Co. 53,511 | 1,561 |
| ⑧ American International Group, Inc. 293,902 | 19,045 | Louisiana-Pacific Corp. 13,578 | 338 |
| AON Corp. 36,441 | 1,233 | MeadWestvaco Corp. 21,669 | 568 |
| Chubb Corp. 22,477 | 2,090 | Monsanto Co. 30,789 | 1,940 |
| Cincinnati Financial Corp. 17,860 | 760 | Newmont Mining Corp. 48,679 | 2,074 |
| Hartford Financial Services Group, Inc. 33,784 | 2,694 | ■ Nucor Corp. 17,402 | 1,042 |
| Jefferson-Pilot Corp. 14,533 | 798 | • Pactiv Corp. 15,714 | 310 |
| Lincoln National Corp. 19,875 | 1,006 | Phelps Dodge Corp. 10,859 | 1,308 |
| Loews Corp. 17,246 | 1,603 | PPG Industries, Inc. 18,769 | 1,126 |
| Marsh & McLennan Cos., Inc. 58,025 | 1,691 | Praxair, Inc. 37,117 | 1,834 |
| MBIA, Inc. 14,779 | 861 | Rohm & Haas Co. 20,838 | 907 |
| ▲ Metlife, Inc. 85,022 | 4,201 | • Sealed Air Corp. 9,141 | 460 |
| The Progressive Corp. 21,629 | 2,505 | Sigma-Aldrich Corp. 7,582 | 483 |
| Prudential Financial, Inc. 57,718 | 4,201 | Temple-Inland, Inc. 13,588 | 500 |
| Safeco Corp. 14,573 | 812 | United States Steel Corp. 12,511 | 457 |
| The St. Paul Travelers Cos., Inc. 76,062 | 3,425 | Vulcan Materials Co. 12,091 | 786 |
| Torchmark Corp. 12,278 | 649 | Weyerhaeuser Co. 27,520 | 1,743 |
| ■ UnumProvident Corp. 31,903 | 647 | | 35,782 |
| XL Capital Ltd., Class A 15,259 | 977 | | |
| | 58,472 | | |
| Materials 2.9% | | Media 3.4% | |
| Air Products & Chemicals, Inc. 24,232 | 1,387 | ■ Clear Channel Communications, Inc. 55,788 | 1,697 |
| Alcoa, Inc. 95,047 | 2,309 | ▲ Comcast Corp., Class A 248,924 | 6,928 |
| Allegheny Technologies, Inc. 9,728 | 279 | ■ Dow Jones & Co., Inc. 6,435 | 218 |
| Ashland, Inc. 7,400 | 396 | Gannett Co., Inc. 27,075 | 1,697 |
| Ball Corp. 12,062 | 475 | • Interpublic Group of Cos., Inc. 45,233 | 467 |
| ▲ Bemis Co. 11,310 | 299 | Knight-Ridder, Inc. 7,235 | 386 |
| The Dow Chemical Co. 104,716 | 4,802 | The McGraw-Hill Cos., Inc. 42,318 | 2,071 |
| E.I. du Pont de Nemours & Co. 108,560 | 4,526 | Meredith Corp. 4,693 | 234 |
| Eastman Chemical Co. 8,730 | 461 | ■ New York Times Co., Class A 15,945 | 434 |
| Ecolab, Inc. 20,857 | 690 | • News Corp, Inc., Class A 271,296 | 3,866 |
| Engelhard Corp. 12,655 | 344 | Omnicom Group, Inc. 20,061 | 1,664 |
| Freeport-McMoran Copper & Gold, Inc., Class B 20,384 | 1,007 | Time Warner, Inc. 525,606 | 9,372 |
| | | Tribune Co. 29,227 | 921 |
| | | • Univision Communications, Inc., Class A 25,381 | 663 |
| | | Viacom, Inc., Class B 180,065 | 5,577 |
| | | The Walt Disney Co. 225,819 | 5,503 |
| | | | 41,698 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------|-----------------------|
| Pharmaceuticals & Biotechnology 7.8% | |
| ▲ Abbott Laboratories 172,193 | 7,413 |
| Allergan, Inc. 14,872 | 1,328 |
| ▲ Amgen, Inc. 138,623 | 10,502 |
| Applied Biosystems Group — Applera Corp. 23,122 | 561 |
| • Biogen Idec, Inc. 37,570 | 1,526 |
| Bristol-Myers Squibb Co. 216,661 | 4,587 |
| • Chiron Corp. 12,070 | 533 |
| Eli Lilly & Co. 125,602 | 6,254 |
| • Forest Laboratories, Inc. 37,145 | 1,408 |
| • Genzyme Corp. 29,073 | 2,102 |
| • Gilead Sciences, Inc. 51,175 | 2,418 |
| ⑥ Johnson & Johnson 336,892 | 21,096 |
| • King Pharmaceuticals, Inc. 29,058 | 448 |
| • Medimmune, Inc. 26,512 | 927 |
| Merck & Co., Inc. 248,656 | 7,017 |
| Mylan Laboratories, Inc. 27,778 | 534 |
| ▲ ⑨ Pfizer, Inc. 827,904 | 17,999 |
| Schering-Plough Corp. 166,202 | 3,381 |
| • Watson Pharmaceuticals, Inc. 12,111 | 419 |
| Wyeth 151,892 | 6,768 |
| | 97,221 |

Real Estate 0.7%

| | |
|----------------------------------------------------------|--------------|
| Apartment Investment & Management Co., Class A 10,023 | 385 |
| Archstone-Smith Trust 23,634 | 959 |
| Equity Office Properties Trust 46,071 | 1,419 |
| Equity Residential 33,265 | 1,306 |
| Plum Creek Timber Co., Inc. 20,218 | 787 |
| ProLogis 27,195 | 1,169 |
| Public Storage, Inc. 9,100 | 602 |
| Simon Property Group, Inc. 20,453 | 1,465 |
| Vornado Realty Trust 13,000 | 1,053 |
| | 9,145 |

Retailing 3.8%

| | |
|-----------------------------------|-------|
| • Autonation, Inc. 24,240 | 482 |
| • AutoZone, Inc. 5,813 | 470 |
| ■ Bed, Bath & Beyond, Inc. 34,163 | 1,384 |
| Best Buy Co., Inc. 45,850 | 2,029 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------|-----------------------|
| • Big Lots, Inc. 11,962 | 139 |
| Circuit City Stores, Inc. 18,626 | 331 |
| Dillards, Inc., Class A 5,656 | 117 |
| Dollar General Corp. 32,405 | 630 |
| • eBay, Inc. 131,817 | 5,220 |
| Family Dollar Stores, Inc. 17,564 | 389 |
| Federated Department Stores, Inc. 29,821 | 1,830 |
| The Gap, Inc. 81,609 | 1,410 |
| Genuine Parts Co. 20,152 | 894 |
| ■ Home Depot, Inc. 233,707 | 9,591 |
| J.C. Penney Co., Inc. Holding Co. 28,593 | 1,464 |
| • Kohl's Corp. 35,698 | 1,718 |
| Limited Brands, Inc. 38,388 | 768 |
| Lowe's Cos., Inc. 84,205 | 5,117 |
| ■ Nordstrom, Inc. 26,266 | 910 |
| • Office Depot, Inc. 37,040 | 1,020 |
| OfficeMax, Inc. 6,920 | 194 |
| • RadioShack Corp. 14,815 | 328 |
| • Sears Holdings Corp. 11,104 | 1,335 |
| The Sherwin-Williams Co. 13,279 | 565 |
| Staples, Inc. 82,557 | 1,877 |
| Target Corp. 96,291 | 5,363 |
| Tiffany & Co. 15,760 | 621 |
| TJX Cos., Inc. 51,271 | 1,104 |
| | 47,300 |

Semiconductors & Semiconductor Equipment 3.0%

| | |
|----------------------------------------------------|--------|
| • Advanced Micro Devices, Inc. 43,089 | 1,001 |
| • Altera Corp. 43,312 | 721 |
| Analog Devices, Inc. 41,252 | 1,435 |
| Applied Materials, Inc. 182,786 | 2,994 |
| • Applied Micro Circuits Corp. 29,823 | 73 |
| • Broadcom Corp., Class A 31,880 | 1,354 |
| • Freescale Semiconductor, Inc., Class B 43,786 | 1,046 |
| Intel Corp. 690,051 | 16,216 |
| KLA-Tencor Corp. 21,435 | 992 |
| Linear Technology Corp. 34,439 | 1,144 |
| • LSI Logic Corp. 46,905 | 380 |
| Maxim Integrated Products, Inc. 35,773 | 1,241 |
| • Micron Technology, Inc. 71,069 | 923 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------------------|-----------------------|--------------------------------------------------|-----------------------|
| National Semiconductor Corp. 39,522 | 894 | Technology Hardware & Equipment 6.8% | |
| • Novellus Systems, Inc. 14,503 | 317 | • ADC Telecommunications, Inc. 12,647 | 221 |
| • Nvidia Corp. 18,485 | 620 | • Agilent Technologies, Inc. 56,000 | 1,793 |
| • PMC — Sierra, Inc. 19,027 | 135 | • Andrew Corp. 17,135 | 182 |
| • Teradyne, Inc. 21,341 | 289 | • Apple Computer, Inc. 93,442 | 5,381 |
| Texas Instruments, Inc. 182,039 | 5,197 | • Avaya, Inc. 51,675 | 595 |
| Xilinx, Inc. 38,199 | 915 | • CIENA Corp. 75,816 | 180 |
| | 37,887 | • Cisco Systems, Inc. 709,702 | 12,384 |
| Software & Services 5.2% | | • Comverse Technology, Inc. 23,615 | 593 |
| Adobe Systems, Inc. 53,360 | 1,721 | • Corning, Inc. 169,373 | 3,403 |
| • Affiliated Computer Services, Inc., Class A 13,570 | 734 | • Dell, Inc. 263,564 | 8,402 |
| Autodesk, Inc. 26,163 | 1,181 | • EMC Corp. 272,301 | 3,801 |
| Automatic Data Processing, Inc. 63,561 | 2,966 | ■ Gateway, Inc. 19,033 | 54 |
| • BMC Software, Inc. 24,239 | 475 | Hewlett-Packard Co. 322,807 | 9,051 |
| • Citrix Systems, Inc. 20,216 | 557 | International Business Machines Corp. 180,729 | 14,798 |
| Computer Associates International, Inc. 57,558 | 1,610 | • Jabil Circuit, Inc. 19,634 | 586 |
| • Computer Sciences Corp. 21,233 | 1,088 | • JDS Uniphase Corp. 179,546 | 377 |
| • Compuware Corp. 46,935 | 380 | • Lexmark International, Inc., Class A 12,586 | 523 |
| • Convergys Corp. 14,914 | 242 | ■ Lucent Technologies, Inc. 505,303 | 1,440 |
| • Electronic Arts, Inc. 33,390 | 1,899 | Molex, Inc. 18,247 | 462 |
| Electronic Data Systems Corp. 59,201 | 1,380 | Motorola, Inc. 279,624 | 6,196 |
| First Data Corp. 84,833 | 3,432 | • NCR Corp. 21,708 | 656 |
| • Fiserv, Inc. 21,665 | 946 | ■ Network Appliance, Inc. 39,858 | 1,090 |
| • Intuit, Inc. 20,267 | 931 | • QLogic Corp. 9,584 | 289 |
| • Mercury Interactive Corp. 9,156 | 319 | Qualcomm, Inc. 184,652 | 7,342 |
| ▲ ③ Microsoft Corp. 1,043,397 | 26,815 | • Sanmina — SCI Corp. 55,323 | 202 |
| ■ Novell, Inc. 46,766 | 356 | Scientific-Atlanta, Inc. 17,907 | 635 |
| • Oracle Corp. 476,531 | 6,043 | • Soletron Corp. 116,359 | 411 |
| • Parametric Technology Corp. 34,886 | 227 | • Sun Microsystems, Inc. 370,889 | 1,484 |
| Paychex, Inc. 38,701 | 1,500 | Symbol Technologies, Inc. 25,521 | 212 |
| Sabre Holdings Corp., Class A 13,600 | 266 | Tektronix, Inc. 9,117 | 209 |
| Siebel Systems, Inc. 56,335 | 583 | • Tellabs, Inc. 52,900 | 506 |
| • Symantec Corp. 133,679 | 3,188 | ■ Xerox Corp. 104,402 | 1,417 |
| • Unisys Corp. 35,101 | 179 | | 84,875 |
| • Yahoo! Inc. 138,174 | 5,108 | Telecommunication Services 3.0% | |
| | 64,126 | Alltel Corp. 42,837 | 2,650 |
| | | AT&T Corp. 90,128 | 1,783 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------|-----------------------|
| BellSouth Corp. 206,021 | 5,361 |
| CenturyTel, Inc. 14,338 | 469 |
| Citizens Communications Co. 37,138 | 454 |
| • Qwest Communications International, Inc. 178,255 | 777 |
| SBC Communications, Inc. 371,118 | 8,851 |
| Sprint Corp. (FON Group) 329,427 | 7,679 |
| Verizon Communications, Inc. 313,171 | 9,868 |
| | 37,892 |
| Transportation 1.7% | |
| Burlington Northern Santa Fe Corp. 41,017 | 2,546 |
| CSX Corp. 24,936 | 1,142 |
| FedEx Corp. 32,939 | 3,028 |
| Norfolk Southern Corp. 47,539 | 1,911 |
| Ryder Systems, Inc. 6,730 | 267 |
| Southwest Airlines Co. 76,364 | 1,223 |
| Union Pacific Corp. 28,661 | 1,983 |
| United Parcel Service, Inc., Class B 125,051 | 9,121 |
| | 21,221 |
| Utilities 3.4% | |
| • The AES Corp. 75,566 | 1,201 |
| • Allegheny Energy, Inc. 19,144 | 541 |
| Ameren Corp. 23,589 | 1,241 |
| American Electric Power Co., Inc. 44,677 | 1,696 |
| ■ Calpine Corp. 56,767 | 135 |
| Centerpoint Energy, Inc. 33,944 | 449 |
| Cinergy Corp. 21,683 | 865 |
| • CMS Energy Corp. 26,365 | 393 |
| ■ Consolidated Edison, Inc. 27,438 | 1,248 |
| Constellation Energy Group, Inc. 19,365 | 1,061 |
| Dominion Resources, Inc. 37,649 | 2,864 |
| DTE Energy Co. 19,024 | 822 |
| Duke Energy Corp. 104,502 | 2,767 |
| ■ Dynegy, Inc., Class A 34,677 | 154 |
| Edison International 38,554 | 1,687 |
| Entergy Corp. 23,573 | 1,667 |
| Exelon Corp. 75,290 | 3,917 |
| FirstEnergy Corp. 38,764 | 1,841 |
| FPL Group, Inc. 43,585 | 1,877 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------|-----------------------|
| KeySpan Corp. 18,499 | 640 |
| Nicor, Inc. 5,711 | 224 |
| NiSource, Inc. 29,263 | 692 |
| Peoples Energy Corp. 4,000 | 149 |
| PG&E Corp. 41,359 | 1,505 |
| Pinnacle West Capital Corp. 11,724 | 490 |
| PPL Corp. 43,320 | 1,358 |
| Progress Energy, Inc. 27,106 | 1,182 |
| Public Service Enterprise Group, Inc. 26,893 | 1,691 |
| Sempra Energy 28,248 | 1,251 |
| The Southern Co. 81,041 | 2,836 |
| TECO Energy, Inc. 24,885 | 431 |
| TXU Corp. 27,090 | 2,729 |
| Xcel Energy, Inc. 43,833 | 803 |
| | 42,407 |

Warrants

0.0% of net assets

Technology Hardware & Equipment 0.0%

- Lucent Technologies, Inc.
Expires 12/10/07 11,390 **8**

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

Short-Term Investment

1.0% of net assets

| | | |
|------------------------------------------|--------|---------------|
| Wachovia Bank, Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 12,222 | 12,222 |

U.S. Treasury Obligations

0.2% of net assets

| | | |
|-----------------------|-------|--------------|
| ▲ U.S. Treasury Bills | | |
| 3.35%-3.47%, 12/15/05 | 2,875 | 2,862 |

End of investments.

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

| |
|---------------------------------------------------|
| Collateral Invested for Securities on Loan |
| 3.8% of net assets |

| | |
|------------------------------------------------------|---------------|
| Short-Term Investment 3.8% | |
| Securities Lending Investments Fund 47,258,038 | 47,258 |

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 10/31/05. All numbers x \$1,000 except number of contracts.

| Futures Contracts | | | |
|------------------------------------------------|------------------------|-------------------|----------------------|
| | Number of Contracts | Contract Value | Unrealized Losses |
| S&P 500 Index e-mini, Long Expires 12/16/05 | 257 | 15,546 | (96) |

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------------------|------------------|
| Investments, at value (including \$46,290 of securities on loan) | 1,243,088 |
| Collateral invested for securities on loan | 47,258 |
| Receivables: | |
| Fund shares sold | 2,206 |
| Interest | 1 |
| Dividends | 1,108 |
| Due from brokers for futures | 83 |
| Reimbursement from transfer agent and shareholder service agent | 8 |
| Income from securities on loan | 4 |
| Prepaid expenses | 16 |
| Total assets | 1,293,772 |

Liabilities

| | |
|--------------------------------------------|---------------|
| Collateral invested for securities on loan | 47,258 |
| Payables: | |
| Fund shares redeemed | 256 |
| Interest expense | 1 |
| Accrued expenses | 132 |
| Total liabilities | 47,647 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 1,293,772 |
| Total liabilities | 47,647 |
| Net assets | \$1,246,125 |

Net Assets by Source

| | |
|-------------------------------------------|-----------|
| Capital received from investors | 1,266,858 |
| Net investment income not yet distributed | 13,237 |
| Net realized capital losses | (52,118) |
| Net unrealized capital gains | 18,148 |

Net Asset Value (NAV)

| Net Assets | ÷ | Shares Outstanding | = | NAV |
|-------------------|----------|---------------------------|----------|------------|
| \$1,246,125 | | 130,210 | | \$9.57 |

Unless stated, all numbers x 1,000.

The fund paid \$1,224,844 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$893,551 |
| Sales/maturities | \$27,257 |

The fund's total security transactions with other Schwab Funds® during the period were \$488,507.

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio Cost | \$1,230,896 |
| Net unrealized gains and losses: | |
| Gains | \$124,970 |
| Losses | + (112,778) |
| | \$12,192 |

Net undistributed earnings:

| | |
|-------------------------|----------|
| Ordinary income | \$13,237 |
| Long-term capital gains | \$— |

Capital losses utilized \$1,133

Unused capital losses:

| | |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount |
| 2009 | \$16,907 |
| 2010 | 27,646 |
| 2011 | + 1,609 |
| | \$46,162 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|---------------|
| Dividends | \$15,654 |
| Interest | 669 |
| Securities on loan | + 65 |
| Total investment income | 16,388 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|--------------|
| Net realized losses on investments | (3,290) |
| Net realized gains on futures contracts | + 2,664 |
| Net realized losses | (626) |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------|---------------|
| Net unrealized gains on investments | 24,636 |
| Net unrealized losses on futures contracts | + (309) |
| Net unrealized gains | 24,327 |

Expenses

| | |
|---------------------------------------------|------------|
| Investment adviser and administrator fees | 1,516 |
| Transfer agent and shareholder service fees | 852 |
| Trustees' fees | 10 |
| Custodian fees | 87 |
| Portfolio accounting fees | 109 |
| Professional fees | 29 |
| Registration fees | 133 |
| Shareholder reports | 41 |
| Interest expense | 1 |
| Other expenses | + 24 |
| Total expenses | 2,802 |
| Expense reduction | - 1,949 |
| Net expenses | 853 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 16,388 |
| Net expenses | - 853 |
| Net investment income | 15,535 |
| Net realized losses | (626) |
| Net unrealized gains | + 24,327 |
| Increase in net assets from operations | \$39,236 |

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 \$1,516 from the investment adviser (CSIM) and \$433 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 gain on investments of \$23,701.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04-10/31/05 | 11/1/03-10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$15,535 | \$4,771 |
| Net realized losses | (626) | (46) |
| Net unrealized gains | + 24,327 | 21,386 |
| Increase in net assets from operations | 39,236 | 26,111 |

Distributions Paid

| | | |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | \$6,241 | \$3,944 |
|--------------------------------------|----------------|----------------|

Transactions in Fund Shares

| | 11/1/04-10/31/05 | | 11/1/03-10/31/04 | |
|----------------------------------------|------------------|------------------|------------------|-----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 102,956 | \$975,330 | 13,048 | \$114,347 |
| Shares reinvested | 537 | 4,985 | 371 | 3,113 |
| Shares redeemed | + (12,169) | (115,050) | (7,241) | (63,271) |
| Net transactions in fund shares | 91,324 | \$865,265 | 6,178 | \$54,189 |

Shares Outstanding and Net Assets

| | 11/1/04-10/31/05 | | 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 | + 91,324 | 898,260 | 6,178 | 76,356 |
| End of period | 130,210 | \$1,246,125 | 38,886 | \$347,865 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 99% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$6,241 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$6,241 |
| Long-term capital gains | \$- |

Prior period

| | |
|-------------------------|---------|
| 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.

| | |
|-----------------------|------|
| Current period | \$40 |
| Prior period | \$15 |

Dollar amounts are net of the redemption proceeds.

Includes distributable net investment income in the amount of \$13,237 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 | 16.8% |
| Growth Portfolio | 12.5% |
| Balanced Portfolio | 6.8% |

Financial Notes

Business Structure of the Funds

The fund 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 fund in this report and its trust.

The fund offers 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 fund's investments are described earlier in this report. However, there are certain other fund operations and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund pays dividends from net investment income and makes distributions from net capital gains once a year.

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

Because futures carry inherent risks, the 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. The fund records the change in market value of futures, and also the change in the amount of margin deposit required ("due to/from broker").

The Trust and its Funds

This list shows all of the funds included in Schwab Capital Trust. The fund discussed in this report is highlighted.

Schwab Capital Trust organized May 7, 1993

Schwab S&P 500 Index Fund

Schwab Institutional Select S&P 500 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 Large-Cap Growth Fund

Schwab Small-Cap Equity Fund

Schwab Hedged Equity Fund

Schwab Financial Services Fund

Schwab Health Care Fund

Schwab Technology Fund

Schwab Target 2010 Fund

Schwab Target 2020 Fund

Schwab Target 2030 Fund

Schwab Target 2040 Fund

Schwab Retirement Income Fund

The fund may loan securities to certain brokers, dealers and other financial institutions who pay the fund negotiated fees. The fund receives 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. If the value of the collateral falls below 100%, it will be adjusted the following day.

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has 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 fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund’s Statement of Operations.

The fund may engage in certain transactions involving related parties. For instance, the fund may own shares of The Charles Schwab Corporation because that company is included in its index.

The fund 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 fund 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 they did pay the non-interested persons (independent trustees), as noted in the fund’s Statement of Operations.

The fund may borrow money from banks and custodians. The fund 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 fund pays interest on the amounts it borrows at rates that are negotiated periodically.

| Fund | Amount outstanding at 10/31/05 (\$ × 1,000) | Average borrowing* (\$ × 1,000) | Weighted average interest rate* (%) |
|------------------------------------------|---------------------------------------------|---------------------------------|-------------------------------------|
| Schwab Institutional Select S&P 500 Fund | — | 781 | 3.91 |

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

The fund intends to meet federal income and excise tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year. As long as the 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 fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund.

In addition, in the normal course of business the fund enters into contracts with its vendors and others that provide general indemnifications. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the fund. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values the securities in its portfolio every business day. The fund uses 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 the 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:** open contracts are valued at their settlement prices as of the close of their exchanges. When the fund closes out a futures position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.
- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

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

Dividends and distributions from portfolio securities are recorded on the date they are effective (the ex-dividend date), although the fund records 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.

Expenses that are specific to the fund are charged directly to the 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.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the 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.

Report of registered independent public accounting firm

To the Board of Trustees and Shareholders of:

Schwab Institutional Select S&P 500 Fund

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statement of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Institutional Select S&P 500 Fund (one of the portfolios constituting Schwab Capital Trust, hereafter referred to as the "Fund") at October 31, 2005, the results of operations for the year then ended, the changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at October 31, 2005 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, CA

December 16, 2005

Investment Advisory Agreement Approval

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

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Capital Trust (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, operating as of December 31 of the previous year, including the Schwab Institutional Select S&P 500 Fund, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that

relates to fund operations and fund performance. The trustees also receive memoranda from counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from their counsel, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

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

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

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

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

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

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

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

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

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

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

Trustees and Officers

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

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

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

| Independent Trustees | | |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
| Mariann Byerwalter 1960 | 2000 (all trusts). | Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children’s Hospital; Director, Pacific Life Insurance Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ² <i>Until 2001:</i> Stanford University, Special Advisor to the President. <i>From 1996-2001:</i> Stanford University, Vice President of Business Affairs, Chief Financial Officer. |
| Donald F. Dorward 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> Executive Vice President, Managing Director, Grey Advertising San Francisco. <i>Until 1996:</i> President, Chief Executive Officer, Allen & Dorward Advertising. |

¹ 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.

² This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Independent Trustees continued

| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Hasler 1941 | 2000 (all trusts). | <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Soletron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ³ |
| Robert G. Holmes 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm). |
| Gerald B. Smith 1950 | 2000 (all trusts). | <i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy). |
| Donald R. Stephens 1938 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust). |
| Michael W. Wilsey 1943 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments). |

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Interested Trustees

| Name and Year of Birth | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charles R. Schwab ⁴ 1937 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art. |
| Randall W. Merk ⁴ 1954 | Trustee, 2005 (all trusts). | Executive Vice President and President, Asset Management Products & Services Enterprise, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (6/01 to 8/02); Chief Investment Officer, Fixed, American Century Companies, Inc. (1/97 to 6/01). |

Officers of the Trust

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|--------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Dilsaver 1955 | President, Chief Executive Officer (all trusts). | Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 1955 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|---------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kimon Daifotis 1959 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 1963 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 1960 | Chief Compliance Officer (all trusts). | Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc. |
| Koji E. Felton 1961 | Secretary (all trusts). | Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco. |
| George Pereira 1964 | Treasurer, Principal Financial Officer (all trusts) | Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. |

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

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.

Internet¹

www.schwab.com

Schwab by Phone™²

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

TeleBroker®

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

Mail

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

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

Proxy Voting Policies, Procedures and Results

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

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

The Schwab Funds Family®

Stock Funds

Schwab Institutional Select® S&P 500 Fund
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 Large-Cap Growth Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™

Asset Allocation Funds

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

Bond Funds

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

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ 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®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

³ 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

This report is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.

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MFR14310-06

Schwab MarketTrack Portfolios[®]

Annual Report

October 31, 2005

Schwab MarketTrack
All Equity Portfolio[™]

Schwab MarketTrack
Growth Portfolio[™]

Schwab MarketTrack
Balanced Portfolio[™]

Schwab MarketTrack
Conservative Portfolio[™]

*Four portfolios that combine the power of indexing
with the benefits of asset allocation.*

In This Report

| | |
|-----------------------------------|---|
| Management's Discussion | 2 |
|-----------------------------------|---|

Performance and Fund Facts

| | |
|--------------------------------------------------|----|
| Schwab MarketTrack All Equity Portfolio™ | 7 |
| Schwab MarketTrack Growth Portfolio™ | 9 |
| Schwab MarketTrack Balanced Portfolio™ | 11 |
| Schwab MarketTrack Conservative Portfolio™ . . . | 13 |

| | |
|-------------------------|----|
| Fund Expenses | 15 |
|-------------------------|----|

Financial Statements

| | |
|--------------------------------------------------|----|
| Schwab MarketTrack All Equity Portfolio™ | 16 |
| Schwab MarketTrack Growth Portfolio™ | 21 |
| Schwab MarketTrack Balanced Portfolio™ | 33 |
| Schwab MarketTrack Conservative Portfolio™ . . . | 45 |

| | |
|---------------------------|----|
| Financial Notes | 57 |
|---------------------------|----|

| | |
|--------------------------------------------------|----|
| Investment Advisory Agreement Approval | 62 |
|--------------------------------------------------|----|

| | |
|---------------------------------|----|
| Trustees and Officers | 65 |
|---------------------------------|----|

| | |
|--------------------|----|
| Glossary | 69 |
|--------------------|----|

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

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small-cap funds are subject to greater volatility than those in other asset categories.

Dear Shareholder,

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

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have now grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

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

This commitment and experience is evident in our funds' performance. I'm especially pleased to highlight the strong performance of the Schwab Small-Cap Equity Fund which ranked in the top 2% of its category for the one-year period ended October 31, 2005.¹

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

Sincerely,

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

¹ Source: Lipper Small Cap Core Funds. For the one-year period, rankings were: Select Shares #11 and Investor Shares #12 out of 604 funds. Numbers assume reinvestment of dividends and capital gains over each time period. Lipper, Inc. rankings are based on average total returns not including sales charges.

Management's Discussion

for the year ended October 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the annual report for the Schwab MarketTrack Portfolios for the one-year period ended October 31, 2005. The Schwab Market Track Portfolios are part of our suite of asset allocation funds and provide the performance potential of indexing with the risk management of asset allocation.

Research has shown that asset allocation can be the most important factor in determining overall portfolio performance—more important than which securities you choose or when you decide to buy and sell them. Asset allocation funds, such as the Schwab MarketTrack Portfolios, offer investors a convenient way to manage their entire portfolio in one investment. What's more, combining investment across management styles or asset classes can help balance risk while seeking to provide competitive returns.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During this report period, we added to our suite of actively managed funds with the launch of the Schwab Large-Cap Growth Fund, which commenced operations on October 3, 2005. This fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion and is actively managed by a team of investment professionals that understands how a disciplined investment strategy can help achieve competitive returns.

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

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black 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 of the investment adviser, 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 responsible for the day-to-day management 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.



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

The Investment Environment and the Funds

Despite a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit all-time highs and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the Fed Funds Target eight consecutive times in the one-year report period. The moves had a limited impact on overall economic growth, due primarily to the record-low level of interest rates from which the increases began.

Despite concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.6%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past few months was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructure in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September. However, a quick action by the federal government to release Strategic Petroleum Reserves and soften oil demand led to a subsequent decline off that peak. While the full economic effect of the hurricanes was unknown at the end of the report period, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in the area.

Another significant event that occurred during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he has not yet been confirmed into office, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Source of Sector Classification: S&P and MSCI.



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

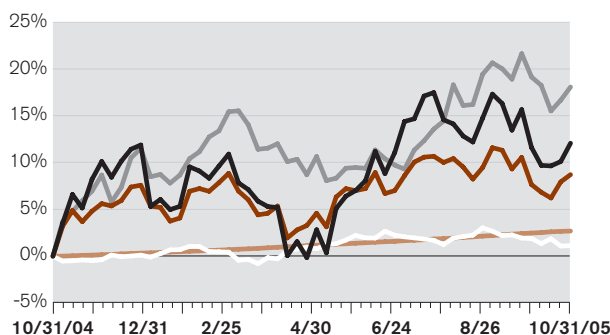
Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks held up well. The S&P 500 Index¹ posted gains of 8.72% for the one-year period ending on October 31, 2005 while the Russell 2000 Index also displayed a positive return of 12.08%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE (Morgan Stanley Capital International, Inc. Europe, Australasia, and Far East) Index also had an impressive return of 18.09% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 1.13%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we were in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

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.

- 8.72% **S&P 500® Index:** measures U.S. large-cap stocks
- 12.08% **Russell 2000® Index:** measures U.S. small-cap stocks
- 18.09% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.13% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 2.69% **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.

¹ 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.

Performance at a Glance

Total return for the 12 months ended 10/31/05

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

**Schwab MarketTrack
All Equity Portfolio™ 11.81%**
Benchmark **13.13%**
Performance Details page 7

**Schwab MarketTrack
Growth Portfolio™ 9.48%**
Benchmark **10.86%**
Performance Details page 9

**Schwab MarketTrack
Balanced Portfolio™ 7.41%**
Benchmark **8.08%**
Performance Details page 11

**Schwab MarketTrack
Conservative Portfolio™ 5.24%**
Benchmark **5.70%**
Performance Details page 13

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.

The Schwab Market Track All Equity Portfolio was up 11.81% for the period compared to a 13.13% return for its benchmark, the All Equity Composite Index. This portfolio invests in different segments of the stock market including large-cap, small-cap and international, so its performance reflects a blend of those segments' returns. Unlike the other MarketTrack Portfolios, this fund does not have a defined allocation to fixed income. For the one-year report period, the fund's allocations to international and small-cap segments helped performance as those segments' performances, as measured respectively by the MSCI EAFE and Russell 2000 Index, outperformed that of large-cap domestic equities as measured by the S&P 500.

The Schwab MarketTrack Growth Portfolio was up 9.48%, compared to a 10.86% return for its benchmark, the Growth Composite Index. The portfolio has an 80% target stock allocation that is divided amongst large-cap, small-cap, and international stocks. The 20% allocation to fixed income is designed to reduce volatility and risk over the long term. In this report period, due to strong equity markets and increased interest in emerging markets, the fund benefited from its emphasis on equities.

The Schwab MarketTrack Balanced Portfolio returned 7.41%, compared to a 8.08% return for its benchmark, the Balanced Composite Index. With a 60% target allocation to equities, the Balanced Portfolio's allocation is weighted toward stock investments, but also includes substantial bond investments in seeking to add income and reduce volatility. While

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.

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.

the equity segments led performance for the report period, bonds also contributed positive returns, as tracked by the Lehman Brothers U.S. Aggregate Bond Index.

The Schwab MarketTrack Conservative Portfolio was up 5.24% compared to a 5.70% return for its benchmark, the Conservative Composite. With a target allocation of 55% to bonds and 40% to stocks, this portfolio is designed to seek income with more growth potential than an all-bond portfolio. Although the bond markets did not see much of a rally this period, the portfolio benefited from its exposure to the various segments of the equity market.

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.

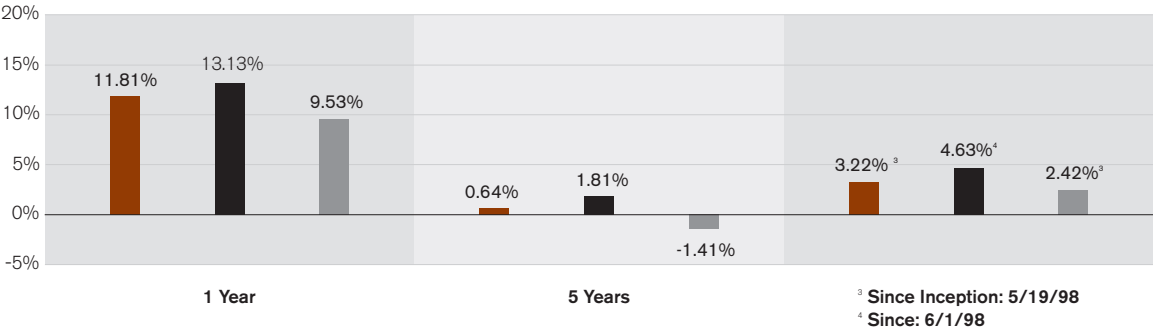
Schwab MarketTrack All Equity Portfolio™

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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

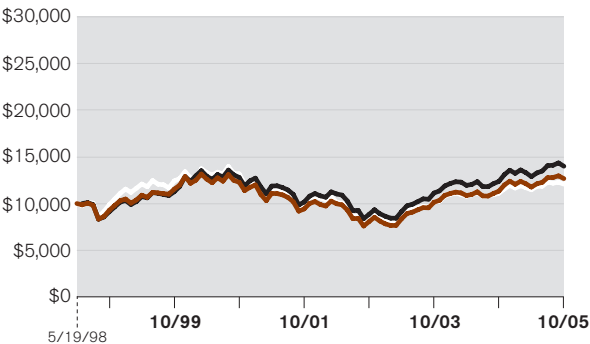


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment²

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.

- \$12,670 Portfolio
- \$13,994 All Equity Composite Index
- \$12,072 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.

¹ 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.

² 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 10/31/05

Style Assessment¹



Statistics

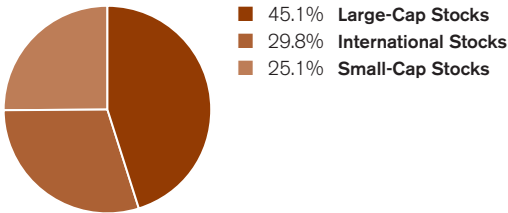
| | |
|----------------------------------------------------------|----------|
| Number of Holdings | 4 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$58,588 |
| Price/Earnings Ratio (P/E) | 20.6 |
| Price/Book Ratio (P/B) | 2.5 |
| Portfolio Turnover Rate | 49% |
| Minimum Initial Investment ² | \$1,000 |
| (\$500 for retirement, education and custodial accounts) | |

Top Holdings³

| | % of Net Assets |
|----------------------------------------------------|-----------------|
| ① Schwab Institutional Select® S&P 500 Fund | 45.1% |
| ② Schwab International Index Fund®, Select Shares® | 29.8% |
| ③ Schwab Small-Cap Index Fund®, Select Shares | 25.1% |
| Total | 100.0% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

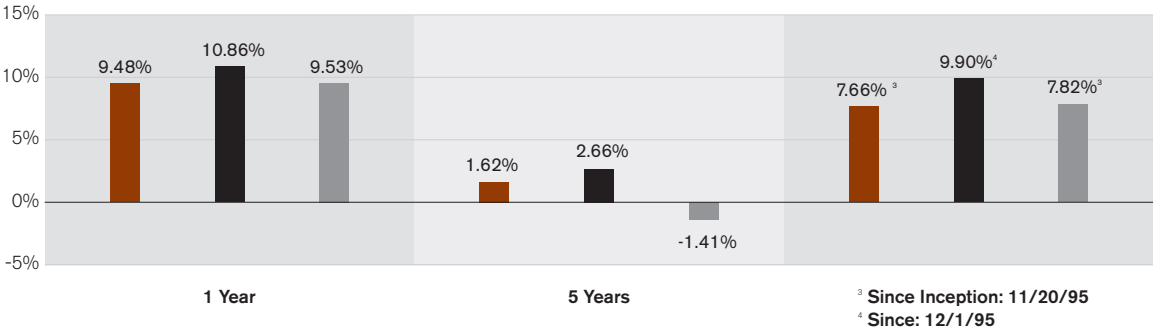
Schwab MarketTrack Growth PortfolioTM

Performance as of 10/31/05

Average Annual Total Returns^{1,2}

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

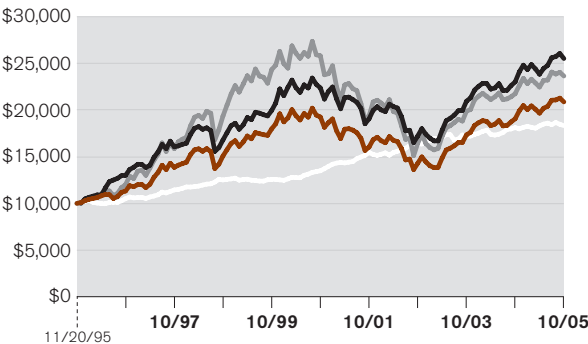


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment²

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.

- \$20,868 Portfolio
- \$25,515 Growth Composite Index
- \$23,643 S&P 500® Index
- \$18,328 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.

¹ 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.

² 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 10/31/05

Style Assessment¹



Statistics

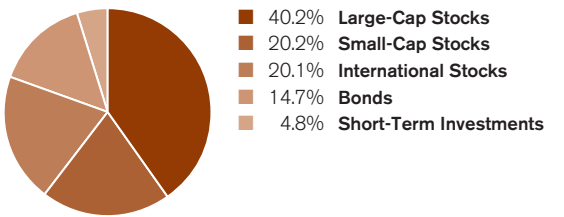
| | |
|----------------------------------------------------------|----------|
| Number of Holdings | 517 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$59,922 |
| Price/Earnings Ratio (P/E) | 20.6 |
| Price/Book Ratio (P/B) | 2.6 |
| Portfolio Turnover Rate | 33% |
| Minimum Initial Investment ² | \$1,000 |
| (\$500 for retirement, education and custodial accounts) | |

Top Holdings³

| Security | % of Net Assets |
|------------------------------------------------------------|-----------------|
| 1 Schwab Institutional Select® S&P 500 Fund | 23.8% |
| 2 Schwab Small-Cap Index Fund®, Select Shares® | 20.2% |
| 3 Schwab International Index Fund®, Select Shares | 20.1% |
| 4 Schwab Total Bond Market Fund™ | 14.7% |
| 5 Schwab Value Advantage Money Fund®, Institutional Shares | 4.7% |
| 6 General Electric Co. | 0.5% |
| 7 Exxon Mobil Corp. | 0.5% |
| 8 Microsoft Corp. | 0.4% |
| 9 Citigroup, Inc. | 0.4% |
| 10 Procter & Gamble Co. | 0.3% |
| Total | 85.6% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

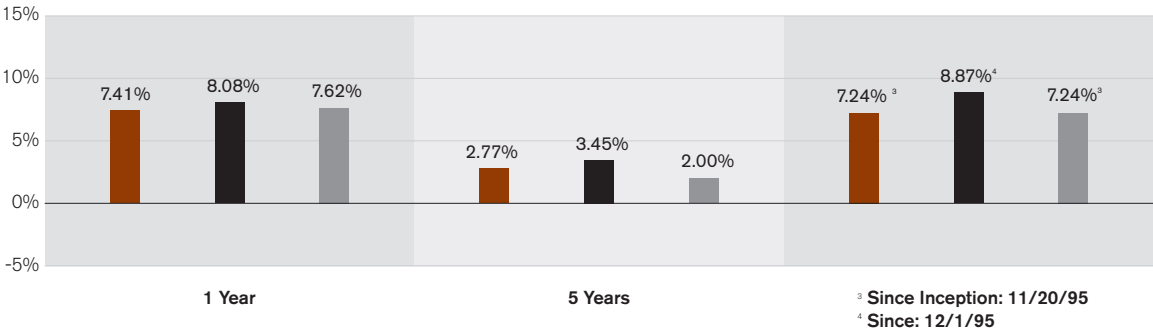
Schwab MarketTrack Balanced PortfolioTM

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

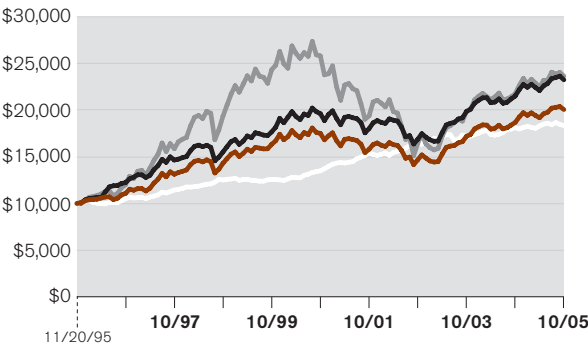


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment²

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.

- \$20,058 **Portfolio**
- \$23,240 **Balanced Composite Index**
- \$23,643 **S&P 500[®] Index**
- \$18,328 **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.

¹ 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.

² 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 10/31/05

Top Holdings¹

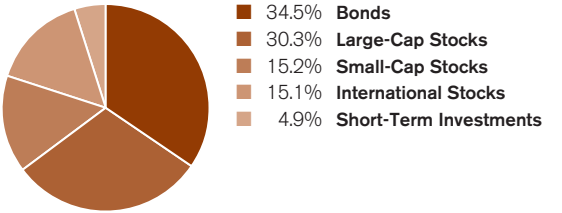
| Security | % of Net Assets |
|------------------------------------------------------------|-----------------|
| 1 Schwab Total Bond Market Fund™ | 34.6% |
| 2 Schwab Institutional Select® S&P 500 Fund | 16.3% |
| 3 Schwab Small-Cap Index Fund®, Select Shares® | 15.2% |
| 4 Schwab International Index Fund®, Select Shares | 15.1% |
| 5 Schwab Value Advantage Money Fund®, Institutional Shares | 4.5% |
| 6 General Electric Co. | 0.5% |
| 7 Exxon Mobil Corp. | 0.5% |
| 8 Microsoft Corp. | 0.3% |
| 9 Citigroup, Inc. | 0.3% |
| 10 Procter & Gamble Co. | 0.2% |
| Total | 87.5% |

Statistics

| | |
|----------------------------------------------------------|---------|
| Number of Holdings | 516 |
| Portfolio Turnover Rate | 25% |
| Minimum Initial Investment ² | \$1,000 |
| (\$500 for retirement, education and custodial accounts) | |

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.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

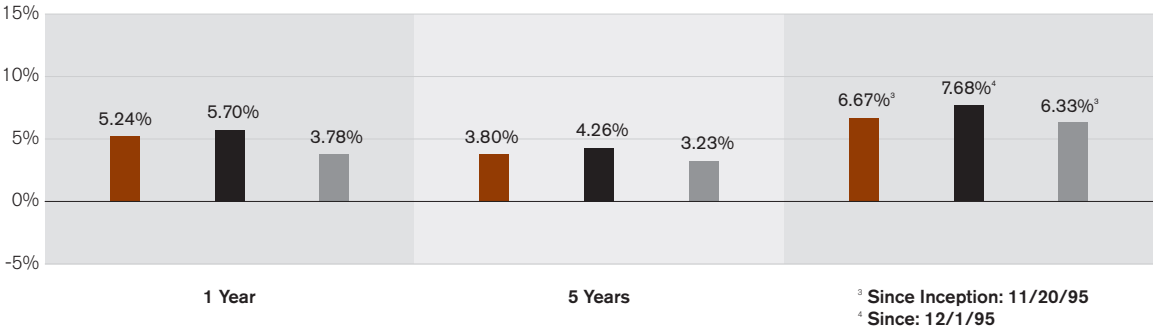
Schwab MarketTrack Conservative PortfolioTM

Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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

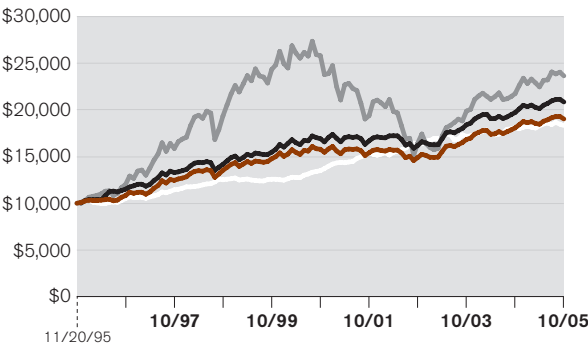


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment²

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.

- \$19,027 Portfolio
- \$20,847 Conservative Composite Index
- \$23,643 S&P 500[®] Index
- \$18,328 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.

¹ 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.

² 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 10/31/05

Top Holdings¹

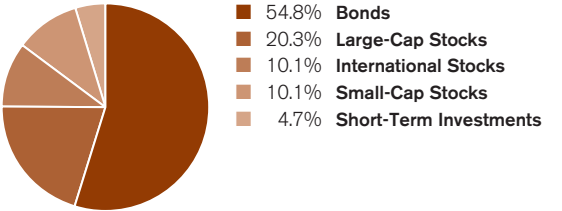
| Security | % of Net Assets |
|------------------------------------------------------------|-----------------|
| 1 Schwab Total Bond Market Fund™ | 54.7% |
| 2 Schwab S&P 500 Index Fund, Select Shares | 14.6% |
| 3 Schwab International Index Fund®, Select Shares® | 10.1% |
| 4 Schwab Small-Cap Index Fund®, Select Shares | 10.1% |
| 5 Schwab Value Advantage Money Fund®, 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 Procter & Gamble Co. | 0.1% |
| Total | 94.5% |

Statistics

| | |
|----------------------------------------------------------|---------|
| Number of Holdings | 516 |
| Portfolio Turnover Rate | 9% |
| Minimum Initial Investment ² | \$1,000 |
| (\$500 for retirement, education and custodial accounts) | |

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.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

Fund Expenses (unaudited)

Examples for a \$1,000 Investment

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

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

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$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 ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 5/1/05 – 10/31/05 |
|-------------------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------|
| Schwab MarketTrack All Equity Portfolio™ | | | | |
| Actual Return | 0.50% | \$1,000 | \$1,077.40 | \$2.62 |
| Hypothetical 5% Return | 0.50% | \$1,000 | \$1,022.68 | \$2.55 |
| Schwab MarketTrack Growth Portfolio™ | | | | |
| Actual Return | 0.50% | \$1,000 | \$1,061.20 | \$2.60 |
| Hypothetical 5% Return | 0.50% | \$1,000 | \$1,022.68 | \$2.55 |
| Schwab MarketTrack Balanced Portfolio™ | | | | |
| Actual Return | 0.50% | \$1,000 | \$1,046.00 | \$2.58 |
| Hypothetical 5% Return | 0.50% | \$1,000 | \$1,022.68 | \$2.55 |
| Schwab MarketTrack Conservative Portfolio™ | | | | |
| Actual Return | 0.50% | \$1,000 | \$1,030.30 | \$2.56 |
| Hypothetical 5% Return | 0.50% | \$1,000 | \$1,022.68 | \$2.55 |

¹ 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.

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

Schwab MarketTrack All Equity PortfolioTM

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 10.44 | 9.43 | 7.60 | 9.06 | 12.06 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.12 | 0.08 | 0.09 | 0.05 | 0.22 |
| Net realized and unrealized gains or losses | 1.11 | 1.02 | 1.85 | (1.32) | (2.99) |
| Total income or loss from investment operations | 1.23 | 1.10 | 1.94 | (1.27) | (2.77) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.12) | (0.09) | (0.09) | (0.05) | (0.22) |
| Distributions from net realized gains | – | – | (0.02) | (0.14) | (0.01) |
| Total distributions | (0.12) | (0.09) | (0.11) | (0.19) | (0.23) |
| Net asset value at end of period | 11.55 | 10.44 | 9.43 | 7.60 | 9.06 |
| Total return (%) | 11.81 | 11.75 | 25.77 | (14.40) | (23.27) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses ¹ | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Gross operating expenses ¹ | 0.75 | 0.76 | 0.76 | 0.77 | 0.77 |
| Net investment income | 1.07 | 0.83 | 1.10 | 0.58 | 1.93 |
| Portfolio turnover rate | 49 | 7 | 10 | 15 | 5 |
| Net assets, end of period (\$ x 1,000,000) | 463 | 450 | 427 | 353 | 405 |

¹ 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.

Portfolio Holdings as of October 31, 2005

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's 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.

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 holdings.

① Top holding

■ Issuer is affiliated with the fund's adviser

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|------------------------------------------|--------------------|---------------------|
| 100.0% | Other Investment Companies | 415,633 | 462,941 |
| 0.0% | Short-Term Investment | 160 | 160 |
| 100.0% | Total Investments | 415,793 | 463,101 |
| 0.0% | Other Assets and Liabilities, Net | | (221) |
| 100.0% | Total Net Assets | | 462,880 |

Security and Number of Shares **Value**
(\$ x 1,000)

Other Investment Companies

100.0% of net assets

| | | |
|---------------------------------------------------|------------|----------------|
| ■① Schwab Institutional Select S&P 500 Fund | 21,825,334 | 208,868 |
| ■② Schwab International Index Fund, Select Shares | 8,076,326 | 138,024 |
| ■③ Schwab Small-Cap Index Fund, Select Shares | 5,190,003 | 116,049 |
| | | 462,941 |

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

Short-Term Investment

0.00% of net assets

| | | |
|------------------------------------------|-----|------------|
| Wachovia Bank, Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 160 | 160 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | | |
|------------------------------------------------------|----------------|--|
| Investments in affiliated underlying funds, at value | \$462,941 | |
| Investments, at value | 160 | |
| Receivables: | | |
| Fund shares sold | 231 | |
| Prepaid expenses | + 10 | |
| Total assets | 463,342 | |

Liabilities

| | | |
|---------------------------------------------|------------|--|
| Payables: | | |
| Fund shares redeemed | 377 | |
| Interest expense | 1 | |
| Investment adviser and administrator fees | 7 | |
| Transfer agent and shareholder service fees | 9 | |
| Accrued expenses | + 68 | |
| Total liabilities | 462 | |

Net Assets

| | | |
|--------------------------|------------------|--|
| Total assets | 463,342 | |
| Total liabilities | - 462 | |
| Net assets | \$462,880 | |

Net Assets by Source

| | | |
|--------------------------------------------------|----------|--|
| Capital received from investors | 455,632 | |
| Distributions in excess of net investment income | (1,913) | |
| Net realized capital losses | (38,147) | |
| Net unrealized capital gains | 47,308 | |

Net Asset Value (NAV)

| Net Assets | + | Shares Outstanding | = | NAV |
|-------------------|----------|---------------------------|----------|------------|
| \$462,880 | | 40,064 | | \$11.55 |

Unless stated, all numbers x 1,000.

The fund paid \$415,793 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 | \$227,694 |
| Sales/maturities | \$261,622 |

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 | 10.1% |

Schwab Institutional Select Funds

| | |
|----------------------|-------|
| Institutional Select | |
| S&P 500 Fund | 16.8% |

These derive from investments and futures

Federal Tax Data

| | |
|-----------------------|-----------|
| Portfolio Cost | \$428,337 |
|-----------------------|-----------|

Net unrealized gains and losses:

| | |
|--------|-----------------|
| Gains | \$46,180 |
| Losses | + (11,416) |
| | \$34,764 |

Reclassifications:

| | |
|-------------------------------------------|-------|
| Net investment income not yet distributed | \$3 |
| Reclassified as: | |
| Capital received from investors | (\$3) |

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 |
| | \$31,012 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|--------------|
| Dividends received from affiliated underlying funds | \$7,347 |
| Interest | + 50 |
| Total investment income | 7,397 |

Net Realized Gains and Losses

| | |
|------------------------------------------------------------|--------------|
| Net realized gains on sales of affiliated underlying funds | 5 |
| Net realized losses on futures contracts | + (109) |
| Net realized losses | (104) |

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 affiliated underlying funds | 47,634 |
| Net unrealized losses on futures contracts | + (6) |
| Net unrealized gains | 47,628 |

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 | 2,072 |
| Transfer agent and shareholder service fees | 1,177 |
| Trustees' fees | 8 |
| Custodian fees | 29 |
| Portfolio accounting fees | 61 |
| Professional fees | 31 |
| Registration fees | 26 |
| Shareholder reports | 94 |
| Interest expense | 1 |
| Other expenses | + 40 |
| Total expenses | 3,539 |
| Expense reduction | - 1,183 |
| Net expenses | 2,356 |

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

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 7,397 |
| Net expenses | - 2,356 |
| Net investment income | 5,041 |
| Net realized losses | (104) |
| Net unrealized gains | + 47,628 |
| Increase in net assets from operations | \$52,565 |

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 net 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 \$47,524.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$5,041 | \$3,780 |
| Net realized losses | (104) | (5,316) |
| Net unrealized gains | + 47,628 | 50,766 |
| Increase in net assets from operations | 52,565 | 49,230 |

Distributions Paid

| | | |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | \$5,060 | \$4,156 |
|--------------------------------------|----------------|----------------|

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|-------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 5,741 | \$64,017 | 6,823 | \$68,910 |
| Shares reinvested | 437 | 4,835 | 409 | 4,002 |
| Shares redeemed | + (9,253) | (103,675) | (9,423) | (95,049) |
| Net transactions in fund shares | (3,075) | (\$34,823) | (2,191) | (\$22,137) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (3,075) | 12,682 | (2,191) | 22,937 |
| End of period | 40,064 | \$462,880 | 43,139 | \$450,198 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$5,060 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$5,060 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|---------|
| Ordinary income | \$4,156 |
| Long-term capital gains | \$— |

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

Current period \$8

Dollar amounts are net of the redemption fee 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 distributions in excess of net investment income in the amount of \$1,913 and \$1,897 at the end of the current period and the prior period, respectively.

Schwab MarketTrack Growth PortfolioTM

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 15.57 | 14.36 | 12.05 | 13.88 | 17.22 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.27 | 0.21 | 0.18 | 0.19 | 0.41 |
| Net realized and unrealized gains or losses | 1.20 | 1.21 | 2.33 | (1.62) | (3.22) |
| Total income or loss from investment operations | 1.47 | 1.42 | 2.51 | (1.43) | (2.81) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.23) | (0.21) | (0.20) | (0.24) | (0.44) |
| Distributions from net realized gains | – | – | – | (0.16) | (0.09) |
| Total distributions | (0.23) | (0.21) | (0.20) | (0.40) | (0.53) |
| Net asset value at end of period | 16.81 | 15.57 | 14.36 | 12.05 | 13.88 |
| Total return (%) | 9.48 | 9.94 | 21.18 | (10.78) | (16.71) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses ¹ | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Gross operating expenses ¹ | 0.72 | 0.73 | 0.74 | 0.75 | 0.74 |
| Net investment income | 1.58 | 1.35 | 1.48 | 1.35 | 2.58 |
| Portfolio turnover rate | 33 | 9 | 9 | 21 | 10 |
| Net assets, end of period (\$ x 1,000,000) | 657 | 614 | 578 | 510 | 511 |

¹ 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.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|-----------------------------------------------|---------------------------|----------------------------|
| 83.6% Other Investment Companies | 472,573 | 549,011 |
| 16.4% Common Stock | 70,027 | 107,856 |
| 0.0% Short-Term Investment | 172 | 172 |
| 100.0% Total Investments | 542,772 | 657,039 |
| 0.0% Other Assets and Liabilities, Net | | 82 |
| 100.0% Total Net Assets | | 657,121 |

Security and Number of Shares **Value**
(\$ x 1,000)

Common Stock 16.4% of net assets

Automobiles & Components 0.1%

| | | |
|--------------------------|--------|-----|
| Cooper Tire & Rubber Co. | 700 | 9 |
| Dana Corp. | 1,578 | 12 |
| Ford Motor Co. | 18,103 | 151 |
| General Motors Corp. | 5,425 | 149 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------|------------------------------|
| • Goodyear Tire & Rubber Co. | 1,600 25 |
| Harley-Davidson, Inc. | 3,000 149 |
| Johnson Controls, Inc. | 1,800 122 |
| Visteon Corp. | 1,558 13 |
| | 630 |

Banks 1.2%

| | | |
|------------------------------------|--------|--------------|
| AmSouth Bancorp. | 3,300 | 83 |
| Bank of America Corp. | 39,824 | 1,742 |
| BB&T Corp. | 5,300 | 224 |
| Comerica, Inc. | 1,700 | 98 |
| Compass Bancshares, Inc. | 1,200 | 58 |
| Countrywide Financial Corp. | 5,298 | 168 |
| Fannie Mae | 9,400 | 447 |
| Fifth Third Bancorp | 5,369 | 216 |
| First Horizon National Corp. | 1,200 | 46 |
| Freddie Mac | 6,600 | 405 |
| Golden West Financial Corp. | 2,800 | 164 |
| Huntington Bancshares, Inc. | 2,262 | 53 |
| KeyCorp, Inc. | 4,400 | 142 |
| M&T Bank Corp. | 998 | 107 |
| Marshall & Ilsley Corp. | 2,056 | 88 |
| MGIC Investment Corp. | 900 | 53 |
| National City Corp. | 6,100 | 197 |
| North Fork Bancorp., Inc. | 4,500 | 114 |
| PNC Financial Services Group, Inc. | 2,800 | 170 |
| Regions Financial Corp. | 4,542 | 148 |
| Sovereign Bancorp, Inc. | 3,700 | 80 |
| SunTrust Banks, Inc. | 3,500 | 254 |
| Synovus Financial Corp. | 2,750 | 76 |
| U.S. Bancorp | 17,972 | 532 |
| Wachovia Corp. | 15,610 | 789 |
| Washington Mutual, Inc. | 9,843 | 390 |
| Wells Fargo & Co. | 16,615 | 1,000 |
| Zions Bancorp. | 900 | 66 |
| | | 7,910 |

Capital Goods 1.4%

| | | |
|---------------------------------|-------|-----|
| 3M Co. | 7,600 | 578 |
| American Power Conversion Corp. | 1,725 | 37 |
| American Standard Cos., Inc. | 2,100 | 80 |
| The Boeing Co. | 8,078 | 522 |
| Caterpillar, Inc. | 6,600 | 347 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------------|-----------------------|
| Cooper Industries Ltd., Class A 900 | 64 |
| Crane Co. 300 | 9 |
| Cummins, Inc. 400 | 34 |
| Danaher Corp. 2,800 | 146 |
| Deere & Co. 2,300 | 140 |
| Dover Corp. 2,000 | 78 |
| Eaton Corp. 1,400 | 82 |
| Emerson Electric Co. 4,000 | 278 |
| Fluor Corp. 800 | 51 |
| General Dynamics Corp. 2,000 | 233 |
| ⑥ General Electric Co. 105,200 | 3,567 |
| Goodrich Corp. 1,100 | 40 |
| Honeywell International, Inc. 8,437 | 289 |
| Illinois Tool Works, Inc. 2,100 | 178 |
| Ingersoll-Rand Co., Class A 3,300 | 125 |
| ITT Industries, Inc. 900 | 91 |
| L-3 Communications Holdings, Inc. 1,100 | 86 |
| Lockheed Martin Corp. 3,900 | 236 |
| Masco Corp. 4,500 | 128 |
| • Navistar International Corp. 700 | 19 |
| Northrop Grumman Corp. 3,592 | 193 |
| Paccar, Inc. 1,575 | 110 |
| Pall Corp. 1,000 | 26 |
| Parker Hannifin Corp. 1,150 | 72 |
| • Power-One, Inc. 400 | 2 |
| Raytheon Co. 4,500 | 166 |
| Rockwell Automation, Inc. 1,900 | 101 |
| Rockwell Collins, Inc. 1,900 | 87 |
| Textron, Inc. 1,500 | 108 |
| • Thomas & Betts Corp. 281 | 11 |
| Tyco International Ltd. 19,803 | 523 |
| United Technologies Corp. 10,000 | 513 |
| W.W. Grainger, Inc. 900 | 60 |
| | 9,410 |

Commercial Services & Supplies 0.2%

| | |
|---------------------------------------|-----|
| • ACCO Brands Corp. 329 | 8 |
| • Allied Waste Industries, Inc. 3,100 | 25 |
| • Apollo Group, Inc., Class A 1,700 | 107 |
| Avery Dennison Corp. 1,200 | 68 |
| Cendant Corp. 10,332 | 180 |
| Cintas Corp. 1,638 | 67 |
| Deluxe Corp. 700 | 23 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------|-----------------------|
| Equifax, Inc. 1,200 | 41 |
| H&R Block, Inc. 3,400 | 85 |
| • Monster Worldwide, Inc. 954 | 31 |
| • PHH Corp. 476 | 13 |
| Pitney Bowes, Inc. 2,300 | 97 |
| R.R. Donnelley & Sons Co. 2,100 | 74 |
| Robert Half International, Inc. 1,700 | 63 |
| Waste Management, Inc. 5,517 | 163 |
| | 1,045 |

Consumer Durables & Apparel 0.2%

| | |
|---------------------------------|--------------|
| Black & Decker Corp. 900 | 74 |
| Brunswick Corp. 900 | 34 |
| Centex Corp. 1,200 | 77 |
| • Coach, Inc. 3,600 | 116 |
| D.R. Horton, Inc. 2,660 | 82 |
| Eastman Kodak Co. 3,100 | 68 |
| Fortune Brands, Inc. 1,400 | 106 |
| Hasbro, Inc. 1,650 | 31 |
| Jones Apparel Group, Inc. 1,200 | 33 |
| KB Home 800 | 52 |
| Leggett & Platt, Inc. 2,000 | 40 |
| Lennar Corp., Class A 1,300 | 72 |
| Liz Claiborne, Inc. 1,200 | 42 |
| Mattel, Inc. 4,150 | 61 |
| Maytag Corp. 900 | 15 |
| Newell Rubbermaid, Inc. 2,745 | 63 |
| Nike, Inc., Class B 2,300 | 193 |
| Pulte Homes, Inc. 2,400 | 91 |
| Reebok International Ltd. 500 | 29 |
| Snap-On, Inc. 600 | 22 |
| The Stanley Works 600 | 29 |
| VF Corp. 1,200 | 63 |
| Whirlpool Corp. 800 | 63 |
| | 1,456 |

Diversified Financials 1.4%

| | |
|--------------------------------------|-----|
| American Express Co. 12,300 | 612 |
| • Ameriprise Financial, Inc. 2,300 | 86 |
| The Bank of New York Co., Inc. 7,300 | 228 |
| The Bear Stearns Cos., Inc. 1,082 | 114 |
| Capital One Financial Corp. 2,900 | 221 |
| ■ The Charles Schwab Corp. 11,242 | 171 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|
| CIT Group, Inc. 2,000 | 91 |
| 9 Citigroup, Inc. 51,292 | 2,348 |
| • E*TRADE Financial Corp. 3,500 | 65 |
| Federated Investors, Inc., Class B 1,100 | 39 |
| Franklin Resources, Inc. 1,500 | 133 |
| Goldman Sachs Group, Inc. 4,379 | 553 |
| Janus Capital Group, Inc. 2,200 | 39 |
| JPMorgan Chase & Co. 34,915 | 1,279 |
| Lehman Brothers Holdings, Inc. 2,600 | 311 |
| MBNA Corp. 12,550 | 321 |
| Mellon Financial Corp. 4,100 | 130 |
| Merrill Lynch & Co., Inc. 9,400 | 609 |
| Moody's Corp. 3,000 | 160 |
| Morgan Stanley 10,900 | 593 |
| Northern Trust Corp. 2,200 | 118 |
| Principal Financial Group, Inc. 3,065 | 152 |
| SLM Corp. 4,110 | 228 |
| State Street Corp. 3,300 | 182 |
| T. Rowe Price Group, Inc. 1,200 | 79 |
| | 8,862 |

Energy 1.5%

| | |
|--------------------------------------|-------|
| Amerada Hess Corp. 840 | 105 |
| Anadarko Petroleum Corp. 2,418 | 219 |
| Apache Corp. 3,308 | 211 |
| Baker Hughes, Inc. 3,360 | 185 |
| BJ Services Co. 3,000 | 104 |
| Burlington Resources, Inc. 3,810 | 275 |
| ChevronTexaco Corp. 22,235 | 1,269 |
| ConocoPhillips 13,692 | 895 |
| Devon Energy Corp. 4,600 | 278 |
| El Paso Corp. 6,306 | 75 |
| EOG Resources, Inc. 2,256 | 153 |
| 7 Exxon Mobil Corp. 62,398 | 3,503 |
| Halliburton Co. 4,958 | 293 |
| Kerr-McGee Corp. 1,041 | 89 |
| Kinder Morgan, Inc. 1,107 | 101 |
| Marathon Oil Corp. 3,589 | 216 |
| Murphy Oil Corp. 1,600 | 75 |
| • Nabors Industries Ltd. 1,400 | 96 |
| • National-Oilwell Varco, Inc. 1,600 | 100 |
| Noble Corp. 1,300 | 84 |
| Occidental Petroleum Corp. 3,900 | 308 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------|-----------------------|
| Rowan Cos., Inc. 1,100 | 36 |
| Schlumberger Ltd. 5,700 | 517 |
| Sunoco, Inc. 1,400 | 104 |
| • Transocean, Inc. 2,945 | 169 |
| Valero Energy Corp. 3,000 | 316 |
| • Weatherford International Ltd. 1,360 | 85 |
| Williams Cos., Inc. 5,000 | 111 |
| XTO Energy, Inc. 3,333 | 145 |
| | 10,117 |

Food & Staples Retailing 0.4%

| | |
|---------------------------------|--------------|
| Albertson's, Inc. 3,538 | 89 |
| Costco Wholesale Corp. 4,400 | 213 |
| CVS Corp. 7,800 | 190 |
| • Kroger Co. 7,200 | 143 |
| Safeway, Inc. 4,200 | 98 |
| Supervalu, Inc. 1,400 | 44 |
| Sysco Corp. 6,200 | 198 |
| Wal-Mart Stores, Inc. 24,800 | 1,173 |
| Walgreen Co. 9,900 | 450 |
| • Winn-Dixie Stores, Inc. 1,500 | 1 |
| | 2,599 |

Food Beverage & Tobacco 0.8%

| | |
|---------------------------------------------|-------|
| Altria Group, Inc. 20,300 | 1,524 |
| Anheuser-Busch Cos., Inc. 7,800 | 322 |
| Archer-Daniels-Midland Co. 6,532 | 159 |
| Brown-Forman Corp., Class B 904 | 57 |
| Campbell Soup Co. 1,800 | 52 |
| The Coca-Cola Co. 20,600 | 881 |
| Coca-Cola Enterprises, Inc. 4,000 | 76 |
| ConAgra Foods, Inc. 4,900 | 114 |
| • Constellation Brands, Inc., Class A 1,920 | 45 |
| General Mills, Inc. 3,576 | 173 |
| H.J. Heinz Co. 3,400 | 121 |
| Hershey Foods Corp. 2,400 | 136 |
| Kellogg Co. 2,500 | 110 |
| McCormick & Co., Inc. 1,400 | 42 |
| Molson Coors Brewing Co., Class B 800 | 49 |
| The Pepsi Bottling Group, Inc. 1,932 | 55 |
| PepsiCo, Inc. 16,460 | 973 |
| Reynolds American, Inc. 1,142 | 97 |
| Sara Lee Corp. 7,600 | 136 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------|-----------------------|
| Tyson Foods, Inc., Class A 2,500 | 45 |
| UST, Inc. 1,600 | 66 |
| Wm. Wrigley Jr. Co. 1,900 | 132 |
| | 5,365 |

Health Care Equipment & Services 0.8%

| | |
|---------------------------------------------------|-----|
| Aetna, Inc. 2,848 | 252 |
| AmerisourceBergen Corp. 1,000 | 76 |
| Bausch & Lomb, Inc. 600 | 45 |
| Baxter International, Inc. 6,100 | 233 |
| Becton Dickinson & Co. 2,600 | 132 |
| Biomet, Inc. 2,475 | 86 |
| • Boston Scientific Corp. 5,848 | 147 |
| C.R. Bard, Inc. 1,000 | 62 |
| Cardinal Health, Inc. 4,100 | 256 |
| • Caremark Rx, Inc. 4,470 | 234 |
| CIGNA Corp. 1,400 | 162 |
| • Coventry Health Care, Inc. 1,650 | 89 |
| • Express Scripts, Inc. 1,600 | 121 |
| • Fisher Scientific International, Inc. 1,115 | 63 |
| Guidant Corp. 3,000 | 189 |
| HCA, Inc. 4,000 | 193 |
| Health Management Associates, Inc., Class A 2,400 | 51 |
| • Hospira, Inc. 1,530 | 61 |
| • Humana, Inc. 1,400 | 62 |
| IMS Health, Inc. 2,300 | 53 |
| • Laboratory Corp. of America Holdings 1,300 | 63 |
| Manor Care, Inc. 1,100 | 41 |
| McKesson Corp. 2,654 | 121 |
| • Medco Health Solutions, Inc. 2,641 | 149 |
| Medtronic, Inc. 11,800 | 669 |
| • Millipore Corp. 400 | 25 |
| • Patterson Cos., Inc. 1,300 | 54 |
| PerkinElmer, Inc. 1,000 | 22 |
| Quest Diagnostics 1,802 | 84 |
| • St. Jude Medical, Inc. 3,500 | 168 |
| Stryker Corp. 2,884 | 119 |
| • Tenet Healthcare Corp. 4,650 | 39 |
| • Thermo Electron Corp. 1,300 | 39 |
| UnitedHealth Group, Inc. 12,600 | 729 |
| • Waters Corp. 1,300 | 47 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| • WellPoint, Inc. 5,902 | 441 |
| • Zimmer Holdings, Inc. 2,300 | 147 |
| | 5,524 |

Hotels Restaurants & Leisure 0.2%

| | |
|-------------------------------------------------|--------------|
| Carnival Corp. 4,300 | 213 |
| Darden Restaurants, Inc. 1,800 | 58 |
| Harrah's Entertainment, Inc. 1,780 | 108 |
| Hilton Hotels Corp. 3,600 | 70 |
| International Game Technology 3,400 | 90 |
| Marriott International, Inc., Class A 1,950 | 116 |
| McDonald's Corp. 12,400 | 392 |
| • Starbucks Corp. 7,920 | 224 |
| Starwood Hotels & Resorts Worldwide, Inc. 1,900 | 111 |
| Wendy's International, Inc. 1,000 | 47 |
| Yum! Brands, Inc. 3,120 | 159 |
| | 1,588 |

Household & Personal Products 0.4%

| | |
|---------------------------------|--------------|
| Alberto-Culver Co., Class B 900 | 39 |
| Avon Products, Inc. 4,800 | 129 |
| Clorox Co. 1,500 | 81 |
| Colgate-Palmolive Co. 5,300 | 281 |
| Kimberly-Clark Corp. 4,960 | 282 |
| ⑩ Procter & Gamble Co. 33,717 | 1,888 |
| | 2,700 |

Insurance 0.8%

| | |
|-----------------------------------------------|-------|
| ACE Ltd. 2,500 | 130 |
| AFLAC, Inc. 5,200 | 248 |
| The Allstate Corp. 6,700 | 354 |
| AMBAC Financial Group, Inc. 1,015 | 72 |
| American International Group, Inc. 25,551 | 1,656 |
| AON Corp. 2,625 | 89 |
| Chubb Corp. 1,900 | 177 |
| Cincinnati Financial Corp. 1,984 | 84 |
| Hartford Financial Services Group, Inc. 2,900 | 231 |
| Jefferson-Pilot Corp. 1,412 | 77 |
| Lincoln National Corp. 1,900 | 96 |
| Loews Corp. 1,600 | 149 |
| Marsh & McLennan Cos., Inc. 5,200 | 152 |
| MBIA, Inc. 1,350 | 79 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------------------------|-----------------------|----------------------------------------------------|-----------------------|
| • Metlife, Inc. 7,310 | 361 | Temple-Inland, Inc. 1,200 | 44 |
| The Progressive Corp. 2,100 | 243 | United States Steel Corp. 900 | 33 |
| Prudential Financial, Inc. 5,200 | 379 | Vulcan Materials Co. 800 | 52 |
| Safeco Corp. 1,100 | 61 | Weyerhaeuser Co. 2,300 | 146 |
| The St. Paul Travelers Cos., Inc. 6,453 | 291 | Worthington Industries, Inc. 900 | 18 |
| Torchmark Corp. 1,100 | 58 | | 3,184 |
| UnumProvident Corp. 2,349 | 48 | | |
| XL Capital Ltd., Class A 1,300 | 83 | | |
| | 5,118 | | |
| Materials 0.5% | | Media 0.6% | |
| Air Products & Chemicals, Inc. 2,300 | 132 | Clear Channel Communications, Inc. 5,217 | 159 |
| Alcoa, Inc. 8,472 | 206 | • Comcast Corp., Class A 21,843 | 608 |
| Allegheny Technologies, Inc. 735 | 21 | Dow Jones & Co., Inc. 800 | 27 |
| Ashland, Inc. 800 | 43 | Gannett Co., Inc. 2,500 | 157 |
| Ball Corp. 800 | 32 | • Interpublic Group of Cos., Inc. 3,700 | 38 |
| Bemis Co. 1,000 | 26 | Knight-Ridder, Inc. 900 | 48 |
| Chemtura Corp. 1,333 | 14 | The McGraw-Hill Cos., Inc. 3,800 | 186 |
| The Dow Chemical Co. 9,394 | 431 | Meredith Corp. 500 | 25 |
| E.I. du Pont de Nemours & Co. 9,592 | 400 | New York Times Co., Class A 1,400 | 38 |
| Eastman Chemical Co. 800 | 42 | • News Corp, Inc., Class A 24,300 | 346 |
| Ecolab, Inc. 2,200 | 73 | Omnicom Group, Inc. 1,800 | 149 |
| Engelhard Corp. 1,300 | 35 | Time Warner, Inc. 45,150 | 805 |
| Freeport-McMoran Copper & Gold, Inc., Class B 1,700 | 84 | Tribune Co. 3,100 | 98 |
| Georgia-Pacific Corp. 2,228 | 72 | • Univision Communications, Inc., Class A 3,104 | 81 |
| • Hercules, Inc. 900 | 10 | Viacom, Inc., Class B 15,811 | 490 |
| International Flavors & Fragrances, Inc. 1,100 | 36 | The Walt Disney Co. 20,119 | 490 |
| International Paper Co. 4,846 | 141 | | 3,745 |
| Louisiana-Pacific Corp. 600 | 15 | | |
| MeadWestvaco Corp. 1,970 | 52 | Pharmaceuticals & Biotechnology 1.3% | |
| Monsanto Co. 2,493 | 157 | Abbott Laboratories 15,300 | 659 |
| Neenah Paper, Inc. 150 | 4 | Allergan, Inc. 1,300 | 116 |
| Newmont Mining Corp. 4,201 | 179 | • Amgen, Inc. 12,138 | 920 |
| Nucor Corp. 1,800 | 108 | Applied Biosystems Group – Applera Corp. 2,000 | 48 |
| • Pactiv Corp. 1,500 | 30 | • Biogen Idec, Inc. 3,125 | 127 |
| Phelps Dodge Corp. 910 | 110 | Bristol-Myers Squibb Co. 19,000 | 402 |
| PPG Industries, Inc. 1,700 | 102 | • Chiron Corp. 1,800 | 79 |
| Praxair, Inc. 3,200 | 158 | Eli Lilly & Co. 10,900 | 543 |
| Rohm & Haas Co. 2,205 | 96 | • Forest Laboratories, Inc. 3,400 | 129 |
| • Sealed Air Corp. 882 | 44 | • Genzyme Corp. 2,400 | 173 |
| Sigma-Aldrich Corp. 600 | 38 | • Gilead Sciences, Inc. 4,300 | 203 |
| | | Johnson & Johnson 29,254 | 1,832 |
| | | • King Pharmaceuticals, Inc. 2,133 | 33 |
| | | • Medimmune, Inc. 2,400 | 84 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------|-----------------------|
| Merck & Co., Inc. 21,600 | 610 |
| Mylan Laboratories, Inc. 2,600 | 50 |
| Pfizer, Inc. 73,476 | 1,597 |
| Schering-Plough Corp. 14,100 | 287 |
| • Watson Pharmaceuticals, Inc. 1,000 | 35 |
| Wyeth 13,100 | 584 |
| | 8,511 |

Real Estate 0.1%

| | |
|----------------------------------------------------|------------|
| Apartment Investment & Management Co., Class A 900 | 35 |
| Archstone-Smith Trust 1,900 | 77 |
| Equity Office Properties Trust 3,900 | 120 |
| Equity Residential 2,600 | 102 |
| Plum Creek Timber Co., Inc. 1,700 | 66 |
| ProLogis 1,700 | 73 |
| Public Storage, Inc. 800 | 53 |
| Simon Property Group, Inc. 2,200 | 158 |
| Vornado Realty Trust 1,200 | 97 |
| | 781 |

Retailing 0.7%

| | |
|-----------------------------------------|-----|
| • Autonation, Inc. 2,190 | 44 |
| • AutoZone, Inc. 800 | 65 |
| • Bed, Bath & Beyond, Inc. 2,800 | 113 |
| Best Buy Co., Inc. 4,505 | 199 |
| • Big Lots, Inc. 1,100 | 13 |
| Circuit City Stores, Inc. 2,000 | 36 |
| Dillards, Inc., Class A 500 | 10 |
| Dollar General Corp. 3,303 | 64 |
| • eBay, Inc. 11,036 | 437 |
| Family Dollar Stores, Inc. 1,700 | 38 |
| Federated Department Stores, Inc. 2,572 | 158 |
| The Gap, Inc. 7,200 | 124 |
| Genuine Parts Co. 1,800 | 80 |
| Home Depot, Inc. 21,040 | 863 |
| J.C. Penney Co., Inc. Holding Co. 2,800 | 143 |
| • Kohl's Corp. 3,200 | 154 |
| Limited Brands, Inc. 3,738 | 75 |
| Lowe's Cos., Inc. 7,600 | 462 |
| Nordstrom, Inc. 2,600 | 90 |
| • Office Depot, Inc. 3,300 | 91 |
| OfficeMax, Inc. 700 | 20 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------|-----------------------|
| • RadioShack Corp. 1,900 | 42 |
| • Sears Holdings Corp. 1,000 | 120 |
| The Sherwin-Williams Co. 1,200 | 51 |
| Staples, Inc. 7,125 | 162 |
| Target Corp. 8,800 | 490 |
| Tiffany & Co. 1,400 | 55 |
| TJX Cos., Inc. 5,200 | 112 |
| | 4,311 |

Semiconductors & Semiconductor Equipment 0.5%

| | |
|------------------------------------------------|--------------|
| • Advanced Micro Devices, Inc. 3,840 | 89 |
| • Altera Corp. 3,680 | 61 |
| Analog Devices, Inc. 3,400 | 118 |
| Applied Materials, Inc. 16,200 | 265 |
| • Applied Micro Circuits Corp. 2,862 | 7 |
| • Broadcom Corp., Class A 2,900 | 123 |
| • Freescale Semiconductor, Inc., Class B 3,898 | 93 |
| Intel Corp. 60,530 | 1,423 |
| KLA-Tencor Corp. 1,800 | 83 |
| Linear Technology Corp. 3,000 | 100 |
| • LSI Logic Corp. 3,000 | 24 |
| Maxim Integrated Products, Inc. 3,100 | 108 |
| • Micron Technology, Inc. 5,400 | 70 |
| National Semiconductor Corp. 3,400 | 77 |
| • Novellus Systems, Inc. 1,325 | 29 |
| • Nvidia Corp. 1,400 | 47 |
| • PMC — Sierra, Inc. 1,600 | 11 |
| • Teradyne, Inc. 1,700 | 23 |
| Texas Instruments, Inc. 16,800 | 480 |
| Xilinx, Inc. 3,200 | 77 |
| | 3,308 |

Software & Services 0.9%

| | |
|-----------------------------------------------------|-----|
| Adobe Systems, Inc. 4,800 | 155 |
| • Affiliated Computer Services, Inc., Class A 1,271 | 69 |
| Autodesk, Inc. 2,400 | 108 |
| Automatic Data Processing, Inc. 5,700 | 266 |
| • BMC Software, Inc. 2,400 | 47 |
| • Citrix Systems, Inc. 1,800 | 50 |
| Computer Associates International, Inc. 5,625 | 157 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------|-----------------------|
| American Electric Power Co., Inc. 3,860 | 147 |
| • Calpine Corp. 2,700 | 6 |
| Centerpoint Energy, Inc. 2,949 | 39 |
| Cinergy Corp. 1,600 | 64 |
| • CMS Energy Corp. 1,000 | 15 |
| Consolidated Edison, Inc. 2,100 | 96 |
| Constellation Energy Group, Inc. 1,700 | 93 |
| Dominion Resources, Inc. 3,378 | 257 |
| DTE Energy Co. 1,700 | 73 |
| Duke Energy Corp. 8,852 | 234 |
| • Dynegy, Inc., Class A 3,100 | 14 |
| Edison International 3,200 | 140 |
| Entergy Corp. 2,100 | 148 |
| Exelon Corp. 6,524 | 339 |
| FirstEnergy Corp. 3,195 | 152 |
| FPL Group, Inc. 3,800 | 164 |
| KeySpan Corp. 1,300 | 45 |
| Nicor, Inc. 500 | 20 |
| NiSource, Inc. 2,646 | 63 |
| Peoples Energy Corp. 200 | 7 |
| PG&E Corp. 4,000 | 146 |
| Pinnacle West Capital Corp. 800 | 33 |
| PPL Corp. 3,600 | 113 |
| Progress Energy, Inc. 2,475 | 108 |
| Public Service Enterprise Group, Inc. 2,300 | 145 |
| Sempra Energy 2,103 | 93 |
| The Southern Co. 7,200 | 252 |
| TECO Energy, Inc. 1,300 | 22 |
| TXU Corp. 2,367 | 238 |
| Xcel Energy, Inc. 3,850 | 71 |
| | 3,557 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------------------------|-----------------------|
| Other Investment Companies 83.6% of net assets | |
| ■ 1 Schwab Institutional Select S&P 500 Fund 16,311,469 | 156,101 |
| ■ 3 Schwab International Index Fund, Select Shares 7,739,797 | 132,273 |
| ■ 2 Schwab Small-Cap Index Fund, Select Shares 5,937,511 | 132,763 |
| ■ 4 Schwab Total Bond Market Fund 9,832,169 | 96,945 |
| ■ 5 Schwab Value Advantage Money Fund, Institutional Shares 30,929,077 | 30,929 |
| | 549,011 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | |
|-------------------------------------------------------------|-----------------------------|------------|
| Short-Term Investment 0.0% of net assets | | |
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 172 | 172 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------|----------------|
| Investments in affiliated underlying funds, at value | \$549,011 |
| Investments, at value | 108,028 |
| Receivables: | |
| Fund shares sold | 329 |
| Dividends | 148 |
| Prepaid expenses | + 15 |
| Total assets | 657,531 |

Liabilities

| | |
|---------------------------------------------|------------|
| Payables: | |
| Fund shares redeemed | 318 |
| Investment adviser and administrator fees | 12 |
| Transfer agent and shareholder service fees | 13 |
| Accrued expenses | + 67 |
| Total liabilities | 410 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 657,531 |
| Total liabilities | - 410 |
| Net assets | \$657,121 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 549,908 |
| Net investment income not yet distributed | 2,892 |
| Net realized capital losses | (9,946) |
| Net unrealized capital gains | 114,267 |

Net Asset Value (NAV)

| Net Assets | ÷ | Shares Outstanding | = | NAV |
|-------------------|----------|---------------------------|----------|------------|
| \$657,121 | | 39,095 | | \$16.81 |

Unless stated, all numbers x 1,000.

The fund paid \$542,772 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 | \$202,714 |
| Sales/maturities | \$208,050 |

The fund's total security transactions (including the in-kind redemptions) with other Schwab Funds® during the period were \$294,184.

Percent of fund shares of other Schwab Funds owned at the end of the report period:

Schwab Equity Index Funds

| | |
|--------------------------|------|
| Small-Cap Index Fund | 8.2% |
| International Index Fund | 9.6% |

Schwab Bond Funds

| | |
|------------------------|------|
| Total Bond Market Fund | 8.3% |
|------------------------|------|

Schwab Institutional Select Funds

| | |
|----------------------|-------|
| Institutional Select | |
| S&P 500 Fund | 12.5% |

Schwab Money Funds

| | |
|-----------------|------|
| Value Advantage | |
| Money Fund | 0.1% |

These derive from investments and futures

Federal Tax Data

| | |
|-----------------------------------------|------------------|
| Portfolio Cost | \$547,537 |
| Net unrealized gains and losses: | |
| Gains | \$124,051 |
| Losses | + (14,549) |
| | \$109,502 |

Net undistributed earnings:

| | |
|-------------------------|---------|
| Ordinary income | \$2,892 |
| Long-term capital gains | \$- |

Capital losses utilized \$14,695

Unused capital losses:

| | |
|-------------------|----------------|
| Expires 10/31 of: | Loss amount |
| 2011 | \$3,172 |
| 2012 | + 2,009 |
| | \$5,181 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|---------------|
| Dividends received from affiliated underlying funds | \$11,319 |
| Dividends | 2,234 |
| Interest | + 185 |
| Total investment income | 13,738 |

Net Realized Gains and Losses

| | |
|--------------------------------------------------------------|---------------|
| Net realized gains on sales of affiliated underlying funds | 13,115 |
| Net realized gains received from affiliated underlying funds | 491 |
| Net realized gains on investments | 1,024 |
| Net realized gains on futures contracts | + 91 |
| Net realized gains | 14,721 |

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 gains on affiliated underlying funds | 27,495 |
| Net unrealized gains on investments | + 5,606 |
| Net unrealized gains | 33,101 |

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 | 2,826 |
| Transfer agent and shareholder service fees | 1,651 |
| Trustees' fees | 10 |
| Custodian fees | 36 |
| Portfolio accounting fees | 85 |
| Professional fees | 31 |
| Registration fees | 26 |
| Shareholder reports | 76 |
| Other expenses | + 44 |
| Total expenses | 4,785 |
| Expense reduction | - 1,482 |
| Net expenses | 3,303 |

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

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 13,738 |
| Net expenses | - 3,303 |
| Net investment income | 10,435 |
| Net realized gains | 14,721 |
| Net unrealized gains | + 33,101 |
| Increase in net assets from operations | \$58,257 |

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 net 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 \$47,822.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$10,435 | \$8,245 |
| Net realized gains or losses | 14,721 | (711) |
| Net unrealized gains | + 33,101 | 48,907 |
| Increase in net assets from operations | 58,257 | 56,441 |

Distributions Paid

| | | |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | \$9,037 | \$8,251 |
|--------------------------------------|----------------|----------------|

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 6,796 | \$111,249 | 6,342 | \$95,944 |
| Shares reinvested | 541 | 8,784 | 547 | 8,044 |
| Shares redeemed | + (7,663) | (125,960) | (7,686) | (116,063) |
| Net transactions in fund shares | (326) | (\$5,927) | (797) | (\$12,075) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (326) | 43,293 | (797) | 36,115 |
| End of period | 39,095 | \$657,121 | 39,421 | \$613,828 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 54% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$7,628 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$9,037 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|---------|
| 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.

Current period \$10

Dollar amounts are net of the redemption fee 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 \$2,892 and \$1,494 at the end of the current period and prior period, respectively.

Schwab MarketTrack Balanced PortfolioTM

Financial Statements

Financial Highlights

| | 11/1/04 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 14.66 | 13.78 | 12.05 | 13.47 | 15.53 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.34 | 0.29 | 0.25 | 0.32 | 0.45 |
| Net realized and unrealized gains or losses | 0.74 | 0.88 | 1.77 | (1.22) | (1.92) |
| Total income or loss from investment operations | 1.08 | 1.17 | 2.02 | (0.90) | (1.47) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.28) | (0.29) | (0.29) | (0.40) | (0.49) |
| Distributions from net realized gains | – | – | – | (0.12) | (0.10) |
| Total distributions | (0.28) | (0.29) | (0.29) | (0.52) | (0.59) |
| Net asset value at end of period | 15.46 | 14.66 | 13.78 | 12.05 | 13.47 |
| Total return (%) | 7.41 | 8.61 | 17.12 | (7.08) | (9.72) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses ¹ | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Gross operating expenses ¹ | 0.73 | 0.74 | 0.74 | 0.74 | 0.74 |
| Net investment income | 2.20 | 2.03 | 1.98 | 2.35 | 3.31 |
| Portfolio turnover rate | 25 | 11 | 17 | 31 | 21 |
| Net assets, end of period (\$ x 1,000,000) | 519 | 541 | 516 | 462 | 497 |

¹ 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.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|-----------------------------------------------|---------------------------|----------------------------|
| 85.7% Other Investment Companies | 394,969 | 444,699 |
| 13.9% Common Stock | 47,380 | 72,214 |
| 0.4% Short-Term Investment | 1,945 | 1,945 |
| 100.0% Total Investments | 444,294 | 518,858 |
| 0.0% Other Assets and Liabilities, Net | | 230 |
| 100.0% Total Net Assets | | 519,088 |

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

Common Stock 13.9% of net assets

Automobiles & Components 0.1%

| | | |
|--------------------------|--------|-----|
| Cooper Tire & Rubber Co. | 400 | 5 |
| Dana Corp. | 1,085 | 8 |
| Ford Motor Co. | 12,185 | 101 |
| General Motors Corp. | 3,650 | 100 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|-------------------------------|-------|-----------------------|
| • Goodyear Tire & Rubber Co. | 1,000 | 16 |
| Harley-Davidson, Inc. | 2,000 | 99 |
| Johnson Controls, Inc. | 1,200 | 82 |
| Visteon Corp. | 1,047 | 9 |
| | | <hr/> 420 |

Banks 1.0%

| | | |
|------------------------------------|--------|--------------|
| AmSouth Bancorp. | 2,600 | 66 |
| Bank of America Corp. | 26,286 | 1,150 |
| BB&T Corp. | 3,600 | 152 |
| Comerica, Inc. | 1,100 | 64 |
| Compass Bancshares, Inc. | 800 | 39 |
| Countrywide Financial Corp. | 3,498 | 111 |
| Fannie Mae | 6,300 | 299 |
| Fifth Third Bancorp | 3,658 | 147 |
| First Horizon National Corp. | 800 | 31 |
| Freddie Mac | 4,500 | 276 |
| Golden West Financial Corp. | 2,000 | 117 |
| Huntington Bancshares, Inc. | 1,597 | 37 |
| KeyCorp, Inc. | 2,600 | 84 |
| M&T Bank Corp. | 500 | 54 |
| Marshall & Ilsley Corp. | 1,344 | 58 |
| MGIC Investment Corp. | 700 | 42 |
| National City Corp. | 4,100 | 132 |
| North Fork Bancorp., Inc. | 3,000 | 76 |
| PNC Financial Services Group, Inc. | 1,900 | 115 |
| Regions Financial Corp. | 3,078 | 100 |
| Sovereign Bancorp, Inc. | 1,800 | 39 |
| SunTrust Banks, Inc. | 2,300 | 167 |
| Synovus Financial Corp. | 1,900 | 52 |
| U.S. Bancorp | 12,554 | 371 |
| Wachovia Corp. | 10,494 | 530 |
| Washington Mutual, Inc. | 6,634 | 263 |
| Wells Fargo & Co. | 11,235 | 676 |
| Zions Bancorp. | 600 | 44 |
| | | 5,292 |

Capital Goods 1.2%

| | | |
|---------------------------------|-------|-----|
| 3M Co. | 5,000 | 380 |
| American Power Conversion Corp. | 1,175 | 25 |
| American Standard Cos., Inc. | 1,500 | 57 |
| The Boeing Co. | 5,484 | 354 |
| Caterpillar, Inc. | 4,600 | 242 |

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------|-----------------------|---------------------------------------------|-----------------------|
| Cooper Industries Ltd., Class A 600 | 43 | Equifax, Inc. 900 | 31 |
| Crane Co. 200 | 6 | H&R Block, Inc. 2,400 | 60 |
| Cummins, Inc. 300 | 26 | • Monster Worldwide, Inc. 666 | 22 |
| Danaher Corp. 2,000 | 104 | • PHH Corp. 320 | 9 |
| Deere & Co. 1,500 | 91 | Pitney Bowes, Inc. 1,600 | 67 |
| Dover Corp. 1,400 | 55 | R.R. Donnelley & Sons Co. 1,400 | 49 |
| Eaton Corp. 1,000 | 59 | Robert Half International, Inc. 1,200 | 44 |
| Emerson Electric Co. 2,800 | 195 | Waste Management, Inc. 3,712 | 109 |
| Fluor Corp. 500 | 32 | | 997 |
| General Dynamics Corp. 1,300 | 151 | | |
| ⑥ General Electric Co. 70,660 | 2,396 | Consumer Durables & Apparel 0.2% | |
| Goodrich Corp. 700 | 25 | Black & Decker Corp. 600 | 49 |
| Honeywell International, Inc. 5,700 | 195 | Brunswick Corp. 600 | 23 |
| Illinois Tool Works, Inc. 1,400 | 119 | Centex Corp. 800 | 52 |
| Ingersoll-Rand Co., Class A 2,200 | 83 | • Coach, Inc. 2,400 | 77 |
| ITT Industries, Inc. 600 | 61 | D.R. Horton, Inc. 1,790 | 55 |
| L-3 Communications Holdings, Inc. 700 | 54 | Eastman Kodak Co. 2,000 | 44 |
| Lockheed Martin Corp. 2,400 | 145 | Fortune Brands, Inc. 1,000 | 76 |
| Masco Corp. 3,000 | 86 | Hasbro, Inc. 1,275 | 24 |
| • Navistar International Corp. 400 | 11 | Jones Apparel Group, Inc. 800 | 22 |
| Northrop Grumman Corp. 2,256 | 121 | KB Home 600 | 39 |
| Paccar, Inc. 1,050 | 74 | Leggett & Platt, Inc. 1,300 | 26 |
| Pall Corp. 800 | 21 | Lennar Corp., Class A 900 | 50 |
| Parker Hannifin Corp. 700 | 44 | Liz Claiborne, Inc. 800 | 28 |
| • Power-One, Inc. 240 | 1 | Mattel, Inc. 2,825 | 42 |
| Raytheon Co. 2,600 | 96 | Maytag Corp. 600 | 10 |
| Rockwell Automation, Inc. 1,200 | 64 | Newell Rubbermaid, Inc. 1,872 | 43 |
| Rockwell Collins, Inc. 1,200 | 55 | Nike, Inc., Class B 1,300 | 109 |
| Textron, Inc. 1,000 | 72 | Pulte Homes, Inc. 1,600 | 60 |
| • Thomas & Betts Corp. 231 | 9 | Reebok International Ltd. 300 | 17 |
| Tyco International Ltd. 12,949 | 342 | Snap-On, Inc. 350 | 13 |
| United Technologies Corp. 6,600 | 338 | The Stanley Works 600 | 29 |
| W.W. Grainger, Inc. 600 | 40 | VF Corp. 800 | 42 |
| | 6,272 | Whirlpool Corp. 500 | 39 |
| | | | 969 |
| Commercial Services & Supplies 0.1% | | Diversified Financials 1.1% | |
| • ACCO Brands Corp. 235 | 6 | American Express Co. 8,310 | 414 |
| • Allied Waste Industries, Inc. 2,100 | 17 | • Ameriprise Financial, Inc. 1,542 | 57 |
| • Apollo Group, Inc., Class A 1,100 | 69 | The Bank of New York Co., Inc. 4,900 | 153 |
| Avery Dennison Corp. 700 | 40 | The Bear Stearns Cos., Inc. 602 | 64 |
| Cendant Corp. 6,415 | 112 | Capital One Financial Corp. 1,900 | 145 |
| Cintas Corp. 1,102 | 45 | ■ The Charles Schwab Corp. 6,883 | 105 |
| Deluxe Corp. 500 | 17 | | |

| Security and Number of Shares | Value (\$ × 1,000) |
|----------------------------------------|-----------------------|
| CIT Group, Inc. 1,300 | 59 |
| 9 Citigroup, Inc. 34,266 | 1,569 |
| • E*TRADE Financial Corp. 2,400 | 45 |
| Federated Investors, Inc., Class B 700 | 25 |
| Franklin Resources, Inc. 1,010 | 89 |
| Goldman Sachs Group, Inc. 3,079 | 389 |
| Janus Capital Group, Inc. 1,400 | 25 |
| JPMorgan Chase & Co. 23,413 | 857 |
| Lehman Brothers Holdings, Inc. 1,800 | 215 |
| MBNA Corp. 8,268 | 211 |
| Mellon Financial Corp. 2,800 | 89 |
| Merrill Lynch & Co., Inc. 6,300 | 408 |
| Moody's Corp. 2,000 | 107 |
| Morgan Stanley 7,010 | 381 |
| Northern Trust Corp. 1,400 | 75 |
| Principal Financial Group, Inc. 2,329 | 116 |
| SLM Corp. 3,000 | 167 |
| State Street Corp. 2,200 | 121 |
| T. Rowe Price Group, Inc. 800 | 52 |
| | 5,938 |

Energy 1.3%

| | | |
|--------------------------------|--------|-------|
| Amerada Hess Corp. | 600 | 75 |
| Anadarko Petroleum Corp. | 1,510 | 137 |
| Apache Corp. | 2,048 | 131 |
| Baker Hughes, Inc. | 2,250 | 124 |
| BJ Services Co. | 2,000 | 70 |
| Burlington Resources, Inc. | 2,520 | 182 |
| ChevronTexaco Corp. | 14,727 | 840 |
| ConocoPhillips | 9,168 | 599 |
| Devon Energy Corp. | 3,000 | 181 |
| El Paso Corp. | 3,222 | 38 |
| EOG Resources, Inc. | 1,518 | 103 |
| 7 Exxon Mobil Corp. | 42,010 | 2,358 |
| Halliburton Co. | 3,374 | 199 |
| Kerr-McGee Corp. | 812 | 69 |
| Kinder Morgan, Inc. | 745 | 68 |
| Marathon Oil Corp. | 2,218 | 133 |
| Murphy Oil Corp. | 1,100 | 52 |
| • Nabors Industries Ltd. | 1,000 | 69 |
| • National-Oilwell Varco, Inc. | 1,130 | 71 |
| Noble Corp. | 900 | 58 |
| Occidental Petroleum Corp. | 2,700 | 213 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------------|-----------------------|
| Rowan Cos., Inc. 600 | 20 |
| Schlumberger Ltd. 3,900 | 354 |
| Sunoco, Inc. 900 | 67 |
| • Transocean, Inc. 2,016 | 116 |
| Valero Energy Corp. 2,000 | 210 |
| • Weatherford International Ltd. 910 | 57 |
| Williams Cos., Inc. 3,000 | 67 |
| XTO Energy, Inc. 2,266 | 98 |
| | 6.759 |

Food & Staples Retailing 0.3%

| | | |
|---------------------------|--------|--------------|
| Albertson's, Inc. | 2,671 | 67 |
| Costco Wholesale Corp. | 3,000 | 145 |
| CVS Corp. | 5,200 | 127 |
| • Kroger Co. | 5,300 | 106 |
| Safeway, Inc. | 2,800 | 65 |
| Supervalu, Inc. | 900 | 28 |
| Sysco Corp. | 4,400 | 140 |
| Wal-Mart Stores, Inc. | 16,640 | 787 |
| Walgreen Co. | 6,600 | 300 |
| • Winn-Dixie Stores, Inc. | 1,200 | 1 |
| | | 1,766 |

Food Beverage & Tobacco 0.7%

| | | |
|---------------------------------------|--------|-------|
| Altria Group, Inc. | 13,640 | 1,024 |
| Anheuser-Busch Cos., Inc. | 5,200 | 215 |
| Archer-Daniels-Midland Co. | 4,446 | 108 |
| Brown-Forman Corp., Class B | 804 | 51 |
| Campbell Soup Co. | 1,200 | 35 |
| The Coca-Cola Co. | 13,810 | 591 |
| Coca-Cola Enterprises, Inc. | 2,700 | 51 |
| ConAgra Foods, Inc. | 3,300 | 77 |
| • Constellation Brands, Inc., Class A | 1,290 | 30 |
| General Mills, Inc. | 2,392 | 116 |
| H.J. Heinz Co. | 2,300 | 82 |
| Hershey Foods Corp. | 1,600 | 91 |
| Kellogg Co. | 1,700 | 75 |
| McCormick & Co., Inc. | 900 | 27 |
| Molson Coors Brewing Co., Class B | 200 | 12 |
| The Pepsi Bottling Group, Inc. | 926 | 26 |
| PepsiCo, Inc. | 11,070 | 654 |
| Reynolds American, Inc. | 614 | 52 |
| Sara Lee Corp. | 5,100 | 91 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------|-----------------------|
| Tyson Foods, Inc., Class A 1,700 | 30 |
| UST, Inc. 1,100 | 46 |
| Wm. Wrigley Jr. Co. 1,200 | 83 |
| | 3,567 |

Health Care Equipment & Services 0.7%

| | |
|------------------------------------------------------|-----|
| Aetna, Inc. 2,068 | 183 |
| AmerisourceBergen Corp. 700 | 53 |
| Bausch & Lomb, Inc. 400 | 30 |
| Baxter International, Inc. 3,800 | 145 |
| Becton Dickinson & Co. 1,800 | 91 |
| Biomet, Inc. 1,575 | 55 |
| • Boston Scientific Corp. 3,948 | 99 |
| C.R. Bard, Inc. 600 | 37 |
| Cardinal Health, Inc. 2,775 | 173 |
| • Caremark Rx, Inc. 2,988 | 157 |
| CIGNA Corp. 1,000 | 116 |
| • Coventry Health Care, Inc. 1,050 | 57 |
| • Express Scripts, Inc. 1,000 | 75 |
| • Fisher Scientific International, Inc. 720 | 41 |
| Guidant Corp. 2,000 | 126 |
| HCA, Inc. 2,760 | 133 |
| Health Management Associates, Inc., Class A 1,600 | 34 |
| • Hospira, Inc. 1,020 | 41 |
| • Humana, Inc. 800 | 35 |
| IMS Health, Inc. 1,500 | 35 |
| • Laboratory Corp. of America Holdings 900 | 43 |
| Manor Care, Inc. 500 | 19 |
| McKesson Corp. 1,773 | 81 |
| • Medco Health Solutions, Inc. 1,784 | 101 |
| Medtronic, Inc. 7,800 | 442 |
| • Millipore Corp. 200 | 12 |
| PerkinElmer, Inc. 600 | 13 |
| Quest Diagnostics 1,470 | 69 |
| • St. Jude Medical, Inc. 2,120 | 102 |
| Stryker Corp. 1,946 | 80 |
| • Tenet Healthcare Corp. 3,150 | 26 |
| • Thermo Electron Corp. 900 | 27 |
| UnitedHealth Group, Inc. 8,400 | 486 |
| • Waters Corp. 900 | 33 |
| • WellPoint, Inc. 3,852 | 288 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| • Zimmer Holdings, Inc. 1,500 | 96 |
| | 3,634 |

Hotels Restaurants & Leisure 0.2%

| | |
|----------------------------------------------------|--------------|
| Carnival Corp. 2,870 | 142 |
| Darden Restaurants, Inc. 1,350 | 44 |
| Harrah's Entertainment, Inc. 1,200 | 72 |
| Hilton Hotels Corp. 2,500 | 49 |
| International Game Technology 2,100 | 56 |
| Marriott International, Inc., Class A 1,100 | 66 |
| McDonald's Corp. 8,100 | 256 |
| • Starbucks Corp. 4,880 | 138 |
| Starwood Hotels & Resorts Worldwide, Inc. 1,200 | 70 |
| Wendy's International, Inc. 800 | 37 |
| Yum! Brands, Inc. 2,060 | 105 |
| | 1,035 |

Household & Personal Products 0.4%

| | |
|---------------------------------|--------------|
| Alberto-Culver Co., Class B 600 | 26 |
| Avon Products, Inc. 3,000 | 81 |
| Clorox Co. 1,300 | 70 |
| Colgate-Palmolive Co. 3,600 | 191 |
| Kimberly-Clark Corp. 3,380 | 192 |
| ⑩ Procter & Gamble Co. 22,832 | 1,279 |
| | 1,839 |

Insurance 0.7%

| | |
|--------------------------------------------------|-------|
| ACE Ltd. 1,700 | 89 |
| AFLAC, Inc. 3,300 | 158 |
| The Allstate Corp. 4,700 | 248 |
| AMBAC Financial Group, Inc. 684 | 48 |
| American International Group, Inc. 17,342 | 1,124 |
| AON Corp. 2,025 | 68 |
| Chubb Corp. 1,200 | 112 |
| Cincinnati Financial Corp. 1,323 | 56 |
| Hartford Financial Services Group, Inc. 1,800 | 143 |
| Jefferson-Pilot Corp. 1,050 | 58 |
| Lincoln National Corp. 1,300 | 66 |
| Loews Corp. 900 | 84 |
| Marsh & McLennan Cos., Inc. 3,600 | 105 |
| MBIA, Inc. 1,050 | 61 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| • Metlife, Inc. 4,986 | 246 | Temple-Inland, Inc. 800 | 29 |
| The Progressive Corp. 1,500 | 174 | United States Steel Corp. 700 | 26 |
| Prudential Financial, Inc. 3,500 | 255 | Vulcan Materials Co. 700 | 45 |
| Safeco Corp. 800 | 44 | Weyerhaeuser Co. 1,400 | 89 |
| The St. Paul Travelers Cos., Inc. 4,241 | 191 | Worthington Industries, Inc. 300 | 6 |
| Torchmark Corp. 800 | 42 | | 2,119 |
| UnumProvident Corp. 1,657 | 34 | | |
| XL Capital Ltd., Class A 800 | 51 | | |
| | 3,457 | | |
| Materials 0.4% | | Media 0.5% | |
| Air Products & Chemicals, Inc. 1,500 | 86 | Clear Channel Communications, Inc. 4,080 | 124 |
| Alcoa, Inc. 5,648 | 137 | • Comcast Corp., Class A 14,661 | 408 |
| Allegheny Technologies, Inc. 492 | 14 | Dow Jones & Co., Inc. 600 | 20 |
| Ashland, Inc. 500 | 27 | Gannett Co., Inc. 1,700 | 107 |
| Ball Corp. 800 | 31 | • Interpublic Group of Cos., Inc. 2,500 | 26 |
| Bemis Co. 600 | 16 | Knight-Ridder, Inc. 600 | 32 |
| Chemtura Corp. 889 | 10 | The McGraw-Hill Cos., Inc. 2,400 | 117 |
| The Dow Chemical Co. 6,049 | 277 | Meredith Corp. 300 | 15 |
| E.I. du Pont de Nemours & Co. 6,484 | 270 | New York Times Co., Class A 1,100 | 30 |
| Eastman Chemical Co. 600 | 32 | • News Corp, Inc., Class A 16,300 | 232 |
| Ecolab, Inc. 1,200 | 40 | Omnicom Group, Inc. 1,200 | 100 |
| Engelhard Corp. 800 | 22 | Time Warner, Inc. 30,870 | 550 |
| Freeport-McMoran Copper & Gold, Inc., Class B 1,100 | 54 | Tribune Co. 2,100 | 66 |
| Georgia-Pacific Corp. 1,496 | 49 | • Univision Communications, Inc., Class A 2,048 | 54 |
| • Hercules, Inc. 700 | 8 | Viacom, Inc., Class B 10,618 | 329 |
| International Flavors & Fragrances, Inc. 800 | 26 | The Walt Disney Co. 13,217 | 322 |
| International Paper Co. 3,166 | 92 | | 2,532 |
| Louisiana-Pacific Corp. 700 | 17 | Pharmaceuticals & Biotechnology 1.1% | |
| MeadWestvaco Corp. 1,279 | 34 | Abbott Laboratories 10,200 | 439 |
| Monsanto Co. 1,727 | 109 | Allergan, Inc. 900 | 80 |
| Neenah Paper, Inc. 102 | 3 | • Amgen, Inc. 8,340 | 632 |
| Newmont Mining Corp. 2,754 | 117 | Applied Biosystems Group – Applera Corp. 1,400 | 34 |
| Nucor Corp. 1,200 | 72 | • Biogen Idec, Inc. 2,150 | 87 |
| • Pactiv Corp. 1,000 | 20 | Bristol-Myers Squibb Co. 12,800 | 271 |
| Phelps Dodge Corp. 540 | 65 | • Chiron Corp. 1,200 | 53 |
| PPG Industries, Inc. 1,200 | 72 | Eli Lilly & Co. 7,400 | 369 |
| Praxair, Inc. 2,000 | 99 | • Forest Laboratories, Inc. 2,400 | 91 |
| Rohm & Haas Co. 1,421 | 62 | • Genzyme Corp. 1,700 | 123 |
| • Sealed Air Corp. 621 | 31 | • Gilead Sciences, Inc. 2,980 | 141 |
| Sigma-Aldrich Corp. 500 | 32 | Johnson & Johnson 19,872 | 1,244 |
| | | • King Pharmaceuticals, Inc. 1,388 | 21 |
| | | • Medimmune, Inc. 1,400 | 49 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------|-----------------------|
| Merck & Co., Inc. 14,500 | 409 |
| Mylan Laboratories, Inc. 1,700 | 33 |
| Pfizer, Inc. 49,386 | 1,074 |
| Schering-Plough Corp. 9,500 | 193 |
| • Watson Pharmaceuticals, Inc. 600 | 21 |
| Wyeth 8,800 | 392 |
| | 5,756 |

Real Estate 0.1%

| | |
|----------------------------------------------------|------------|
| Apartment Investment & Management Co., Class A 600 | 23 |
| Archstone-Smith Trust 1,300 | 53 |
| Equity Office Properties Trust 2,600 | 80 |
| Equity Residential 1,700 | 67 |
| Plum Creek Timber Co., Inc. 1,200 | 46 |
| ProLogis 1,200 | 51 |
| Public Storage, Inc. 600 | 40 |
| Simon Property Group, Inc. 1,450 | 104 |
| Vornado Realty Trust 800 | 65 |
| | 529 |

Retailing 0.6%

| | |
|-----------------------------------------|-----|
| • Autonation, Inc. 2,000 | 40 |
| • AutoZone, Inc. 500 | 40 |
| • Bed, Bath & Beyond, Inc. 1,800 | 73 |
| Best Buy Co., Inc. 3,150 | 139 |
| • Big Lots, Inc. 700 | 8 |
| Circuit City Stores, Inc. 1,400 | 25 |
| Dillards, Inc., Class A 700 | 14 |
| Dollar General Corp. 2,202 | 43 |
| • eBay, Inc. 7,416 | 294 |
| Family Dollar Stores, Inc. 1,100 | 24 |
| Federated Department Stores, Inc. 1,754 | 108 |
| The Gap, Inc. 3,862 | 67 |
| Genuine Parts Co. 1,150 | 51 |
| Home Depot, Inc. 14,600 | 599 |
| J.C. Penney Co., Inc. Holding Co. 1,700 | 87 |
| • Kohl's Corp. 2,200 | 106 |
| Limited Brands, Inc. 2,991 | 60 |
| Lowe's Cos., Inc. 5,000 | 304 |
| Nordstrom, Inc. 1,800 | 62 |
| • Office Depot, Inc. 2,500 | 69 |
| OfficeMax, Inc. 600 | 17 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------|-----------------------|
| • RadioShack Corp. 1,300 | 29 |
| • Sears Holdings Corp. 673 | 81 |
| The Sherwin-Williams Co. 1,100 | 47 |
| Staples, Inc. 4,575 | 104 |
| Target Corp. 5,800 | 323 |
| Tiffany & Co. 950 | 37 |
| TJX Cos., Inc. 3,600 | 78 |
| | 2,929 |

Semiconductors & Semiconductor Equipment 0.4%

| | |
|------------------------------------------------|--------------|
| • Advanced Micro Devices, Inc. 2,040 | 47 |
| • Altera Corp. 2,546 | 42 |
| Analog Devices, Inc. 2,300 | 80 |
| Applied Materials, Inc. 10,900 | 179 |
| • Applied Micro Circuits Corp. 1,928 | 5 |
| • Broadcom Corp., Class A 2,000 | 85 |
| • Freescale Semiconductor, Inc., Class B 2,650 | 63 |
| Intel Corp. 40,660 | 955 |
| KLA-Tencor Corp. 1,200 | 56 |
| Linear Technology Corp. 2,000 | 66 |
| • LSI Logic Corp. 2,000 | 16 |
| Maxim Integrated Products, Inc. 2,100 | 73 |
| • Micron Technology, Inc. 3,600 | 47 |
| National Semiconductor Corp. 2,200 | 50 |
| • Novellus Systems, Inc. 900 | 20 |
| • Nvidia Corp. 900 | 30 |
| • PMC — Sierra, Inc. 1,100 | 8 |
| • Teradyne, Inc. 1,100 | 15 |
| Texas Instruments, Inc. 11,300 | 323 |
| Xilinx, Inc. 2,100 | 50 |
| | 2,210 |

Software & Services 0.7%

| | |
|---------------------------------------------------|-----|
| Adobe Systems, Inc. 3,200 | 103 |
| • Affiliated Computer Services, Inc., Class A 465 | 25 |
| Autodesk, Inc. 1,600 | 72 |
| Automatic Data Processing, Inc. 3,900 | 182 |
| • BMC Software, Inc. 1,600 | 31 |
| • Citrix Systems, Inc. 1,200 | 33 |
| Computer Associates International, Inc. 3,825 | 107 |

40 See financial notes.

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------|-----------------------|
| American Electric Power Co., Inc. 2,580 | 98 |
| • Calpine Corp. 1,800 | 4 |
| Centerpoint Energy, Inc. 1,924 | 26 |
| Cinergy Corp. 1,000 | 40 |
| • CMS Energy Corp. 700 | 10 |
| Consolidated Edison, Inc. 1,500 | 68 |
| Constellation Energy Group, Inc. 1,000 | 55 |
| Dominion Resources, Inc. 2,167 | 165 |
| DTE Energy Co. 1,000 | 43 |
| Duke Energy Corp. 5,952 | 158 |
| • Dynegy, Inc., Class A 2,100 | 9 |
| Edison International 2,200 | 96 |
| Entergy Corp. 1,500 | 106 |
| Exelon Corp. 4,324 | 225 |
| FirstEnergy Corp. 2,030 | 96 |
| FPL Group, Inc. 2,600 | 112 |
| KeySpan Corp. 900 | 31 |
| Nicor, Inc. 300 | 12 |
| NiSource, Inc. 1,651 | 39 |
| Peoples Energy Corp. 200 | 8 |
| PG&E Corp. 2,700 | 98 |
| Pinnacle West Capital Corp. 600 | 25 |
| PPL Corp. 2,000 | 63 |
| Progress Energy, Inc. 1,593 | 70 |
| Public Service Enterprise Group, Inc. 1,500 | 94 |
| Sempra Energy 1,360 | 60 |
| The Southern Co. 4,500 | 158 |
| TECO Energy, Inc. 900 | 16 |
| TXU Corp. 1,582 | 159 |
| Xcel Energy, Inc. 2,585 | 47 |
| | 2,325 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------------------------|-----------------------|
| Other Investment Companies 85.7% of net assets | |
| ■ 2 Schwab Institutional Select S&P 500 Fund 8,862,123 | 84,810 |
| ■ 4 Schwab International Index Fund, Select Shares 4,575,148 | 78,189 |
| ■ 3 Schwab Small-Cap Index Fund, Select Shares 3,523,331 | 78,782 |
| ■ 1 Schwab Total Bond Market Fund 18,219,874 | 179,648 |
| ■ 5 Schwab Value Advantage Money Fund, Institutional Shares 23,269,573 | 23,270 |
| | 444,699 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | |
|----------------------------------------------------------|-----------------------------|--------------|
| Short-Term Investment 0.4% of net assets | | |
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 1,945 | 1,945 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------|----------------|
| Investments in affiliated underlying funds, at value | \$444,699 |
| Investments, at value | 74,159 |
| Receivables: | |
| Fund shares sold | 350 |
| Dividends | 104 |
| Prepaid expenses | + 13 |
| Total assets | 519,325 |

Liabilities

| | |
|---------------------------------------------|------------|
| Payables: | |
| Fund shares redeemed | 158 |
| Investment adviser and administrator fees | 9 |
| Transfer agent and shareholder service fees | 11 |
| Accrued expenses | + 59 |
| Total liabilities | 237 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 519,325 |
| Total liabilities | - 237 |
| Net assets | \$519,088 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 440,180 |
| Net investment income not yet distributed | 5,501 |
| Net realized capital losses | (1,157) |
| Net unrealized capital gains | 74,564 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | + | Shares Outstanding | = | NAV |
| \$519,088 | | 33,582 | | \$15.46 |

Unless stated, all numbers x 1,000.

The fund paid \$444,294 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 | \$124,524 |
| Sales/maturities | \$172,168 |

The fund's total security transactions (including the in-kind redemptions) with other Schwab Funds® during the period were \$153,092.

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 | 5.7% |

Schwab Bond Funds

| | |
|------------------------|-------|
| Total Bond Market Fund | 15.3% |
|------------------------|-------|

Schwab Institutional Select Funds

| | |
|----------------------|------|
| Institutional Select | |
| S&P 500 Fund | 6.8% |

Schwab Money Funds

| | |
|-----------------|------|
| Value Advantage | |
| Money Fund | 0.1% |

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio Cost | \$446,941 |
| Net unrealized gains and losses: | |
| Gains | \$80,847 |
| Losses | + (8,930) |
| | \$71,917 |

Net undistributed earnings:

| | |
|--------------------------------|-----------------|
| Ordinary income | \$5,501 |
| Long-term capital gains | \$1,490 |
| Capital losses utilized | \$11,299 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|---------------|
| Dividends received from affiliated underlying funds | \$12,842 |
| Dividends | 1,499 |
| Interest | + 153 |
| Total investment income | 14,494 |

Net Realized Gains and Losses

| | |
|--------------------------------------------------------------|---------------|
| Net realized gains on sales of affiliated underlying funds | 15,436 |
| Net realized gains received from affiliated underlying funds | 979 |
| Net realized gains on investments | 711 |
| Net realized gains on futures contracts | + 121 |
| Net realized gains | 17,247 |

Net Unrealized Gains and Losses

| | |
|-----------------------------------------------------|---------------|
| Net unrealized gains on affiliated underlying funds | 6,403 |
| Net unrealized gains on investments | + 3,716 |
| Net unrealized gains | 10,119 |

Expenses

| | |
|---------------------------------------------|--------------|
| Investment adviser and administrator fees | 2,343 |
| Transfer agent and shareholder service fees | 1,342 |
| Trustees' fees | 9 |
| Custodian fees | 32 |
| Portfolio accounting fees | 69 |
| Professional fees | 31 |
| Registration fees | 23 |
| Shareholder reports | 45 |
| Other expenses | + 42 |
| Total expenses | 3,936 |
| Expense reduction | - 1,252 |
| Net expenses | 2,684 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 14,494 |
| Net expenses | - 2,684 |
| Net investment income | 11,810 |
| Net realized gains | 17,247 |
| Net unrealized gains | + 10,119 |
| Increase in net assets from operations | \$39,176 |

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 net 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 \$27,366.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$11,810 | \$10,785 |
| Net realized gains | 17,247 | 3,467 |
| Net unrealized gains | + 10,119 | 29,584 |
| Increase in net assets from operations | \$39,176 | 43,836 |

Distributions Paid

| | | |
|--------------------------------------|-----------------|-----------------|
| Dividends from net investment income | \$10,162 | \$10,771 |
|--------------------------------------|-----------------|-----------------|

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|-------------------|------------------|------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 5,057 | \$76,535 | 7,160 | \$101,953 |
| Shares reinvested | 651 | 9,764 | 746 | 10,391 |
| Shares redeemed | + (9,036) | (137,415) | (8,474) | (120,586) |
| Net transactions in fund shares | (3,328) | (\$51,116) | (568) | (\$8,242) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + (3,328) | (22,102) | (568) | 24,823 |
| End of period | 33,582 | \$519,088 | 36,910 | \$541,190 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 39% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$4,906 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|----------|
| Ordinary income | \$10,162 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|----------|
| 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.

Current period \$5

Dollar amounts are net of the redemption fee 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 \$5,501 and \$3,853 at the end of the current period and prior period, respectively.

Schwab MarketTrack Conservative PortfolioTM

Financial Statements

Financial Highlights

| | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 13.09 | 12.53 | 11.37 | 12.22 | 13.12 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.36 | 0.34 | 0.29 | 0.40 | 0.49 |
| Net realized and unrealized gains or losses | 0.32 | 0.57 | 1.16 | (0.78) | (0.80) |
| Total income or loss from investment operations | 0.68 | 0.91 | 1.45 | (0.38) | (0.31) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.35) | (0.35) | (0.29) | (0.41) | (0.50) |
| Distributions from net realized gains | – | – | – | (0.06) | (0.09) |
| Total distributions | (0.35) | (0.35) | (0.29) | (0.47) | (0.59) |
| Net asset value at end of period | 13.42 | 13.09 | 12.53 | 11.37 | 12.22 |
| Total return (%) | 5.24 | 7.38 | 12.98 | (3.29) | (2.39) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses ¹ | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Gross operating expenses ¹ | 0.75 | 0.75 | 0.75 | 0.76 | 0.77 |
| Net investment income | 2.67 | 2.70 | 2.44 | 3.17 | 3.85 |
| Portfolio turnover rate | 9 | 10 | 17 | 32 | 15 |
| Net assets, end of period (\$ x 1,000,000) | 300 | 290 | 289 | 263 | 211 |

¹ 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.

Portfolio Holdings as of October 31, 2005

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.

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 (\$x1,000) | Value (\$x1,000) |
|-----------------------------|------------------------------------------|---------------------------|----------------------------|
| 93.7% | Other Investment Companies | 254,490 | 281,602 |
| 5.7% | Common Stock | 12,280 | 16,978 |
| 0.4% | Short-Term Investment | 1,338 | 1,338 |
| 99.8% | Total Investments | 268,108 | 299,918 |
| 0.2% | Other Assets and Liabilities, Net | | 453 |
| 100.0% | Total Net Assets | | 300,371 |

Security and Number of Shares **Value**
(\$ x 1,000)

Common Stock 5.7% of net assets

Automobiles & Components 0.0%

| | | |
|------------------------------|-------|----|
| Cooper Tire & Rubber Co. | 100 | 1 |
| Dana Corp. | 292 | 2 |
| Ford Motor Co. | 2,921 | 24 |
| General Motors Corp. | 825 | 23 |
| • Goodyear Tire & Rubber Co. | 300 | 5 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|--------------------------------------|-----|------------------------------|
| Harley-Davidson, Inc. | 500 | 25 |
| Johnson Controls, Inc. | 300 | 20 |
| Visteon Corp. | 248 | 2 |
| | | 102 |

Banks 0.4%

| | | |
|------------------------------------|-------|--------------|
| AmSouth Bancorp. | 600 | 15 |
| Bank of America Corp. | 6,162 | 270 |
| BB&T Corp. | 850 | 36 |
| Comerica, Inc. | 300 | 17 |
| Compass Bancshares, Inc. | 190 | 9 |
| Countrywide Financial Corp. | 798 | 25 |
| Fannie Mae | 1,475 | 70 |
| Fifth Third Bancorp | 867 | 35 |
| First Horizon National Corp. | 200 | 8 |
| Freddie Mac | 1,000 | 61 |
| Golden West Financial Corp. | 500 | 29 |
| 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 | 31 |
| North Fork Bancorp., Inc. | 750 | 19 |
| PNC Financial Services Group, Inc. | 400 | 24 |
| Regions Financial Corp. | 670 | 22 |
| Sovereign Bancorp, Inc. | 400 | 9 |
| SunTrust Banks, Inc. | 500 | 36 |
| Synovus Financial Corp. | 400 | 11 |
| U.S. Bancorp | 2,922 | 87 |
| Wachovia Corp. | 2,445 | 124 |
| Washington Mutual, Inc. | 1,491 | 59 |
| Wells Fargo & Co. | 2,560 | 154 |
| Zions Bancorp. | 100 | 7 |
| | | 1,235 |

Capital Goods 0.5%

| | | |
|---------------------------------|-------|----|
| 3M Co. | 1,200 | 91 |
| American Power Conversion Corp. | 225 | 5 |
| American Standard Cos., Inc. | 300 | 11 |
| The Boeing Co. | 1,246 | 81 |
| Caterpillar, Inc. | 1,100 | 58 |
| Cooper Industries Ltd., Class A | 150 | 11 |

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------|-----------------------|---------------------------------------------|-----------------------|
| Crane Co. 150 | 5 | Equifax, Inc. 200 | 7 |
| Cummins, Inc. 100 | 8 | H&R Block, Inc. 600 | 15 |
| Danaher Corp. 500 | 26 | • Monster Worldwide, Inc. 191 | 6 |
| Deere & Co. 400 | 24 | • PHH Corp. 72 | 2 |
| Dover Corp. 300 | 12 | Pitney Bowes, Inc. 400 | 17 |
| Eaton Corp. 200 | 12 | R.R. Donnelley & Sons Co. 300 | 11 |
| Emerson Electric Co. 650 | 45 | Robert Half International, Inc. 300 | 11 |
| Fluor Corp. 100 | 6 | Waste Management, Inc. 907 | 27 |
| General Dynamics Corp. 300 | 35 | | 167 |
| ⑥ General Electric Co. 16,490 | 559 | Consumer Durables & Apparel 0.1% | |
| Goodrich Corp. 200 | 7 | Black & Decker Corp. 100 | 8 |
| Honeywell International, Inc. 1,275 | 44 | Brunswick Corp. 100 | 4 |
| Illinois Tool Works, Inc. 350 | 30 | Centex Corp. 200 | 13 |
| Ingersoll-Rand Co., Class A 500 | 19 | • Coach, Inc. 600 | 19 |
| ITT Industries, Inc. 150 | 15 | D.R. Horton, Inc. 420 | 13 |
| L-3 Communications Holdings, Inc. 200 | 16 | Eastman Kodak Co. 500 | 11 |
| Lockheed Martin Corp. 700 | 42 | Fortune Brands, Inc. 200 | 15 |
| Masco Corp. 700 | 20 | Hasbro, Inc. 325 | 6 |
| • Navistar International Corp. 100 | 3 | Jones Apparel Group, Inc. 200 | 5 |
| Northrop Grumman Corp. 514 | 28 | KB Home 200 | 13 |
| Paccar, Inc. 300 | 21 | Leggett & Platt, Inc. 300 | 6 |
| Pall Corp. 200 | 5 | Lennar Corp., Class A 200 | 11 |
| Parker Hannifin Corp. 150 | 9 | Liz Claiborne, Inc. 200 | 7 |
| • Power-One, Inc. 57 | — | Mattel, Inc. 650 | 10 |
| Raytheon Co. 600 | 22 | Maytag Corp. 100 | 2 |
| Rockwell Automation, Inc. 300 | 16 | Newell Rubbermaid, Inc. 436 | 10 |
| Rockwell Collins, Inc. 300 | 14 | Nike, Inc., Class B 300 | 25 |
| Textron, Inc. 200 | 14 | Pulte Homes, Inc. 400 | 15 |
| • Thomas & Betts Corp. 100 | 4 | Reebok International Ltd. 100 | 6 |
| Tyco International Ltd. 3,013 | 79 | Snap-On, Inc. 100 | 4 |
| United Technologies Corp. 1,600 | 82 | The Stanley Works 100 | 5 |
| W.W. Grainger, Inc. 100 | 7 | VF Corp. 200 | 10 |
| | 1,486 | Whirlpool Corp. 100 | 8 |
| Commercial Services & Supplies 0.1% | | | 226 |
| • ACCO Brands Corp. 47 | 1 | Diversified Financials 0.5% | |
| • Allied Waste Industries, Inc. 500 | 4 | American Express Co. 1,820 | 91 |
| • Apollo Group, Inc., Class A 250 | 16 | • Ameriprise Financial, Inc. 364 | 14 |
| Avery Dennison Corp. 200 | 11 | The Bank of New York Co., Inc. 1,200 | 38 |
| Cendant Corp. 1,459 | 25 | The Bear Stearns Cos., Inc. 145 | 15 |
| Cintas Corp. 260 | 11 | Capital One Financial Corp. 450 | 34 |
| Deluxe Corp. 100 | 3 | | |

Portfolio holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------|-----------------------|-------------------------------------------|-----------------------|
| ■ The Charles Schwab Corp. 2,125 | 32 | Noble Corp. 200 | 13 |
| CIT Group, Inc. 300 | 14 | Occidental Petroleum Corp. 600 | 47 |
| ⑨ Citigroup, Inc. 8,082 | 370 | Rowan Cos., Inc. 100 | 3 |
| • E*TRADE Financial Corp. 600 | 11 | Schlumberger Ltd. 900 | 82 |
| Federated Investors, Inc., Class B 200 | 7 | Sunoco, Inc. 200 | 15 |
| Franklin Resources, Inc. 200 | 18 | • Transocean, Inc. 474 | 27 |
| Goldman Sachs Group, Inc. 728 | 92 | Valero Energy Corp. 500 | 53 |
| Janus Capital Group, Inc. 400 | 7 | • Weatherford International Ltd. 220 | 14 |
| JPMorgan Chase & Co. 5,352 | 196 | Williams Cos., Inc. 700 | 16 |
| Lehman Brothers Holdings, Inc. 400 | 48 | XTO Energy, Inc. 533 | 23 |
| MBNA Corp. 1,957 | 50 | | 1,571 |
| Mellon Financial Corp. 700 | 22 | | |
| Merrill Lynch & Co., Inc. 1,500 | 97 | Food & Staples Retailing 0.1% | |
| Moody's Corp. 400 | 21 | Albertson's, Inc. 652 | 16 |
| Morgan Stanley 1,630 | 89 | Costco Wholesale Corp. 700 | 34 |
| Northern Trust Corp. 300 | 16 | CVS Corp. 1,200 | 29 |
| Principal Financial Group, Inc. 550 | 27 | • Kroger Co. 1,200 | 24 |
| SLM Corp. 650 | 36 | Safeway, Inc. 650 | 15 |
| State Street Corp. 500 | 28 | Supervalu, Inc. 200 | 6 |
| T. Rowe Price Group, Inc. 200 | 13 | Sysco Corp. 1,000 | 32 |
| | 1,386 | Wal-Mart Stores, Inc. 3,900 | 185 |
| | | Walgreen Co. 1,600 | 73 |
| | | • Winn-Dixie Stores, Inc. 300 | — |
| | | | 414 |
| Energy 0.5% | | | |
| Amerada Hess Corp. 100 | 13 | Food Beverage & Tobacco 0.3% | |
| Anadarko Petroleum Corp. 367 | 33 | Altria Group, Inc. 3,220 | 242 |
| Apache Corp. 462 | 30 | Anheuser-Busch Cos., Inc. 1,200 | 49 |
| Baker Hughes, Inc. 470 | 26 | Archer-Daniels-Midland Co. 1,014 | 25 |
| BJ Services Co. 400 | 14 | Brown-Forman Corp., Class B 150 | 9 |
| Burlington Resources, Inc. 600 | 43 | Campbell Soup Co. 300 | 9 |
| ChevronTexaco Corp. 3,520 | 201 | The Coca-Cola Co. 3,220 | 138 |
| ConocoPhillips 2,164 | 142 | Coca-Cola Enterprises, Inc. 700 | 13 |
| Devon Energy Corp. 700 | 42 | ConAgra Foods, Inc. 800 | 19 |
| El Paso Corp. 769 | 9 | • Constellation Brands, Inc., Class A 300 | 7 |
| EOG Resources, Inc. 360 | 24 | General Mills, Inc. 582 | 28 |
| ⑦ Exxon Mobil Corp. 9,918 | 557 | H.J. Heinz Co. 600 | 21 |
| Halliburton Co. 714 | 42 | Hershey Foods Corp. 400 | 23 |
| Kerr-McGee Corp. 123 | 10 | Kellogg Co. 400 | 18 |
| Kinder Morgan, Inc. 176 | 16 | McCormick & Co., Inc. 200 | 6 |
| Marathon Oil Corp. 523 | 31 | Molson Coors Brewing Co., Class B 50 | 3 |
| Murphy Oil Corp. 300 | 14 | The Pepsi Bottling Group, Inc. 350 | 10 |
| • Nabors Industries Ltd. 200 | 14 | | |
| • National-Oilwell Varco, Inc. 270 | 17 | | |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------|-----------------------|
| PepsiCo, Inc. 2,560 | 151 |
| Reynolds American, Inc. 137 | 12 |
| Sara Lee Corp. 1,200 | 21 |
| Tyson Foods, Inc., Class A 400 | 7 |
| UST, Inc. 300 | 12 |
| Wm. Wrigley Jr. Co. 300 | 21 |
| | 844 |

Health Care Equipment & Services 0.3%

| | |
|----------------------------------------------------|-----|
| Aetna, Inc. 444 | 39 |
| AmerisourceBergen Corp. 200 | 15 |
| Bausch & Lomb, Inc. 100 | 7 |
| Baxter International, Inc. 900 | 34 |
| Becton Dickinson & Co. 400 | 20 |
| Biomet, Inc. 450 | 16 |
| • Boston Scientific Corp. 1,268 | 32 |
| C.R. Bard, Inc. 200 | 13 |
| Cardinal Health, Inc. 650 | 41 |
| • Caremark Rx, Inc. 581 | 30 |
| CIGNA Corp. 200 | 23 |
| • Coventry Health Care, Inc. 300 | 16 |
| • Express Scripts, Inc. 200 | 15 |
| • Fisher Scientific International, Inc. 163 | 9 |
| Guidant Corp. 500 | 32 |
| HCA, Inc. 800 | 39 |
| Health Management Associates, Inc., Class A 400 | 9 |
| • Hospira, Inc. 240 | 10 |
| • Humana, Inc. 200 | 9 |
| IMS Health, Inc. 350 | 8 |
| • Laboratory Corp. of America Holdings 200 | 10 |
| Manor Care, Inc. 100 | 4 |
| McKesson Corp. 422 | 19 |
| • Medco Health Solutions, Inc. 422 | 24 |
| Medtronic, Inc. 1,800 | 102 |
| • Millipore Corp. 100 | 6 |
| PerkinElmer, Inc. 200 | 4 |
| Quest Diagnostics 278 | 13 |
| • St. Jude Medical, Inc. 500 | 24 |
| Stryker Corp. 602 | 25 |
| • Tenet Healthcare Corp. 750 | 6 |
| • Thermo Electron Corp. 200 | 6 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--------------------------------|-----------------------|
| UnitedHealth Group, Inc. 2,000 | 116 |
| • Waters Corp. 200 | 7 |
| • WellPoint, Inc. 900 | 67 |
| • Zimmer Holdings, Inc. 350 | 22 |
| | 872 |

Hotels Restaurants & Leisure 0.1%

| | |
|--------------------------------------------------|------------|
| Carnival Corp. 820 | 41 |
| Darden Restaurants, Inc. 300 | 10 |
| Harrah's Entertainment, Inc. 200 | 12 |
| Hilton Hotels Corp. 600 | 12 |
| International Game Technology 556 | 15 |
| Marriott International, Inc., Class A 300 | 18 |
| McDonald's Corp. 2,000 | 63 |
| • Starbucks Corp. 1,120 | 32 |
| Starwood Hotels & Resorts Worldwide, Inc. 300 | 17 |
| Wendy's International, Inc. 200 | 9 |
| Yum! Brands, Inc. 480 | 24 |
| | 253 |

Household & Personal Products 0.1%

| | |
|---------------------------------|------------|
| Alberto-Culver Co., Class B 150 | 7 |
| Avon Products, Inc. 700 | 19 |
| Clorox Co. 300 | 16 |
| Colgate-Palmolive Co. 800 | 42 |
| Kimberly-Clark Corp. 756 | 43 |
| ⑩ Procter & Gamble Co. 5,362 | 300 |
| | 427 |

Insurance 0.3%

| | |
|------------------------------------------------|-----|
| ACE Ltd. 400 | 21 |
| AFLAC, Inc. 800 | 38 |
| The Allstate Corp. 1,100 | 58 |
| AMBAC Financial Group, Inc. 162 | 12 |
| American International Group, Inc. 3,979 | 258 |
| AON Corp. 475 | 16 |
| Chubb Corp. 300 | 28 |
| Cincinnati Financial Corp. 330 | 14 |
| Hartford Financial Services Group, Inc. 425 | 34 |
| Jefferson-Pilot Corp. 225 | 12 |
| Lincoln National Corp. 300 | 15 |
| Loews Corp. 300 | 28 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| Marsh & McLennan Cos., Inc. 800 | 23 | • Sealed Air Corp. 153 | 8 |
| MBIA, Inc. 200 | 12 | Sigma-Aldrich Corp. 100 | 6 |
| • Metlife, Inc. 1,178 | 58 | Temple-Inland, Inc. 200 | 7 |
| The Progressive Corp. 350 | 41 | United States Steel Corp. 100 | 4 |
| Prudential Financial, Inc. 800 | 58 | Vulcan Materials Co. 200 | 13 |
| Safeco Corp. 200 | 11 | Weyerhaeuser Co. 350 | 22 |
| The St. Paul Travelers Cos., Inc. 1,006 | 45 | Worthington Industries, Inc. 100 | 2 |
| Torchmark Corp. 200 | 11 | | 494 |
| UnumProvident Corp. 346 | 7 | | |
| XL Capital Ltd., Class A 200 | 13 | | |
| | 813 | | |
| Materials 0.2% | | Media 0.2% | |
| Air Products & Chemicals, Inc. 300 | 17 | Clear Channel Communications, Inc. 967 | 30 |
| Alcoa, Inc. 1,312 | 32 | • Comcast Corp., Class A 3,463 | 96 |
| Allegheny Technologies, Inc. 146 | 4 | Dow Jones & Co., Inc. 100 | 3 |
| Ashland, Inc. 100 | 5 | Gannett Co., Inc. 400 | 25 |
| Ball Corp. 200 | 8 | • Interpublic Group of Cos., Inc. 600 | 6 |
| Bemis Co. 200 | 5 | Knight-Ridder, Inc. 100 | 5 |
| Chemtura Corp. 222 | 2 | The McGraw-Hill Cos., Inc. 600 | 29 |
| The Dow Chemical Co. 1,372 | 63 | Meredith Corp. 100 | 5 |
| E.I. du Pont de Nemours & Co. 1,525 | 64 | New York Times Co., Class A 200 | 6 |
| Eastman Chemical Co. 100 | 5 | • News Corp, Inc., Class A 3,880 | 55 |
| Ecolab, Inc. 400 | 13 | Omnicom Group, Inc. 300 | 25 |
| Engelhard Corp. 200 | 6 | Time Warner, Inc. 7,280 | 130 |
| Freeport-McMoran Copper & Gold, Inc., Class B 300 | 15 | Tribune Co. 500 | 16 |
| Georgia-Pacific Corp. 379 | 12 | • Univision Communications, Inc., Class A 519 | 14 |
| • Hercules, Inc. 200 | 2 | Viacom, Inc., Class B 2,660 | 82 |
| International Flavors & Fragrances, Inc. 200 | 7 | The Walt Disney Co. 3,077 | 75 |
| International Paper Co. 739 | 22 | | 602 |
| Louisiana-Pacific Corp. 100 | 3 | | |
| MeadWestvaco Corp. 294 | 8 | Pharmaceuticals & Biotechnology 0.4% | |
| Monsanto Co. 332 | 21 | Abbott Laboratories 2,400 | 103 |
| Neenah Paper, Inc. 22 | 1 | Allergan, Inc. 200 | 18 |
| Newmont Mining Corp. 643 | 27 | • Amgen, Inc. 1,952 | 148 |
| Nucor Corp. 200 | 12 | Applied Biosystems Group – Applera Corp. 300 | 7 |
| • Pactiv Corp. 300 | 6 | • Biogen Idec, Inc. 480 | 19 |
| Phelps Dodge Corp. 135 | 16 | Bristol-Myers Squibb Co. 3,000 | 64 |
| PPG Industries, Inc. 250 | 15 | • Chiron Corp. 300 | 13 |
| Praxair, Inc. 500 | 25 | Eli Lilly & Co. 1,725 | 86 |
| Rohm & Haas Co. 373 | 16 | • Forest Laboratories, Inc. 550 | 21 |
| | | • Genzyme Corp. 325 | 23 |
| | | • Gilead Sciences, Inc. 650 | 31 |
| | | Johnson & Johnson 4,622 | 289 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------|-----------------------|
| •King Pharmaceuticals, Inc. 366 | 6 |
| •Medimmune, Inc. 400 | 14 |
| Merck & Co., Inc. 3,400 | 96 |
| Mylan Laboratories, Inc. 400 | 8 |
| Pfizer, Inc. 11,557 | 251 |
| Schering-Plough Corp. 2,300 | 47 |
| •Watson Pharmaceuticals, Inc. 200 | 7 |
| Wyeth 2,000 | 89 |
| | 1,340 |

Real Estate 0.0%

| | |
|----------------------------------------------------|------------|
| Apartment Investment & Management Co., Class A 100 | 4 |
| Archstone-Smith Trust 300 | 12 |
| Equity Office Properties Trust 600 | 18 |
| Equity Residential 400 | 16 |
| Plum Creek Timber Co., Inc. 300 | 12 |
| ProLogis 300 | 13 |
| Public Storage, Inc. 100 | 7 |
| Simon Property Group, Inc. 300 | 21 |
| Vornado Realty Trust 200 | 16 |
| | 119 |

Retailing 0.2%

| | |
|---------------------------------------|-----|
| •Autonation, Inc. 500 | 10 |
| •AutoZone, Inc. 150 | 12 |
| •Bed, Bath & Beyond, Inc. 400 | 16 |
| Best Buy Co., Inc. 675 | 30 |
| •Big Lots, Inc. 200 | 2 |
| Circuit City Stores, Inc. 300 | 5 |
| Dillards, Inc., Class A 200 | 4 |
| Dollar General Corp. 515 | 10 |
| •eBay, Inc. 1,708 | 68 |
| Family Dollar Stores, Inc. 300 | 7 |
| Federated Department Stores, Inc. 455 | 28 |
| The Gap, Inc. 1,362 | 24 |
| Genuine Parts Co. 250 | 11 |
| Home Depot, Inc. 3,450 | 142 |
| J.C. Penney Co., Inc. Holding Co. 400 | 20 |
| •Kohl's Corp. 500 | 24 |
| Limited Brands, Inc. 739 | 15 |
| Lowe's Cos., Inc. 1,200 | 73 |
| Nordstrom, Inc. 400 | 14 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| •Office Depot, Inc. 600 | 16 |
| OfficeMax, Inc. 100 | 3 |
| •RadioShack Corp. 300 | 7 |
| •Sears Holdings Corp. 154 | 18 |
| The Sherwin-Williams Co. 200 | 8 |
| Staples, Inc. 1,125 | 26 |
| Target Corp. 1,400 | 78 |
| Tiffany & Co. 250 | 10 |
| TJX Cos., Inc. 800 | 17 |

698**Semiconductors & Semiconductor Equipment 0.2%**

| | |
|---------------------------------------------|-----|
| •Advanced Micro Devices, Inc. 560 | 13 |
| •Altera Corp. 510 | 8 |
| Analog Devices, Inc. 600 | 21 |
| Applied Materials, Inc. 2,600 | 43 |
| •Applied Micro Circuits Corp. 455 | 1 |
| •Broadcom Corp., Class A 492 | 21 |
| •Freescale Semiconductor, Inc., Class B 404 | 10 |
| Intel Corp. 9,800 | 230 |
| KLA-Tencor Corp. 300 | 14 |
| Linear Technology Corp. 500 | 17 |
| •LSI Logic Corp. 500 | 4 |
| Maxim Integrated Products, Inc. 500 | 17 |
| •Micron Technology, Inc. 900 | 12 |
| National Semiconductor Corp. 600 | 13 |
| •Novellus Systems, Inc. 250 | 5 |
| •Nvidia Corp. 200 | 7 |
| •PMC – Sierra, Inc. 300 | 2 |
| •Teradyne, Inc. 300 | 4 |
| Texas Instruments, Inc. 2,700 | 77 |
| Xilinx, Inc. 500 | 12 |

531**Software & Services 0.3%**

| | |
|--------------------------------------------------|----|
| Adobe Systems, Inc. 800 | 26 |
| •Affiliated Computer Services, Inc., Class A 203 | 11 |
| Autodesk, Inc. 400 | 18 |
| Automatic Data Processing, Inc. 900 | 42 |
| •BMC Software, Inc. 400 | 8 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| •Citrix Systems, Inc. 300 | 8 | •JDS Uniphase Corp. 2,010 | 4 |
| Computer Associates International, Inc. 850 | 24 | •Lexmark International, Inc., Class A 200 | 8 |
| •Computer Sciences Corp. 258 | 13 | •Lucent Technologies, Inc. 7,019 | 20 |
| •Compuware Corp. 600 | 5 | Molex, Inc. 250 | 6 |
| •Convergys Corp. 174 | 3 | Motorola, Inc. 3,666 | 81 |
| •Electronic Arts, Inc. 424 | 24 | •NCR Corp. 400 | 12 |
| Electronic Data Systems Corp. 700 | 16 | •Network Appliance, Inc. 500 | 14 |
| First Data Corp. 1,392 | 56 | •QLogic Corp. 138 | 4 |
| •Fiserv, Inc. 300 | 13 | Qualcomm, Inc. 2,400 | 95 |
| •Intuit, Inc. 313 | 14 | •Sanmina — SCI Corp. 800 | 3 |
| •Mercury Interactive Corp. 100 | 4 | Scientific-Atlanta, Inc. 200 | 7 |
| ⑧ Microsoft Corp. 14,420 | 371 | •Soletron Corp. 1,000 | 4 |
| •Novell, Inc. 500 | 4 | •Sun Microsystems, Inc. 5,000 | 20 |
| •Oracle Corp. 5,870 | 74 | Symbol Technologies, Inc. 322 | 3 |
| •Parametric Technology Corp. 500 | 3 | Tektronix, Inc. 200 | 5 |
| Paychex, Inc. 525 | 20 | •Tellabs, Inc. 600 | 6 |
| Sabre Holdings Corp., Class A 244 | 5 | •Xerox Corp. 1,200 | 16 |
| Siebel Systems, Inc. 600 | 6 | | 1,159 |
| •Symantec Corp. 1,678 | 40 | | |
| •Unisys Corp. 500 | 3 | | |
| •Yahoo! Inc. 2,000 | 74 | | |
| | 885 | | |
| Technology Hardware & Equipment 0.4% | | Telecommunication Services 0.2% | |
| •ADC Telecommunications, Inc. 142 | 2 | Alltel Corp. 500 | 31 |
| •Agilent Technologies, Inc. 710 | 23 | AT&T Corp. 1,181 | 23 |
| •Andrew Corp. 100 | 1 | BellSouth Corp. 2,750 | 72 |
| •Apple Computer, Inc. 1,200 | 69 | CenturyTel, Inc. 250 | 8 |
| •Avaya, Inc. 618 | 7 | Citizens Communications Co. 410 | 5 |
| •CIENA Corp. 500 | 1 | •Qwest Communications International, Inc. 2,524 | 11 |
| •Cisco Systems, Inc. 9,930 | 173 | SBC Communications, Inc. 5,025 | 120 |
| •Comverse Technology, Inc. 300 | 8 | Sprint Corp. (FON Group) 4,454 | 104 |
| •Corning, Inc. 2,250 | 45 | Verizon Communications, Inc. 4,188 | 132 |
| •Dell, Inc. 3,850 | 123 | | 506 |
| •EMC Corp. 3,650 | 51 | | |
| •Gateway, Inc. 500 | 1 | | |
| Hewlett-Packard Co. 4,703 | 132 | | |
| International Business Machines Corp. 2,500 | 205 | | |
| •Jabil Circuit, Inc. 322 | 10 | | |
| | | Transportation 0.1% | |
| | | Burlington Northern Santa Fe Corp. 600 | 37 |
| | | CSX Corp. 300 | 14 |
| | | •Delta Air Lines, Inc. 200 | — |
| | | FedEx Corp. 460 | 42 |
| | | Norfolk Southern Corp. 600 | 24 |
| | | Ryder Systems, Inc. 100 | 4 |
| | | Southwest Airlines Co. 1,218 | 20 |
| | | Union Pacific Corp. 400 | 28 |

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

| | |
|-----------------------------------------------|-----|
| United Parcel Service, Inc., Class B 1,712 | 125 |
|-----------------------------------------------|-----|

294
Utilities 0.2%

| | |
|-------------------------------------------|----|
| • The AES Corp. 800 | 13 |
| • Allegheny Energy, Inc. 170 | 5 |
| Ameren Corp. 300 | 16 |
| American Electric Power Co., Inc. 580 | 22 |
| • Calpine Corp. 400 | 1 |
| Centerpoint Energy, Inc. 474 | 6 |
| Cinergy Corp. 300 | 12 |
| • CMS Energy Corp. 200 | 3 |
| Consolidated Edison, Inc. 300 | 14 |
| Constellation Energy Group, Inc. 200 | 11 |
| Dominion Resources, Inc. 515 | 39 |
| DTE Energy Co. 200 | 9 |
| Duke Energy Corp. 1,408 | 37 |
| • Dynegy, Inc., Class A 500 | 2 |
| Edison International 500 | 22 |
| Entergy Corp. 350 | 25 |
| Exelon Corp. 1,024 | 53 |
| FirstEnergy Corp. 533 | 25 |
| FPL Group, Inc. 600 | 26 |
| KeySpan Corp. 200 | 7 |
| Nicor, Inc. 100 | 4 |
| NiSource, Inc. 376 | 9 |
| Peoples Energy Corp. 100 | 4 |
| PG&E Corp. 600 | 22 |
| Pinnacle West Capital Corp. 100 | 4 |
| PPL Corp. 600 | 19 |
| Progress Energy, Inc. 354 | 15 |
| Public Service Enterprise Group, Inc. 400 | 25 |
| Sempra Energy 297 | 13 |
| The Southern Co. 1,100 | 39 |
| TECO Energy, Inc. 200 | 3 |
| TXU Corp. 400 | 40 |
| Xcel Energy, Inc. 510 | 9 |

554

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

Other Investment Companies

93.7% of net assets

| | |
|---------------------------------------------------------------------------|---------|
| ■ ③ Schwab International Index Fund, Select Shares 1,771,585 | 30,277 |
| ■ ② Schwab S&P 500 Index Fund, Select Shares 2,318,367 | 43,771 |
| ■ ④ Schwab Small-Cap Index Fund, Select Shares 1,353,756 | 30,270 |
| ■ ① Schwab Total Bond Market Fund 16,675,876 | 164,424 |
| ■ ⑤ Schwab Value Advantage Money Fund, Institutional Shares 12,860,362 | 12,860 |

281,602

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

Short-Term Investment

0.4% of net assets

| | | |
|----------------------------------------------------------------|-------|--------------|
| Wachovia Bank, Grand Cayman Time Deposit 3.48%, 11/01/05 | 1,338 | 1,338 |
|----------------------------------------------------------------|-------|--------------|

End of investments.

Statement of
Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------|----------------|
| Investments in affiliated underlying funds, at value | \$281,602 |
| Investments, at value | 18,316 |
| Receivables: | |
| Fund shares sold | 544 |
| Dividends | 36 |
| Prepaid expenses | + 10 |
| Total assets | 300,508 |

Liabilities

| | |
|---------------------------------------------|------------|
| Payables: | |
| Fund shares redeemed | 77 |
| Investment adviser and administrator fees | 5 |
| Transfer agent and shareholder service fees | 6 |
| Accrued expenses | + 49 |
| Total liabilities | 137 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 300,508 |
| Total liabilities | - 137 |
| Net assets | \$300,371 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 268,888 |
| Net investment income not yet distributed | 601 |
| Net realized capital losses | (928) |
| Net unrealized capital gains | 31,810 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$300,371 | | 22,379 | | \$13.42 |

Unless stated, all numbers x 1,000.

The fund paid \$268,108 for these securities.

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

| | |
|------------------|----------|
| Purchases | \$27,470 |
| Sales/maturities | \$25,134 |

Percent of fund shares of other Schwab funds owned at the end of the report period:

Schwab Equity Index Funds

| | |
|--------------------------|------|
| S&P 500 Index Fund | 0.6% |
| Small-Cap Index Fund | 1.9% |
| International Index Fund | 2.2% |

Schwab Bond Funds

| | |
|------------------------|-------|
| Total Bond Market Fund | 14.0% |
|------------------------|-------|

Schwab Money Funds

| | |
|----------------------------|----------------|
| Value Advantage Money Fund | Less than 0.1% |
|----------------------------|----------------|

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio Cost | \$269,238 |
| Net unrealized gains and losses: | |
| Gains | \$34,753 |
| Losses | + (4,073) |
| | \$30,680 |

Net undistributed earnings:

| | |
|--------------------------------|----------------|
| Ordinary income | \$601 |
| Long-term capital gains | \$202 |
| Capital losses utilized | \$2,047 |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|------------------------------------------|--------------|
| Dividends received from affiliated funds | \$9,201 |
| Dividends | 354 |
| Interest | + 38 |
| Total investment income | 9,593 |

Net Realized Gains and Losses

| | |
|--------------------------------------------------------------|--------------|
| Net realized gains on sales of affiliated underlying funds | 1,370 |
| Net realized gains received from affiliated underlying funds | 826 |
| Net realized gains on investments | + 102 |
| Net realized gains | 2,298 |

Net Unrealized Gains and Losses

| | |
|-----------------------------------------------------|--------------|
| Net unrealized gains on affiliated underlying funds | 3,945 |
| Net unrealized gains on investments | + 927 |
| Net unrealized gains | 4,872 |

Expenses

| | |
|---------------------------------------------|--------------|
| Investment adviser and administrator fees | 1,330 |
| Transfer agent and shareholder service fees | 756 |
| Trustees' fees | 7 |
| Custodian fees | 15 |
| Portfolio accounting fees | 39 |
| Professional fees | 31 |
| Registration fees | 18 |
| Shareholder reports | 18 |
| Other expenses | + 40 |
| Total expenses | 2,254 |
| Expense reduction | - 742 |
| Net expenses | 1,512 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|-----------------|
| Total investment income | 9,593 |
| Net expenses | - 1,512 |
| Net investment income | 8,081 |
| Net realized gains | 2,298 |
| Net unrealized gains | + 4,872 |
| Increase in net assets from operations | \$15,251 |

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 net 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 \$7,170.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$8,081 | \$7,916 |
| Net realized gains | 2,298 | 3,273 |
| Net unrealized gains | + 4,872 | 9,568 |
| Increase in net assets from operations | 15,251 | 20,757 |

Distributions Paid

| | | |
|--------------------------------------|----------------|----------------|
| Dividends from net investment income | \$7,852 | \$8,047 |
|--------------------------------------|----------------|----------------|

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|----------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 4,139 | \$55,417 | 3,721 | \$47,654 |
| Shares reinvested | 560 | 7,474 | 602 | 7,647 |
| Shares redeemed | + (4,489) | (60,077) | (5,185) | (66,455) |
| Net transactions in fund shares | 210 | \$2,814 | (862) | (\$11,154) |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 210 | 10,213 | (862) | 1,556 |
| End of period | 22,379 | \$300,371 | 22,169 | \$290,158 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 16% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$1,730 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$7,852 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|---------|
| 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.

Current period \$3

Dollar amounts are net of the redemption fee 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 \$601 and \$372 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, 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 ("due to/from broker").

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 Institutional Select S&P 500 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 Large-Cap Growth Fund
 Schwab Small-Cap Equity Fund
 Schwab Hedged Equity Fund
 Schwab Financial Services Fund
 Schwab Health Care Fund
 Schwab Technology Fund
 Schwab Target 2010 Fund
 Schwab Target 2020 Fund
 Schwab Target 2030 Fund
 Schwab Target 2040 Fund
 Schwab Retirement Income Fund

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 10/31/05 (\$ × 1,000) | Average Borrowing* (\$ × 1,000) | Weighted average Interest Rate* (%) |
|-------------------------------------------|---------------------------------------------|---------------------------------|-------------------------------------|
| MarketTrack All Equity Portfolio | — | 330 | 4.03 |
| MarketTrack Growth Portfolio | — | 328 | 3.90 |
| MarketTrack Balanced Portfolio | — | 405 | 2.97 |
| MarketTrack Conservative Portfolio | — | 218 | 3.45 |

*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 Investment Company Act of 1940.
- **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.

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders of:

Schwab MarketTrack All Equity Portfolio™

Schwab MarketTrack Growth Portfolio™

Schwab MarketTrack Balanced Portfolio™

Schwab MarketTrack Conservative Portfolio™

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab MarketTrack All Equity Portfolio, Schwab MarketTrack Growth Portfolio, Schwab MarketTrack Balanced Portfolio, and Schwab MarketTrack Conservative Portfolio (constituting four funds of Schwab Capital Trust, hereafter referred to as the “Funds”) at October 31, 2005, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

December 16, 2005

Investment Advisory Agreement Approval

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

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Capital Trust (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, operating as of December 31 of the previous year, including the Schwab MarketTrack All Equity Portfolio, the Schwab MarketTrack Growth Portfolio, the Schwab MarketTrack Balanced Portfolio and the Schwab MarketTrack Conservative Portfolio, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive

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

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

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

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

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

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

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

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

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

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

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

Trustees and Officers

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

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

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

| Independent Trustees | | |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
| Mariann Byerwalter 1960 | 2000 (all trusts). | Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children’s Hospital; Director, Pacific Life Insurance Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ² <i>Until 2001:</i> Stanford University, Special Advisor to the President. <i>From 1996-2001:</i> Stanford University, Vice President of Business Affairs, Chief Financial Officer. |
| Donald F. Dorward 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> Executive Vice President, Managing Director, Grey Advertising San Francisco. <i>Until 1996:</i> President, Chief Executive Officer, Allen & Dorward Advertising. |

¹ 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.

² This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Independent Trustees continued

| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Hasler 1941 | 2000 (all trusts). | <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Solectron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ³ |
| Robert G. Holmes 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm). |
| Gerald B. Smith 1950 | 2000 (all trusts). | <i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy). |
| Donald R. Stephens 1938 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust). |
| Michael W. Wilsey 1943 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments). |

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Interested Trustees

| Name and Year of Birth | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charles R. Schwab ⁴ 1937 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art. |
| Randall W. Merk ⁴ 1954 | Trustee, 2005 (all trusts). | Executive Vice President and President, Asset Management Products & Services Enterprise, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (6/01 to 8/02); Chief Investment Officer, Fixed, American Century Companies, Inc. (1/97 to 6/01). |

Officers of the Trust

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|--------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Dilsaver 1955 | President, Chief Executive Officer (all trusts). | Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 1955 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|---------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kimon Daifotis 1959 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 1963 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 1960 | Chief Compliance Officer (all trusts). | Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc. |
| Koji E. Felton 1961 | Secretary (all trusts). | Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco. |
| George Pereira 1964 | Treasurer, Principal Financial Officer (all trusts) | Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. |

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

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.

Internet¹

www.schwab.com

Schwab by Phone™²

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

TeleBroker®

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

Mail

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

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

Proxy Voting Policies, Procedures and Results

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

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

The Schwab Funds Family®

Stock Funds

Schwab Institutional Select® S&P 500 Fund
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 Large-Cap Growth Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™

Asset Allocation Funds

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

Bond Funds

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

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ 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®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

³ 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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Annual Report

October 31, 2005



COMMAND PERFORMANCE™

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.

In This Report

| | | | |
|----------------------------------------------------|----|----------------------------------------------------------------------|----|
| Management's Discussion | 1 | Financial Statements | |
| Performance and Fund Facts | | Laudus U.S. MarketMasters Fund™ | 20 |
| Laudus U.S. MarketMasters Fund™ | 6 | Laudus Balanced MarketMasters Fund™ | 29 |
| Laudus Balanced MarketMasters Fund™ | 9 | Laudus Small-Cap MarketMasters Fund™ | 45 |
| Laudus Small-Cap MarketMasters Fund™ | 12 | Laudus International MarketMasters Fund™ | 55 |
| Laudus International MarketMasters Fund™ | 15 | Financial Notes | 69 |
| Fund Expenses | 18 | Investment Advisory and Sub-Advisory Agreement Approval | 76 |
| | | Trustees and Officers | 80 |
| | | Glossary | 84 |

Select Shares[®] are available for the MarketMasters Funds[™]

The Laudus MarketMasters Funds offer Select Shares, a share class that carries lower expenses than Investor Shares[™] 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.laudus.com. Or, call 1.800.435.4000 to order a prospectus or to speak with a representative.

The Laudus Group of Funds includes the Laudus Rosenberg Funds, which are part of the Laudus Trust and distributed by ALPS Distributor, Inc., and the Laudus MarketMasters Funds, which are part of the Schwab Capital Trust and distributed by Charles Schwab & Co., Inc. Charles Schwab & Co., Inc. (member SIPC) serves as dealer for the Laudus Funds.

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.

Management's Discussion for the year ended October 31, 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 D. 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 pleased to bring you the annual report for the Laudus MarketMasters Funds for the one-year period ended October 31, 2005. Despite the volatility in equity markets, these funds all enjoyed positive returns and all but one outperformed their respective benchmarks.

As part of the Laudus Funds Group, the Laudus MarketMasters Funds provide individual investors access to the proven expertise of an extraordinary line-up of portfolio managers and the ongoing oversight of Charles Schwab Investment Management, Inc. (CSIM). Each fund is managed by sub-advisors carefully selected by CSIM on the basis of their constant performance records, industry leadership and innovation.

These funds take advantage of the strengths of their sub-advisors by bringing together a variety of investment styles under a disciplined approach. We would like to specifically highlight the Laudus International MarketMasters Fund. The Fund assets grew to over \$1 billion, and it delivered top decile performance in its category for the one-year period ended October 31, 2005.¹ We are proud of the fund's record and its success among its peers.

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

Sincerely,

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

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

Performance data quoted represents past performance and does not indicate future results. Visit Schwab.com for month-end performance information. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost.

¹ Source: Lipper International Multi-Cap Growth Funds. Rankings for the Investor and Select Share for the one-year period were, respectively, #14 and #13 out of 180 funds; for the three-year period, Investor Shares ranked #5 out of 155 funds; and for the five-year period, Investor Shares ranked #17 out of 109 funds. Lipper, Inc. rankings are based on average annual total returns not including sales charges.



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

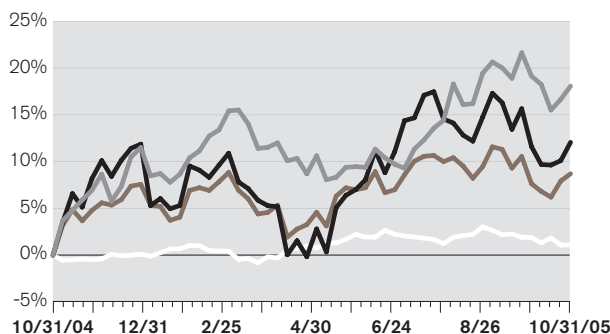
Despite a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit all-time highs and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the Fed Funds Target eight consecutive times in the one-year report period. The moves had a limited impact on overall economic growth, due primarily to the record-low level of interest rates from which the increases began.

Despite concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.6%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

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.

- 8.72% **S&P 500® Index:** measures U.S. large-cap stocks
- 12.08% **Russell 2000® Index:** measures U.S. small-cap stocks
- 18.09% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.13% **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 big news for the past few months was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructure in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September. However, a quick action by the federal government to release Strategic Petroleum Reserves and soften oil demand led to a subsequent decline off that peak. While the full economic effect of the hurricanes was unknown at the end of the report period, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in the area.

Another significant event that occurred during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he has not yet been confirmed into office, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks held up well. The S&P 500 Index¹ posted gains of 8.72% for the one-year period ending on October 31, 2005 while the Russell 2000 Index also displayed a positive return of 12.08%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE (Morgan Stanley Capital International, Inc. Europe, Australasia, and Far East) Index also had an impressive return of 18.09% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 1.13%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we were in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

Performance at a Glance

Total return for the 12 months ended 10/31/05

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

Laudus U.S. MarketMasters Fund™

| | |
|---------------------------|--------------|
| Investor Shares | 9.32% |
| Select Shares® | 9.50% |
| Benchmark | 8.72% |
| Fund Category¹ | 9.53% |

Performance Details pages 6-7

Laudus Balanced MarketMasters Fund™

| | |
|---------------------------|--------------|
| Investor Shares | 8.92% |
| Select Shares | 9.11% |
| Benchmark | 5.73% |
| Fund Category¹ | 7.62% |

Performance Details pages 9-10

Laudus Small-Cap MarketMasters Fund™

| | |
|---------------------------|---------------|
| Investor Shares | 9.85% |
| Select Shares | 10.01% |
| Benchmark | 12.08% |
| Fund Category¹ | 13.72% |

Performance Details pages 12-13

Laudus International MarketMasters Fund™

| | |
|---------------------------|---------------|
| Investor Shares | 23.75% |
| Select Shares | 23.90% |
| Benchmark | 18.09% |
| Fund Category¹ | 17.27% |

Performance Details pages 15-16

The Laudus U.S. MarketMasters Fund returned 9.32% versus its benchmark, the S&P 500 Index, which was up 8.72% for the one-year period. Thornburg Investment Management, Inc., with a large-cap blend focus, had a positive impact on the fund, as a result of having the largest allocation of fund assets coupled with its outperformance versus the S&P 500 Index. Gardner Lewis Asset Management Limited Partnership, whose focus is growth, nearly matched the Russell 1000 Growth Index but was a slight drag on fund performance as value was favored over growth during this period. Harris Associates Limited Partnership, the fund's large cap value manager, fell short of outperforming the Russell 1000 Value Index as a result of poor sector allocation, namely to Consumer Discretionary and Energy. TCW Investment Management Company's underperformance relative to the Russell Mid-Cap Index was largely driven by weak stock selection in Health Care, Information Technology and Consumer Discretionary sectors.

The Laudus Balanced MarketMasters Fund returned 8.92%, outperforming the Balanced Blended Index (60/40 S&P500/Lehman Aggregate), which returned 5.73%. The fund was overweight in stocks for the one-year period, as we believed stocks would have the potential for higher returns. This overweight helped the fund's performance. TCW Investment Management Company, whose focus is on large-cap value stocks, performed particularly well due to positive stock selection in almost all sectors. Gardner Lewis Asset Management Limited Partnership came in slightly ahead of the Russell 1000 Growth Index, but hurt fund performance slightly as value continued to outperform growth. Although Janus Capital Management LLC / Perkins, Wolf, McDonnell and Company, LLC, who focuses on mid-cap stocks, underperformed its Russell Mid-Cap Value benchmark, the firm still added to performance as mid-cap stocks performed better than large- or small-cap stocks over the one-year period. On the fixed-income side, PIMCO (Pacific Investment Management Company LLC) outperformed the Lehman Brothers U.S. Aggregate Bond Index for the one-year 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.

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.

The Laudus Small-Cap MarketMasters Fund was up 9.85% for the one-year period, underperforming its benchmark, the Russell 2000 Index, which returned 12.08%. The outperformance by two of the sub-advisors relative to their respective benchmarks was not enough to overcome the results of weak stock and sector selection in the other two sub-advisors. Notably, Veredus Asset Management LLC outperformed its Russell 2000 Growth benchmark as did Tocqueville Asset Management Company who outperformed its Russell 2000 benchmark. Strong selection was the driver of outperformance for both managers. On the other hand, weak stock and sector selection detracted from the performance of TAMRO Capital Partners, LLC and TCW Investment Management Company, which underperformed their respective Russell 2000 Value and Russell Mid-Cap Value benchmarks. This underperformance detracted from the fund's performance as the two value indices' returns beat Russell 2000 and Russell Growth index returns for the one-year period.

The Laudus International MarketMasters Fund was up 23.75% for the one-year period, outperforming its benchmark, the MSCI EAFE, which was up 18.09%. All four sub-advisors performed well during this period, with American Century Global Investment Management, Inc. (American Century) as a positive outlier. American Century returned 42.85% for the one-year versus 18.12% for the MSCI EAFE Index. This outperformance can be attributed to solid stock selection in eight out of the ten sectors. Robust stock selection was a continuing theme in the other sub-advisors for this Fund. Artisan Partners Limited Partnership and Harris Associates Limited Partnership's outperformance were also driven by stock selection, specifically within the Financials sector. William Blair & Company LLC was also helped by solid stock selection in Consumer Discretionary, Financials, Health Care and Information Technology.

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.

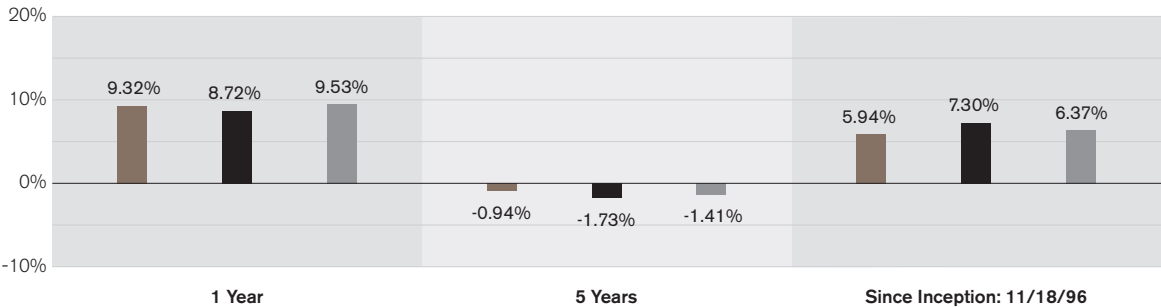
Laudus U.S. MarketMasters Fund™

Investor Shares Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

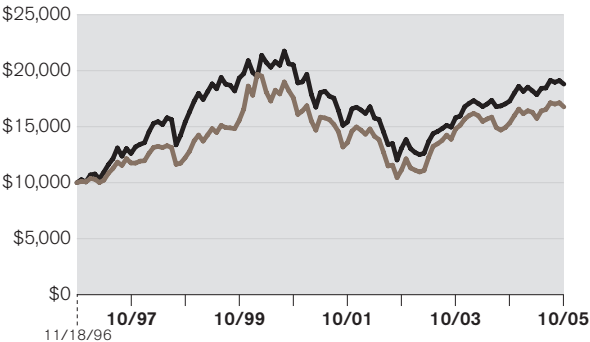


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment¹

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

- \$16,766 **Investor Shares**
- \$18,801 **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.

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.

¹ 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.

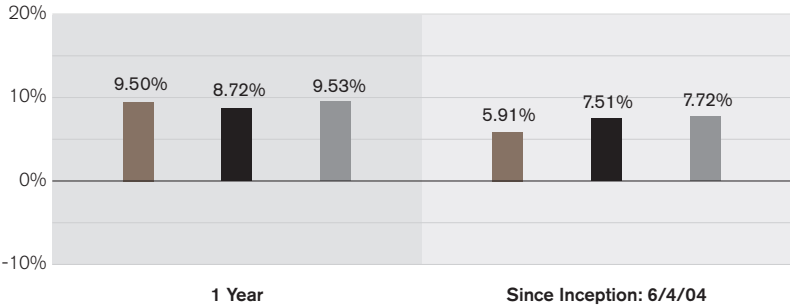
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Total Returns^{1, 2}

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**

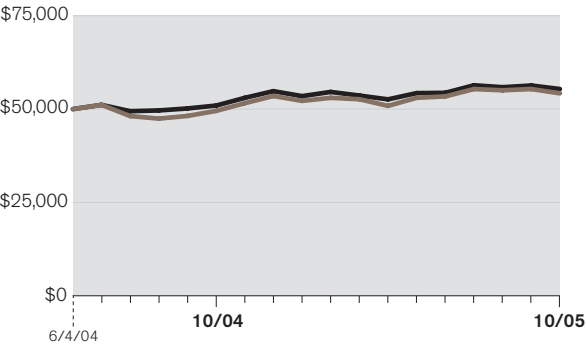


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Performance of a Hypothetical \$50,000 Investment¹

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.

- \$54,225 **Select Shares**
- \$55,384 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹



Statistics

| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 159 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$45,449 |
| Price/Earnings Ratio (P/E) | 24.9 |
| Price/Book Ratio (P/B) | 2.5 |
| Portfolio Turnover Rate | 83% |
| Minimum Initial Investment ² | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Investment Managers and Allocations

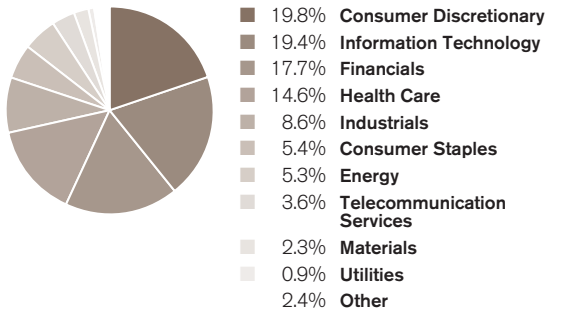
| Investment Manager | Investment Style | % of Net Assets |
|--------------------------------------------------|---------------------|-----------------|
| Gardner Lewis Asset Management L.P. ³ | Large-Cap Growth | 26.8% |
| Harris Associates L.P. | Mid/Large-Cap Value | 19.5% |
| TCW Investment Management Company | Small/Mid-Cap Blend | 20.3% |
| Thornburg Investment Management, Inc. | Large-Cap Blend | 33.1% |

Top Holdings⁴

| Security | % of Net Assets |
|---------------------------------|-----------------|
| 1 Time Warner, Inc. | 2.1% |
| 2 The Goldman Sachs Group, Inc. | 2.0% |
| 3 Caremark Rx, Inc. | 1.7% |
| 4 NII Holdings, Inc. | 1.5% |
| 5 Google, Inc. | 1.5% |
| 6 Target Corp. | 1.5% |
| 7 Comcast Corp., Class A | 1.4% |
| 8 Coca-Cola Co. | 1.4% |
| 9 National Semiconductor Corp. | 1.4% |
| 10 Cendant Corp. | 1.3% |
| Total | 15.8% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ Gardner Lewis replaced Eagle Asset Management as of December 27, 2004.

⁴ This list is not a recommendation of any security by the investment adviser.

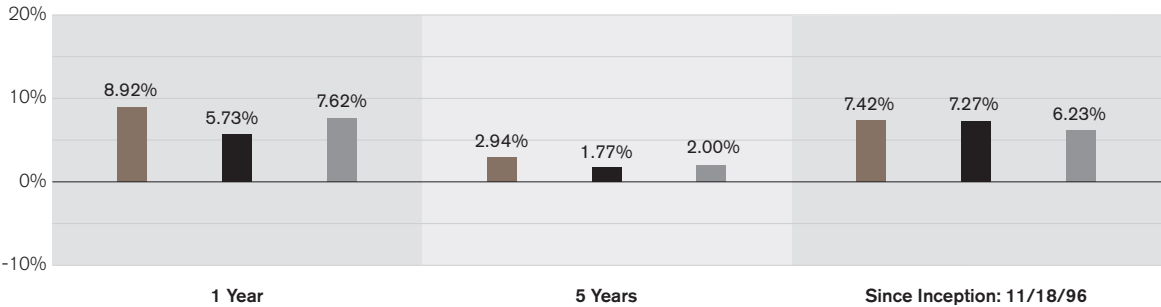
Laudus Balanced MarketMasters FundTM

Investor Shares Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

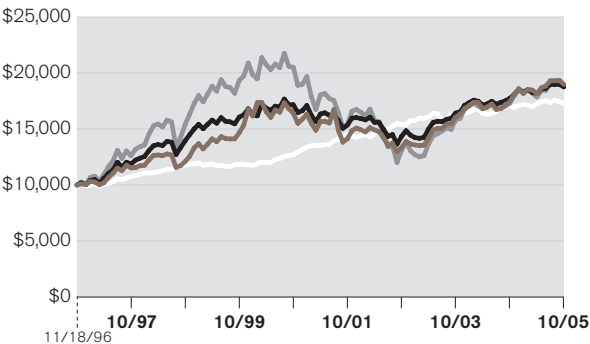


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Performance of a Hypothetical \$10,000 Investment¹

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.

- \$18,985 **Investor Shares**
- \$18,745 **Balanced Blended Index**
- \$18,801 **S&P 500[®] Index**
- \$17,273 **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.

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.

¹ 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.

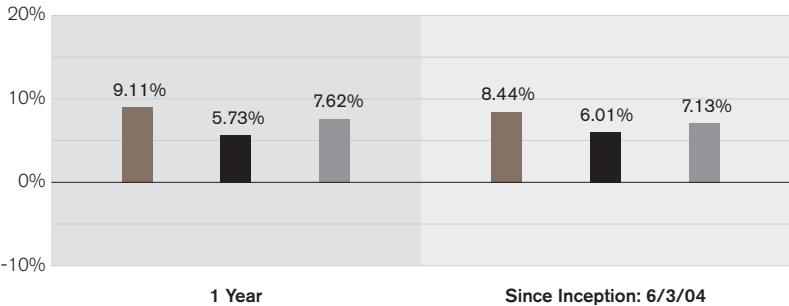
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Total Returns^{1, 2}

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**

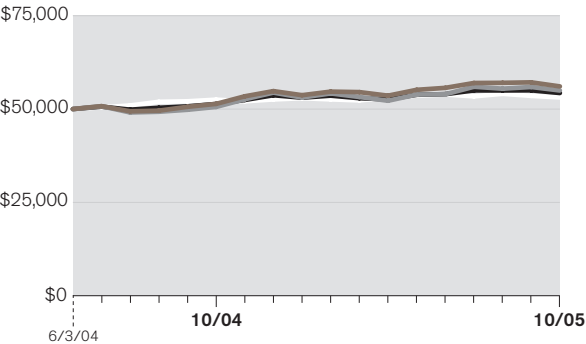


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$50,000 Investment¹

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.

- \$56,065 **Select Shares**
- \$54,296 **Balanced Blended Index**
- \$54,975 **S&P 500® Index**
- \$53,110 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Top Holdings¹

| Security | % of Net Assets |
|-------------------------------------|-----------------|
| ① Fannie Mae 5.50%, 09/01/34 | 3.5% |
| ② Fannie Mae 5.50%, 11/01/34 | 2.0% |
| ③ U.S.Treasury Note 3.50%, 02/15/10 | 1.7% |
| ④ Fannie Mae 6.00%, 04/01/35 | 1.7% |
| ⑤ Conoco Phillips | 1.5% |
| ⑥ UK Treasury Gilt 4.75%, 06/07/10 | 1.4% |
| ⑦ U.S.Treasury Note 4.00%, 06/15/09 | 1.4% |
| ⑧ Fannie Mae 5.50%, 02/01/35 | 1.4% |
| ⑨ Hewlett Packard Co. | 1.4% |
| ⑩ Fannie Mae 5.50%, 04/01/35 | 1.4% |
| Total | 17.4% |

Statistics

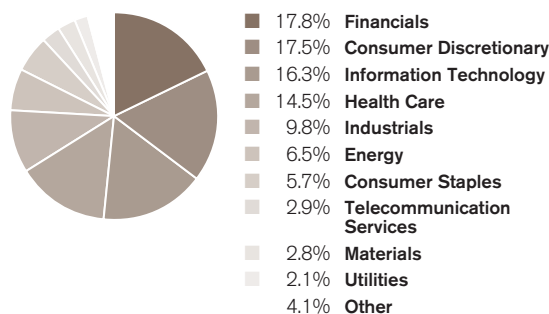
| | |
|------------------------------------------------------------|----------|
| Number of Long Holdings | 308 |
| Number of Short Positions | 6 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$32,452 |
| Price/Earnings Ratio (P/E) | 25.8 |
| Price/Book Ratio (P/B) | 2.1 |
| Portfolio Turnover Rate | 283% |
| Minimum Initial Investment² | |
| <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 |
|--------------------------------------------------------------------------------|---------------------------|-----------------|
| TCW Investment Management Company³ | Large-Cap Value | 33.5% |
| Gardner Lewis Asset Management L.P.⁴ | Large-Cap Growth | 17.7% |
| Janus Capital Management LLC/ Perkins, Wolf, McDonnell and Company, LLC | Mid-Cap Value | 18.0% |
| Pacific Investment Management Company LLC | Total Return Fixed-Income | 30.3% |

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.

¹ This list is not a recommendation of any security by the investment adviser.

² Please see prospectus for further detail and eligibility requirements.

³ TCW Investment Management replaced Aronson+Johnson+Ortiz as of November 1, 2004.

⁴ Gardner Lewis replaced Eagle Asset Management as of December 27, 2004.

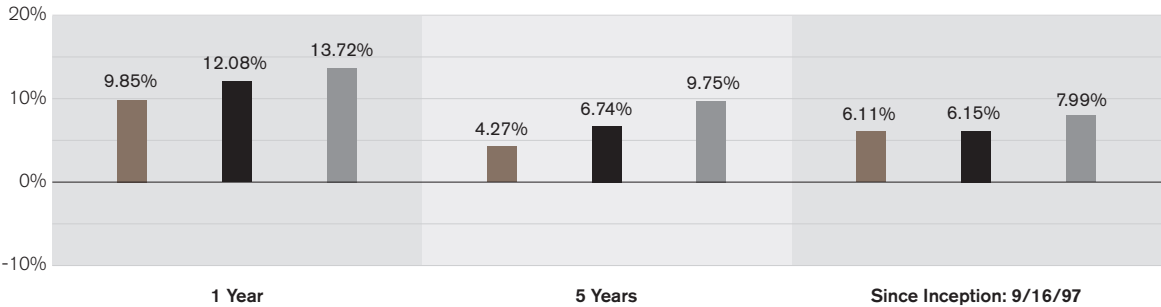
Laudus Small-Cap MarketMasters Fund™

Investor Shares Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

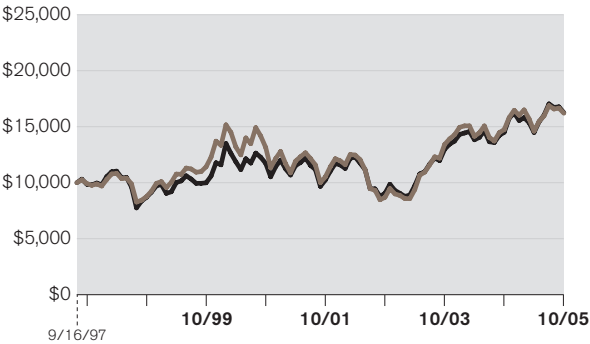


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment¹

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

- \$16,201 **Investor Shares**
- \$16,256 **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. 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.

¹ 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.

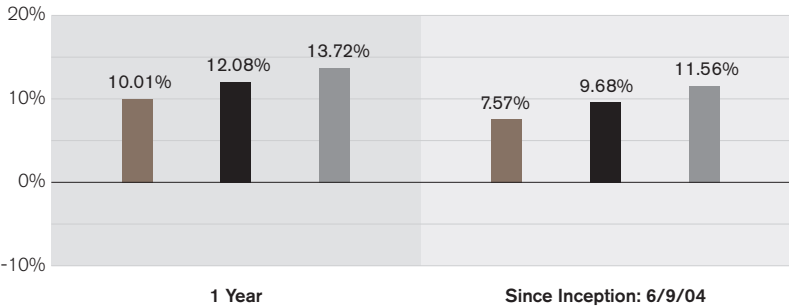
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Total Returns^{1, 2}

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**

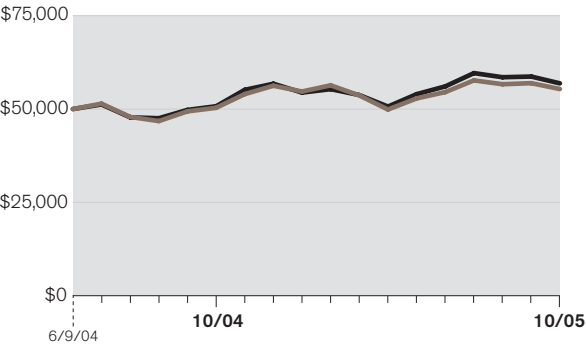


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$50,000 Investment¹

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.

\$55,365 **Select Shares**
\$56,886 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Style Assessment¹



Statistics

| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 211 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$2,075 |
| Price/Earnings Ratio (P/E) | 42.7 |
| Price/Book Ratio (P/B) | 2.3 |
| Portfolio Turnover Rate | 94% |
| Minimum Initial Investment ² | |
| Investor Shares | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| Select Shares | \$50,000 |

Investment Managers and Allocations

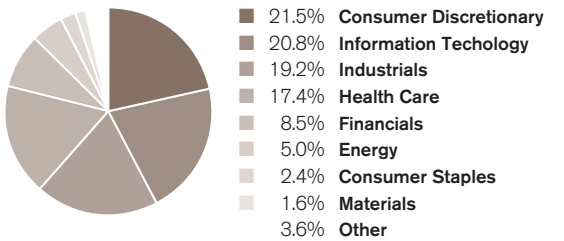
| Investment Manager | Investment Style | % of Net Assets |
|-----------------------------------|---------------------|-----------------|
| TAMRO Capital Partners, LLC | Small-Cap Value | 29.3% |
| TCW Investment Management Company | Small/Mid-Cap Blend | 15.4% |
| Tocqueville Asset Management LP | Small-Cap Blend | 8.4% |
| Veredus Asset Management LLC | Small-Cap Growth | 45.0% |

Top Holdings³

| Security | % of Net Assets |
|------------------------------------|-----------------|
| 1 Beazer Homes USA, Inc. | 1.9% |
| 2 The Chicago Mercantile Exchange. | 1.7% |
| 3 AirTran Holdings, Inc. | 1.5% |
| 4 The Shaw Group, Inc. | 1.5% |
| 5 Steelcase, Inc., Class A | 1.4% |
| 6 Meritage Corp. | 1.4% |
| 7 The Ryland Group, Inc. | 1.3% |
| 8 United Therapeutics Corp. | 1.3% |
| 9 URS Corp. | 1.2% |
| 10 Standard Pacific Corp. | 1.1% |
| Total | 14.3% |

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.

¹ 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 10/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Please see prospectus for further detail and eligibility requirements.

³ This list is not a recommendation of any security by the investment adviser.

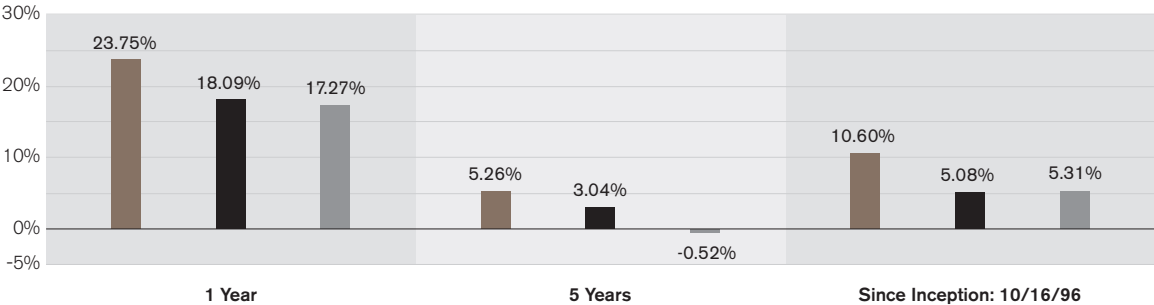
Laudus International MarketMasters Fund™

Investor Shares Performance as of 10/31/05

Average Annual Total Returns^{1, 2}

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**

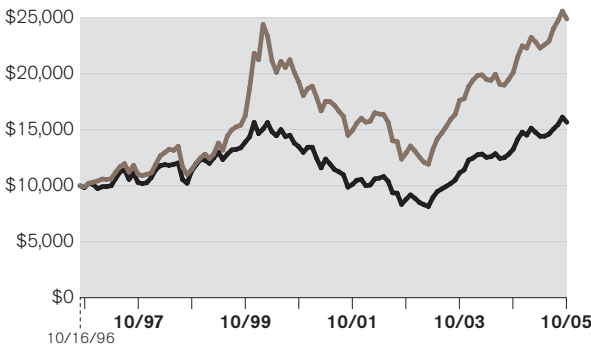


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment¹

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.

- \$24,878 **Investor Shares**
- \$15,659 **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. 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.

¹ 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.

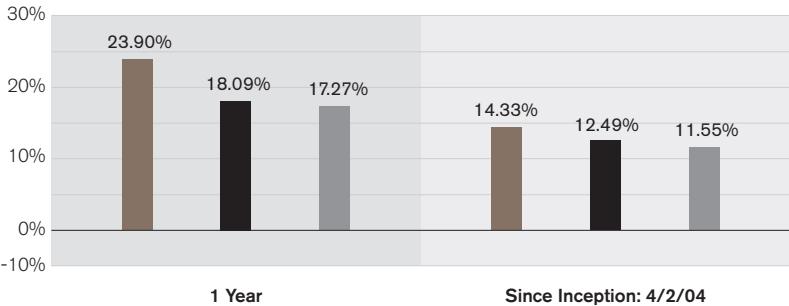
² Source for category information: Morningstar, Inc.

Select Shares® Performance as of 10/31/05

Total Returns^{1, 2}

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**

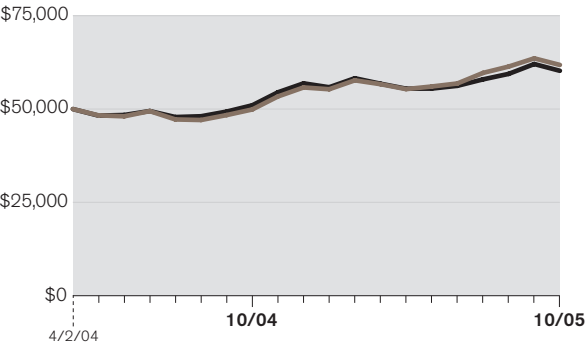


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$50,000 Investment¹

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.

- \$61,815 **Select Shares**
- \$60,247 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

Fund Facts as of 10/31/05

Top Holdings¹

| Security | % of Net Assets |
|-----------------------------------|-----------------|
| ① Nestle SA | 1.5% |
| ② GlaxoSmithKline PLC | 1.4% |
| ③ Novartis AG | 1.3% |
| ④ Bayerische Motoren-Werke AG | 1.2% |
| ⑤ Diageo PLC | 1.2% |
| ⑥ SK Telecom Co., Ltd. | 1.2% |
| ⑦ Honda Motor Co., Ltd. | 1.2% |
| ⑧ Banque National de Paris | 1.1% |
| ⑨ Kookmin Bank | 1.1% |
| ⑩ Takada Chemical Industries Ltd. | 1.0% |
| Total | 12.2% |

Investment Managers and Allocations

| Investment Manager | Investment Style | % of Net Assets |
|-----------------------------------------------------|-----------------------------|-----------------|
| American Century Global Investment Management, Inc. | International Small Company | 18.4% |
| Artisan Partners Limited Partnership | International Growth | 15.2% |
| Harris Associates L.P. | International Value | 38.1% |
| William Blair & Company, LLC | International Growth | 26.8% |

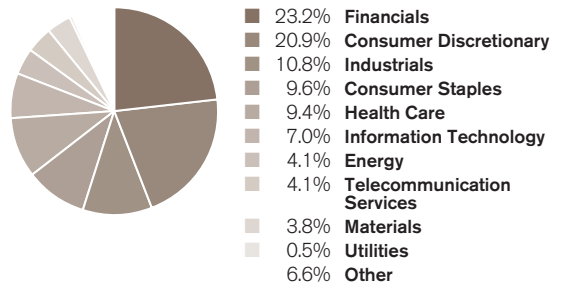
Statistics

| | |
|------------------------------------------------------------|----------|
| Number of Holdings | 410 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$27,035 |
| Price/Earnings Ratio (P/E) | 20.0 |
| Price/Book Ratio (P/B) | 3.0 |
| Portfolio Turnover Rate | 53% |
| Minimum Initial Investment² | |
| <i>Investor Shares</i> | \$2,500 |
| (\$1,000 for retirement, education and custodial accounts) | |
| <i>Select Shares</i> | \$50,000 |

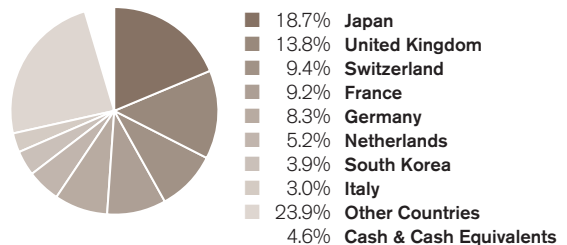
Sector and Country Weightings % of Investments

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.

¹ This list is not a recommendation of any security by the investment adviser.

² Please see prospectus for further detail and eligibility requirements.

Fund Expenses (unaudited)

Examples for a \$1,000 Investment

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

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

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

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

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

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

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 5/1/05–10/31/05 |
|--------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------|
| Laudus U.S. MarketMasters Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.25% | \$1,000 | \$1,065.30 | \$6.51 |
| Hypothetical 5% Return | 1.25% | \$1,000 | \$1,018.90 | \$6.36 |
| <i>Select Shares®</i> | | | | |
| Actual Return | 1.07% | \$1,000 | \$1,066.00 | \$5.57 |
| Hypothetical 5% Return | 1.07% | \$1,000 | \$1,019.81 | \$5.45 |
| Laudus Balanced MarketMasters Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.10% | \$1,000 | \$1,045.60 | \$5.67 |
| Hypothetical 5% Return | 1.10% | \$1,000 | \$1,019.66 | \$5.60 |
| <i>Select Shares</i> | | | | |
| Actual Return | 0.95% | \$1,000 | \$1,046.30 | \$4.90 |
| Hypothetical 5% Return | 0.95% | \$1,000 | \$1,020.42 | \$4.84 |

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

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

Fund Expenses continued

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 5/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 5/1/05–10/31/05 |
|-----------------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------|
| Laudus Small-Cap MarketMasters Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.55% | \$1,000 | \$1,109.50 | \$8.24 |
| Hypothetical 5% Return | 1.55% | \$1,000 | \$1,017.39 | \$7.88 |
| <i>Select Shares</i> | | | | |
| Actual Return | 1.37% | \$1,000 | \$1,110.10 | \$7.29 |
| Hypothetical 5% Return | 1.37% | \$1,000 | \$1,018.30 | \$6.97 |
| Laudus International MarketMasters Fund™ | | | | |
| <i>Investor Shares</i> | | | | |
| Actual Return | 1.65% | \$1,000 | \$1,116.40 | \$8.80 |
| Hypothetical 5% Return | 1.65% | \$1,000 | \$1,016.89 | \$8.39 |
| <i>Select Shares</i> | | | | |
| Actual Return | 1.47% | \$1,000 | \$1,116.90 | \$7.84 |
| Hypothetical 5% Return | 1.47% | \$1,000 | \$1,017.80 | \$7.48 |

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

² Expenses for the share class are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 184 days of the period, and divided by days of the fiscal year.

Laudus U.S. MarketMasters Fund™

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 10.30 | 9.94 | 7.48 | 9.20 | 13.89 |
| Income or loss from investment operations: | | | | | |
| Net investment income or loss | 0.02 | (0.03) | (0.01) | 0.06 | 0.38 |
| Net realized and unrealized gains or losses | 0.94 | 0.39 | 2.47 | (1.68) | (3.21) |
| Total income or loss from investment operations | 0.96 | 0.36 | 2.46 | (1.62) | (2.83) |
| Less distributions: | | | | | |
| Dividends from net investment income | – | – | – | (0.10) | (0.46) |
| Distributions from net realized gains | – | – | – | – | (1.40) |
| Total distributions | – | – | – | (0.10) | (1.86) |
| Net asset value at end of period | 11.26 | 10.30 | 9.94 | 7.48 | 9.20 |
| Total return (%) | 9.32 | 3.62 | 32.89 | (17.92) | (22.81) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 1.25 | 1.25 | 1.25 | 0.83 ^{1,2} | 0.50 ² |
| Gross operating expenses | 1.38 | 1.39 | 1.42 | 1.16 ² | 0.89 ² |
| Net investment income or loss | 0.14 | (0.25) | (0.12) | 0.50 | 3.27 |
| Portfolio turnover rate | 83 | 72 | 97 | 390 | 145 |
| Net assets, end of period (\$ x 1,000,000) | 150 | 180 | 169 | 129 | 176 |

¹ The ratio of net operating expenses would have been 0.74% if certain non-routine expenses (proxy fees) had not been included.

² 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.

| Select Shares | 11/1/04– 10/31/05 | 6/4/04 ¹ – 10/31/04– |
|-------------------------------------------------|----------------------|------------------------------------|
| Per-Share Data (\$) | | |
| 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) ² |
| Net realized and unrealized gains or losses | 0.96 | (0.10) |
| Total income or loss from investment operations | 0.98 | (0.10) |
| Net asset value at end of period | 11.30 | 10.32 |
| Total return (%) | 9.50 | (0.96) ³ |
| Ratios/Supplemental Data (%) | | |
| Ratios to average net assets: | | |
| Net operating expenses | 1.07 | 1.07 ⁴ |
| Gross operating expenses | 1.33 | 1.37 ⁴ |
| Net investment income or loss | 0.25 | (0.08) ⁴ |
| Portfolio turnover rate | 83 | 72 ³ |
| Net assets, end of period (\$ x 1,000,000) | 2 | 1 |

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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.

We use the symbol below to designate certain characteristics of the security.

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

| | | Cost | Value |
|------------------------------------------|--|----------------|----------------|
| | | (\$x1,000) | (\$x1,000) |
| Holdings by Category | | | |
| 95.7% Common Stock | | 130,770 | 146,292 |
| 2.2% Foreign Common Stock | | 3,371 | 3,345 |
| 1.9% Other Investments | | 2,902 | 2,902 |
| 99.8% Total Investments | | 137,043 | 152,539 |
| 0.2% Other Assets and Liabilities | | | 303 |
| 100.0% Total Net Assets | | | 152,842 |

| | | Value |
|--------------------------------------|---------------------|--------------|
| | | (\$ x 1,000) |
| Security and Number of Shares | | |
| Common Stock | 95.7% of net assets | |

Banks 4.3%

| | | |
|--------------------------|--------|-------|
| Bank of America Corp. | 31,100 | 1,360 |
| Commerce Bancorp, Inc. | 12,460 | 380 |
| North Fork Bancorp, Inc. | 27,600 | 699 |
| Peoples Bank | 9,005 | 290 |
| Sovereign Bancorp, Inc. | 82,000 | 1,769 |

| | | Value |
|--------------------------------------|--------|--------------|
| | | (\$ x 1,000) |
| Security and Number of Shares | | |
| Washington Mutual, Inc. | 43,200 | 1,711 |
| Zions Bancorp. | 5,600 | 411 |
| | | 6,620 |

Business Machines & Software 1.1%

| | | |
|----------------------------------------|--------|--------------|
| Hewlett Packard Co. | 45,000 | 1,262 |
| • Lexmark International, Inc., Class A | 9,740 | 404 |
| | | 1,666 |

Business Services 0.8%

| | | |
|------------------|--------|--------------|
| • Symantec Corp. | 52,200 | 1,245 |
|------------------|--------|--------------|

Capital Goods 5.1%

| | | |
|-----------------------------|--------|--------------|
| • 3M Co. | 10,200 | 775 |
| • Alliant Techsystems, Inc. | 9,600 | 674 |
| Dover Corp. | 18,100 | 706 |
| • EMCOR Group, Inc. | 9,755 | 595 |
| General Electric Co. | 46,400 | 1,574 |
| Grainger, Inc. | 9,600 | 643 |
| SPX Corp. | 10,600 | 456 |
| Tyco International Ltd. | 65,000 | 1,715 |
| York International Corp. | 10,570 | 593 |
| | | 7,731 |

Chemical 1.2%

| | | |
|------------------------|--------|--------------|
| Cytec Industries, Inc. | 8,330 | 344 |
| Dow Chemical Co. | 31,100 | 1,426 |
| | | 1,770 |

Commercial Services & Supplies 1.8%

| | | |
|------------------------------|---------|--------------|
| • Apollo Group Inc., Class A | 11,600 | 731 |
| ⑩ Cendant Corp. | 111,700 | 1,946 |
| • FTI Consulting, Inc. | 1,070 | 29 |
| | | 2,706 |

Consumer Durables & Apparel 1.3%

| | | |
|-----------------------------------|--------|--------------|
| American Greetings Corp., Class A | 42,500 | 1,073 |
| Jones Apparel Group, Inc. | 15,465 | 422 |
| Leggett & Platt, Inc. | 27,950 | 560 |
| | | 2,055 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------------|-----------------------|
| Consumer Services 3.8% | |
| Carnival Corp. 19,000 | 944 |
| McDonald's Corp. 60,000 | 1,896 |
| • Starwood Hotel & Resorts Worldwide, Inc. 18,800 | 1,098 |
| Yum! Brands, Inc. 36,000 | 1,831 |
| | 5,769 |
| Diversified Financials 7.8% | |
| American Express Co. 25,000 | 1,244 |
| Bank of New York Co., Inc. 52,200 | 1,633 |
| Capital One Financial Corp. 16,400 | 1,252 |
| Citigroup, Inc. 32,300 | 1,479 |
| JP Morgan Chase & Co. 52,000 | 1,904 |
| The Chicago Mercantile Exchange 3,720 | 1,359 |
| ② The Goldman Sachs Group, Inc. 23,660 | 2,990 |
| | 11,861 |
| Electronics 2.1% | |
| • Avid Technology, Inc. 16,600 | 817 |
| • LAM Research Corp. 17,000 | 574 |
| Linear Technology Corp. 6,100 | 203 |
| • LSI Logic Corp. 60,700 | 492 |
| • MEMC Electronic Materials, Inc. 32,500 | 583 |
| Tektronix, Inc. 20,820 | 478 |
| | 3,147 |
| Energy 3.3% | |
| ChevronTexaco Corp. 29,775 | 1,699 |
| • Cooper Cameron Corp. 6,800 | 502 |
| ENSCO International, Inc. 8,100 | 369 |
| Exxon Mobil Corp. 30,400 | 1,707 |
| • Transocean, Inc. 14,200 | 816 |
| | 5,093 |
| Energy: Raw Materials 0.8% | |
| Schlumberger Ltd. 12,400 | 1,126 |
| • Weatherford International Ltd. 2,500 | 156 |
| | 1,282 |
| Food & Staples Retailing 1.0% | |
| Costco Cos., Inc. 30,000 | 1,451 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------|-----------------------|
| Food Beverage & Tobacco 2.7% | |
| ⑧ Coca-Cola Co. 48,900 | 2,092 |
| Molson Coors Brewing Co. 8,240 | 508 |
| The Pepsi Bottling Group, Inc. 55,000 | 1,564 |
| | 4,164 |
| Health Care Equipment & Services 9.5% | |
| • Baxter International, Inc. 45,000 | 1,721 |
| Beckman Coulter, Inc. 8,400 | 414 |
| • Boston Scientific Corp. 18,203 | 457 |
| • ⑨ Caremark Rx, Inc. 48,650 | 2,549 |
| Cigna Corp. 12,300 | 1,425 |
| • Eclipsys Corp. 46,000 | 736 |
| • Edwards Lifesciences Corp. 11,000 | 455 |
| • Fisher Scientific International, Inc. 20,500 | 1,158 |
| Health Management Associates, Inc., Class A 39,900 | 854 |
| Hillenbrand Industries, Inc. 9,200 | 424 |
| • St. Jude Medical, Inc. 26,000 | 1,250 |
| • Tenet Healthcare Corp. 52,200 | 440 |
| • Thermo Electron Corp. 21,900 | 661 |
| • Varian, Inc. 20,550 | 756 |
| • Wellpoint, Inc. 16,700 | 1,247 |
| | 14,547 |
| Healthcare / Drugs & Medicine 1.3% | |
| Johnson & Johnson, Inc. 11,750 | 736 |
| Valeant Pharmaceuticals International 28,450 | 488 |
| • Zimmer Holdings, Inc. 11,400 | 727 |
| | 1,951 |
| Household & Personal Products 0.7% | |
| Colgate-Palmolive Co. 18,900 | 1,001 |
| Household Products 1.3% | |
| Estee Lauder Cos., Inc., Class A 15,800 | 524 |
| International Flavors & Fragrances, Inc. 13,800 | 456 |
| Procter & Gamble Co. 18,400 | 1,030 |
| | 2,010 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------|-----------------------|----------------------------------------------------------|-----------------------|
| Insurance 2.5% | | Pharmaceuticals & Biotechnology 3.3% | |
| AFLAC, Inc. 18,700 | 893 | • Charles River Laboratories, Inc. 9,970 | 436 |
| Arthur J. Gallagher & Co. 16,950 | 499 | ◆ GlaxoSmithKline PLC 17,600 | 915 |
| Assurant, Inc. 21,040 | 804 | ◆ Novartis AG 17,000 | 915 |
| MBIA, Inc. 18,999 | 1,107 | • Par Pharmaceutical Cos., Inc. 12,900 | 334 |
| Old Republic International Corp. 22,700 | 588 | Pfizer, Inc. 61,000 | 1,326 |
| | 3,891 | ◆ Teva Pharmaceutical Industries Ltd. 28,300 | 1,079 |
| | | | 5,005 |
| Materials 0.8% | | Producer Goods & Manufacturing 0.4% | |
| Monsanto Co. 20,400 | 1,285 | Pentair, Inc. 19,600 | 637 |
| Media 8.3% | | Retailing 6.1% | |
| • Cablevision Systems New York Group, Class A 30,000 | 744 | • Ann Taylor Stores Corp. 9,000 | 219 |
| • 7 Comcast Corp., Class A 77,350 | 2,120 | Family Dollar Stores, Inc. 24,900 | 551 |
| • Directv Group, Inc. 99,111 | 1,409 | Federated Department Stores, Inc. 12,448 | 764 |
| Dow Jones & Co., Inc. 10,100 | 342 | • Linens 'n Things, Inc. 39,291 | 988 |
| • Entercom Communications Corp. 6,150 | 178 | Officemax, Inc. 24,380 | 683 |
| • Liberty Global, Inc., Series C 8,000 | 190 | 6 Target Corp. 40,750 | 2,269 |
| • Liberty Global, Inc., Class A 8,000 | 198 | The Gap, Inc. 71,000 | 1,227 |
| • Liberty Media Corp., Class A 183,000 | 1,459 | • The TJX Max Cos., Inc. 34,700 | 747 |
| • Sirius Satellite Radio, Inc. 41,740 | 260 | Tiffany & Co. 48,800 | 1,923 |
| The Walt Disney Co. 28,500 | 695 | | 9,371 |
| • 1 Time Warner, Inc. 179,200 | 3,195 | Semiconductors & Semiconductor Equipment 4.9% | |
| • Univision Communications, Inc. 14,165 | 370 | Applied Materials, Inc. 53,600 | 878 |
| Westwood One, Inc. 15,350 | 284 | • Cypress Semiconductor Corp. 52,300 | 711 |
| • XM Satellite Radio Holdings, Inc. 42,755 | 1,233 | • Freescale Semiconductor, Inc., Class B 27,700 | 662 |
| | 12,677 | Intersil Holding Corp., Class A 21,800 | 496 |
| Miscellaneous Finance 2.0% | | Microchip Technology, Inc. 25,700 | 775 |
| Freddie Mac 13,900 | 853 | • Micron Technology, Inc. 23,900 | 311 |
| Morgan Stanley 26,000 | 1,415 | 9 National Semiconductor Corp. 92,225 | 2,087 |
| Nuveen Investments, Inc., Class A 19,800 | 801 | • Novellus Systems, Inc. 32,750 | 716 |
| | 3,069 | • Teradyne, Inc. 62,350 | 844 |
| Non-Durables & Entertainment 0.5% | | | 7,480 |
| • Electronic Arts, Inc. 14,200 | 808 | Software & Services 3.9% | |
| Oil: Domestic 0.7% | | Adobe Systems, Inc. 19,700 | 635 |
| • Murphy Oil Corp. 3,300 | 154 | • Bearingpoint, Inc. 101,300 | 711 |
| • National-Oilwell Varco, Inc. 14,100 | 881 | • 5 Google, Inc. 6,139 | 2,284 |
| | 1,035 | | |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|
| Microsoft Corp. 45,600 | 1,172 |
| • Oracle Systems Corp. 68,200 | 865 |
| • Unisys Corp. 46,100 | 236 |
| | 5,903 |
| Technology Hardware & Equipment 6.4% | |
| • Andrew Corp. 48,100 | 511 |
| • Anixter International, Inc. 9,300 | 345 |
| • Arrow Electronics, Inc. 3,970 | 117 |
| • Celestica, Inc. 42,470 | 406 |
| • Cisco Systems, Inc. 81,400 | 1,420 |
| • Corning, Inc. 42,400 | 852 |
| Diebold, Inc. 19,880 | 719 |
| • EMC Corp. 79,100 | 1,104 |
| • Juniper Networks, Inc. 37,800 | 882 |
| Motorola, Inc. 77,700 | 1,722 |
| Qualcomm, Inc. 25,200 | 1,002 |
| • Vishay Intertechnology, Inc. 67,500 | 765 |
| | 9,845 |
| Telecommunication Services 3.3% | |
| Alltel Corp. 22,000 | 1,361 |
| • Crown Castle International Corp. 21,800 | 534 |
| • Leap Wireless International, Inc. 26,500 | 875 |
| • NII Holdings, Inc. 27,800 | 2,305 |
| | 5,075 |
| Telephone 0.3% | |
| • American Tower Corp. 17,400 | 415 |
| Transportation 1.6% | |
| Southwest Airlines, Inc. 72,232 | 1,156 |
| Union Pacific Corp. 18,700 | 1,294 |
| | 2,450 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------|-----------------------|
| Utilities: Electric & Gas 0.8% | |
| Constellation Energy Group, Inc. 7,500 | 411 |
| TXU Corp. 8,600 | 866 |
| | 1,277 |

Foreign Common Stock 2.2% of net assets

| | |
|----------------------------------------|--------------|
| Croatia 0.4% | |
| Canadian Natural Resources Ltd. 16,800 | 687 |
| France 0.7% | |
| Sanofi-Aventis 12,700 | 1,017 |
| United Kingdom 1.1% | |
| Lloyds TSB Group PLC 159,400 | 1,303 |
| Willis Group Holdings Ltd. 9,100 | 338 |
| | 1,641 |

Other Investments 1.9% of net assets

| | |
|------------------------------------------------------|--------------|
| Other Investment Companies 1.9% | |
| Provident Institutional Funds— TempFund 2,901,598 | 2,902 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | |
|-----------------------|----------------|
| Investments, at value | \$152,539 |
| Receivables: | |
| Fund shares sold | 3 |
| Dividends | 125 |
| Foreign tax reclaims | 6 |
| Investments sold | 1,793 |
| Prepaid expenses | + 20 |
| Total assets | 154,486 |

Liabilities

| | |
|----------------------------------------------|--------------|
| Payables: | |
| Fund shares redeemed | 35 |
| Investments bought | 1,534 |
| Investment adviser and administrator fees | 8 |
| Transfer agency and shareholder service fees | 3 |
| Trustees fees | 1 |
| Accrued expenses | + 63 |
| Total liabilities | 1,644 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 154,486 |
| Total liabilities | – 1,644 |
| Net assets | \$152,842 |

Net Assets by Source

| | |
|-------------------------------------------|----------|
| Capital received from investors | 170,239 |
| Net investment income not yet distributed | 206 |
| Net realized capital losses | (33,099) |
| Net unrealized capital gains | 15,496 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|--------------------|-------------------|----------|---------------------------|----------|------------|
| Investor Shares | \$150,373 | | 13,353 | | \$11.26 |
| Select Shares | \$2,469 | | 218 | | \$11.30 |

Unless stated, all numbers x 1,000.

The fund paid \$137,043 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$134,375 |
| Sales/maturities | \$174,944 |

These derive from investments, foreign currency transactions and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$138,044 |
| Net unrealized gains and losses: | |
| Gains | \$20,237 |
| Losses | + (5,742) |
| | \$14,495 |

Net undistributed earnings:

| | |
|-------------------------|-------|
| Ordinary income | \$206 |
| Long-term capital gains | \$– |

Capital losses utilized **\$18,919**

Unused capital losses:

| | |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount: |
| 2010 | \$31,494 |
| 2011 | + 604 |
| | \$32,098 |

Reclassifications:

| | |
|-------------------------------------------|--------|
| Net investment income not yet distributed | (\$23) |
|-------------------------------------------|--------|

Reclassified as:

| | |
|---------------------------------|-------|
| Net realized capital gains | \$26 |
| Capital received from investors | (\$3) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$2,328 |
| Interest | + 2 |
| Total investment income | 2,330 |

Net Realized Gains and Losses

| | |
|------------------------------------------------------|---------------|
| Net realized gains on investments | 20,631 |
| Net realized losses of futures contracts | (100) |
| Net realized losses on foreign currency transactions | + (23) |
| Net realized gains | 20,508 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------|----------------|
| Net unrealized losses on investments | (4,726) |
|--------------------------------------|----------------|

Expenses

| | |
|----------------------------------------------|---------------------|
| Investment adviser and administrator fees | 1,602 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 416 |
| Select Shares | 4 |
| Trustees' fees | 7 |
| Custodian and portfolio accounting fees | 142 |
| Professional fees | 44 |
| Registration fees | 39 |
| Shareholder reports | 60 |
| Other expenses | + 10 |
| Total expenses | <u>2,324</u> |
| Expense reduction | - 223 |
| Net expenses | <u>2,101</u> |

Increase in Net Assets From Operations

| | |
|----------------------------------------|-----------------|
| Total investment income | 2,330 |
| Net expenses | — 2,101 |
| Net investment income | <u>229</u> |
| Net realized gains | 20,508 |
| Net unrealized losses | + (4,726) |
| Increase in net assets from operations | <u>\$16,011</u> |

Net of \$4 foreign withholding tax.

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.

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 \$220 from the investment adviser (CSIM) and \$3 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 | 1.25% |
| Select Shares | 1.07% |

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

These add up to a net gain on investments of \$15,782.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income or loss | \$229 | (\$469) |
| Net realized gains | 20,508 | 10,532 |
| Net unrealized losses | + (4,726) | (5,030) |
| Increase in net assets from operations | \$16,011 | \$5,033 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|-------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 470 | \$5,144 | 4,950 | \$52,179 |
| Select Shares | + 220 | 2,449 | 118 | 1,210 |
| Total shares sold | 690 | \$7,593 | 5,068 | \$53,389 |
| Shares Redeemed | | | | |
| Investor Shares | (4,578) | (\$50,431) | (4,454) | (\$46,021) |
| Select Shares | + (119) | (1,340) | (1) | (11) |
| Total shares redeemed | (4,697) | (\$51,771) | (4,455) | (\$46,032) |
| Net transactions in fund shares | (4,007) | (\$44,178) | 613 | \$7,357 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 + | (4,007) | (28,167) | 613 | 12,390 |
| End of period | 13,571 | \$152,842 | 17,578 | \$181,009 |

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.

Current period

| | |
|-----------------|------------|
| Investor Shares | \$1 |
| Select Shares | + \$— |
| Total | \$1 |

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 \$206 and \$— at the end of the current period and prior period respectively.

Laudus Balanced MarketMasters Fund™

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 11.88 | 11.07 | 9.35 | 10.12 | 13.44 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.15 | 0.08 | 0.12 | 0.20 | 0.43 |
| Net realized and unrealized gains or losses | 0.91 | 0.86 | 1.75 | (0.73) | (2.12) |
| Total income or loss from investment operations | 1.06 | 0.94 | 1.87 | (0.53) | (1.69) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.09) | (0.13) | (0.15) | (0.24) | (0.52) |
| Distributions from net realized gains | — | — | — | — | (1.11) |
| Total distributions | (0.09) | (0.13) | (0.15) | (0.24) | (1.63) |
| Net asset value at end of period | 12.85 | 11.88 | 11.07 | 9.35 | 10.12 |
| Total return (%) | 8.92 | 8.59 | 20.25 | (5.55) | (13.95) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 1.10 | 1.10 | 1.10 | 0.76 ^{1,2} | 0.50 ² |
| Gross operating expenses | 1.27 | 1.32 | 1.33 | 1.10 ² | 0.89 ² |
| Net investment income | 1.14 | 0.68 | 1.13 | 1.89 | 3.67 |
| Portfolio turnover rate | 283 | 242 | 256 | 380 | 95 |
| Net assets, end of period (\$ x 1,000,000) | 130 | 130 | 109 | 97 | 118 |

¹ The ratio of net operating expenses would have been 0.72% if certain non-routine expenses (proxy fees) had not been included.

² 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.

| Select Shares | 11/1/04– 10/31/05 | 6/3/04 ¹ – 10/31/04 |
|--------------------------------------------|----------------------|-----------------------------------|
| Per-Share Data (\$) | | |
| Net asset value at beginning of period | 11.89 | 11.57 |
| Income or loss from investment operations: | | |
| Net investment income | 0.15 | 0.02 |
| Net realized and unrealized gains | 0.93 | 0.30 |
| Total income from investment operations | 1.08 | 0.32 |
| Less distributions: | | |
| Dividends from net investment income | (0.10) | — |
| Net asset value at end of period | 12.87 | 11.89 |
| Total return (%) | 9.11 | 2.77 ² |
| Ratios/Supplemental Data (%) | | |
| Ratios to average net assets: | | |
| Net operating expenses | 0.95 | 0.95 ³ |
| Gross operating expenses | 1.22 | 1.29 ³ |
| Net investment income | 1.32 | 0.73 ³ |
| Portfolio turnover rate | 283 | 242 ² |
| Net assets, end of period (\$ x 1,000,000) | 9 | 2 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Portfolio Holdings as of October 31, 2005

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.

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 contracts, short sales, swap agreements, delayed-delivery securities and options written
- ◆ 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.

| Holdings by Category | Cost/Proceeds (\$x1,000) | Value (\$x1,000) |
|---------------------------------------------------|------------------------------------|----------------------------|
| 68.0% Common Stock | 87,719 | 94,481 |
| 8.7% U.S. Government Securities | 12,264 | 12,130 |
| 1.8% Foreign Government Securities | 2,603 | 2,530 |
| 1.8% Corporate Bonds | 2,466 | 2,509 |
| 1.3% Municipal Bonds | 1,708 | 1,828 |
| 17.4% Agency Mortgage-Backed Securities | 24,642 | 24,132 |
| 1.0% Non-Agency Mortgage-Backed Securities | 1,377 | 1,372 |
| 0.0% Preferred Stock | 1 | 1 |
| 2.2% Short-Term Investments | 2,991 | 2,991 |
| 2.3% Other Investments | 3,256 | 3,256 |
| 0.0% Options | 24 | 16 |
| 104.5% Total Investments | 139,051 | 145,246 |
| (6.0)% Short Sales | (8,429) | (8,363) |
| (0.0)% Options Written | (23) | (15) |
| 1.5% Other Assets and Liabilities | | 2,124 |
| 100.0% Total Net Assets | | 138,992 |

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

Common Stock 68.0% of net assets

Automobiles & Components 1.1%

| | | |
|------------------------------|---------|--------------|
| ▲ Cooper Tire & Rubber Co. | 13,000 | 178 |
| ▲ Ford Motor Co. | 200,000 | 148 |
| General Motors Corp. | 36,200 | 992 |
| ▲◆ Magna International, Inc. | 2,800 | 195 |
| | | 1,513 |

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

Banks 1.0%

| | | |
|--------------------------------------|--------|--------------|
| ▲ Astoria Financial Corp. | 12,450 | 348 |
| ▲ Compass Bancshares, Inc. | 3,600 | 176 |
| ▲ Independence Community Bank Corp. | 8,200 | 324 |
| ▲ PNC Financial Services Group | 3,600 | 219 |
| ▲ Provident Financial Services, Inc. | 10,000 | 176 |
| ▲ Valley National Bancorp. | 2,100 | 51 |
| ▲ Washington Federal, Inc. | 8,110 | 186 |
| | | 1,480 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------|-----------------------|---------------------------------------------------|-----------------------|
| Business Machines & Software 0.8% | | Consumer Services 0.8% | |
| ▲ Cisco Systems, Inc. 11,300 | 197 | ▲♦ Fairmont Hotels & Resorts, Inc. 4,600 | 150 |
| ▲ Diebold, Inc. 2,800 | 101 | ▲ McDonald's Corp. 5,700 | 180 |
| ▲ Sun Microsystems, Inc. 146,400 | 586 | ▲ Starwood Hotel & Resorts Worldwide, Inc. 11,300 | 660 |
| ▲ Tech Data Corp. 7,300 | 253 | ▲ Wendy's International, Inc. 2,900 | 136 |
| | 1,137 | | 1,126 |
| Business Services 0.6% | | Containers 0.1% | |
| ▲ First Data Corp. 3,200 | 129 | ▲ Ball Corp. 2,800 | 110 |
| ▲ Symantec Corp. 31,400 | 749 | | |
| | 878 | | |
| Capital Goods 3.1% | | Diversified Financials 5.8% | |
| ▲ 3M Co. 6,100 | 464 | ▲ Alliance Capital Management Holding 11,200 | 593 |
| ▲ Deere & Co. 2,900 | 176 | ▲ American Express Co. 29,100 | 1,448 |
| ◆ Dover Corp. 2,600 | 101 | ▲ Ameriprise Financial, Inc. 2,820 | 105 |
| ▲ Grainger, Inc. 3,500 | 235 | ▲ Bank of New York Co., Inc. 4,900 | 153 |
| ▲ Honeywell International, Inc. 29,800 | 1,019 | ▲ Capital One Financial Corp. 9,800 | 748 |
| ▲ Jacobs Engineering Group, Inc. 3,000 | 191 | ▲ CIT Group, Inc. 3,500 | 160 |
| ▲ The Boeing Co. 14,400 | 931 | ▲ Federated Investors, Inc. 4,500 | 158 |
| ▲ Tyco International Ltd. 23,900 | 631 | ▲ JP Morgan Chase & Co. 41,400 | 1,516 |
| ▲ United Technologies Corp. 11,200 | 574 | ▲ Mellon Financial Corp. 8,600 | 273 |
| | 4,322 | ▲ Merrill Lynch & Co., Inc. 21,100 | 1,366 |
| | | ▲ State Street Corp. 2,700 | 149 |
| Commercial Services & Supplies 1.4% | | ▲ The Chicago Mercantile Exchange 950 | 347 |
| ▲ Apollo Group Inc., Class A 6,900 | 436 | ▲ The Goldman Sachs Group, Inc. 6,150 | 777 |
| ▲ Cendant Corp. 35,500 | 618 | ▲ Waddell & Reed Financial, Inc. 11,000 | 211 |
| ▲ Manpower, Inc. 6,100 | 276 | | 8,004 |
| ▲ Republic Services, Inc., Class A 4,200 | 149 | | |
| ▲ The ServiceMaster Co. 16,000 | 200 | | |
| ▲ Waste Management, Inc. 8,100 | 239 | | |
| | 1,918 | | |
| Construction 0.0% | | Electronics 0.5% | |
| ▲ Standard Pacific Corp. 1,000 | 39 | ▲ Andrew Corp. 10,500 | 111 |
| | | ▲ Linear Technology Corp. 3,700 | 123 |
| | | ▲ MEMC Electronic Materials, Inc. 19,500 | 350 |
| | | ▲ QLogic Corp. 5,500 | 166 |
| | | | 750 |
| Consumer Durables & Apparel 1.8% | | Energy 3.6% | |
| ▲ Jones Apparel Group, Inc. 2,800 | 76 | ▲ Anadarko Petroleum Corp. 3,100 | 281 |
| ▲ Mattel, Inc. 79,700 | 1,176 | ▲ Apache Corp. 2,300 | 147 |
| ▲ Pulte Corp. 5,000 | 189 | ▲ BJ Services Co. 5,500 | 191 |
| ▲♦ Sony Corp. 32,300 | 1,059 | ▲ Cimarex Energy Co. 2,700 | 106 |
| | 2,500 | ▲ 5 Conoco Phillips 32,200 | 2,105 |
| | | ▲ Cooper Cameron Corp. 400 | 30 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------|-----------------------|
| •▲ Houston Exploration Co. 300 | 15 |
| •▲ Nabors Industries Ltd. 2,200 | 151 |
| •▲ Newfield Exploration Co. 8,900 | 403 |
| ▲ Noble Energy, Inc. 9,272 | 371 |
| ▲ Patterson Energy, Inc. 3,900 | 133 |
| ▲ Pioneer Natural Resources Co. 900 | 45 |
| •▲ Precision Drilling Corp. 4,300 | 198 |
| •▲ Stone Energy Corp. 3,000 | 138 |
| •▲ Transocean, Inc. 8,500 | 489 |
| ▲ Western Gas Resources, Inc. 4,200 | 182 |
| | 4,985 |

Food & Agriculture 0.4%

| | |
|-------------------------------------------|------------|
| ▲ Coca-Cola Co. 11,300 | 483 |
| ▲ Corn Products International, Inc. 4,400 | 105 |
| | 588 |

Food & Staples Retailing 0.3%

| | |
|-------------------------|------------|
| ▲ CVS Corp. 7,600 | 186 |
| ▲ Supervalu, Inc. 8,000 | 251 |
| | 437 |

Food Beverage & Tobacco 2.0%

| | |
|-------------------------------------|--------------|
| ▲ Brown-Forman Corp., Class B 1,500 | 95 |
| ▲ Flowers Foods, Inc. 19,950 | 585 |
| ▲ H.J. Heinz Co. 5,100 | 181 |
| ▲ J.M. Smucker Co. 3,600 | 165 |
| ▲ Kraft Foods, Inc., Class A 41,700 | 1,180 |
| ▲ Molson Coors Brewing Co. 2,000 | 123 |
| ▲ Tyson Foods, Inc. 27,300 | 486 |
| | 2,815 |

Health Care Equipment & Services 6.0%

| | |
|-----------------------------------------------------|-------|
| •▲ Biomet, Inc. 5,500 | 192 |
| •▲ Boston Scientific Corp. 15,302 | 384 |
| •▲ Caremark Rx, Inc. 16,200 | 849 |
| ▲ Cigna Corp. 7,400 | 857 |
| ▲ HCA, Inc. 32,000 | 1,542 |
| ▲ Health Management Associates, Inc., Class A 9,200 | 197 |
| •▲ Henry Schein, Inc. 4,400 | 174 |
| •▲ Laboratory Corporation of America Holdings 5,100 | 246 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------|-----------------------|
| •▲ Lifepoint Hospitals, Inc. 4,000 | 156 |
| ▲ Manor Care, Inc. 7,700 | 287 |
| •▲ Medco Health Solutions, Inc. 22,600 | 1,277 |
| •▲ Millipore Corp. 1,000 | 61 |
| ▲ Omnicare, Inc. 4,500 | 244 |
| •▲ St. Jude Medical, Inc. 15,800 | 760 |
| ▲ Steris Corp. 7,800 | 178 |
| •▲ Tenet Healthcare Corp. 114,100 | 961 |
| | 8,365 |

Healthcare / Drugs & Medicine 1.1%

| | |
|--------------------------------------------|--------------|
| ▲ Beckman Coulter, Inc. 1,900 | 94 |
| •▲ Cooper Cos., Inc. 1,400 | 96 |
| •▲ Cytoc Corp. 6,500 | 165 |
| •▲ Millennium Pharmaceuticals, Inc. 66,100 | 603 |
| •▲ Univision Communications, Inc. 6,900 | 180 |
| •▲ Zimmer Holdings, Inc. 6,900 | 440 |
| | 1,578 |

Household & Personal Products 0.6%

| | |
|------------------------------|------------|
| ▲ Avon Products, Inc. 7,600 | 205 |
| ▲ Kimberly-Clark Corp. 9,600 | 546 |
| | 751 |

Household Products 0.7%

| | |
|-------------------------------------------|--------------|
| ▲ Alberto Culver Co., Class B 6,100 | 265 |
| •▲ Estee Lauder Cos., Inc., Class A 4,100 | 136 |
| ▲ Procter & Gamble Co. 11,100 | 621 |
| | 1,022 |

Insurance 0.5%

| | |
|-----------------------------------|------------|
| ▲ AFLAC, Inc. 11,200 | 535 |
| ▲ Arthur J. Gallagher & Co. 5,800 | 171 |
| | 706 |

Insurance 3.6%

| | |
|---------------------------------------------|-------|
| ▲ Allstate Corp. 18,300 | 966 |
| ▲ American International Group, Inc. 15,000 | 972 |
| •▲ Berkshire Hathaway, Inc., Class B 156 | 439 |
| ▲ Chubb Corp. 10,800 | 1,004 |
| ▲ IPC Holdings Ltd. 7,500 | 197 |
| ▲ Mercury General Corp. 600 | 36 |
| ▲ Old Republic International Corp. 16,550 | 429 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| ▲ St. Paul Cos., Inc. 21,400 | 964 |
| | 5,007 |

Materials 2.0%

| | |
|-----------------------------------------|--------------|
| ▲ Air Products & Chemicals, Inc. 2,800 | 160 |
| ▲ Arch Coal, Inc. 2,300 | 177 |
| ▲ Lubrizol Corp. 8,000 | 333 |
| ▲ MeadWestvaco Corp. 39,900 | 1,046 |
| ▲ Monsanto Co. 12,300 | 775 |
| •▲ Smurfit-Stone Container Corp. 15,400 | 163 |
| ▲ Temple-Inland, Inc. 4,000 | 147 |
| | 2,801 |

Media 5.3%

| | |
|---------------------------------------------|--------------|
| ▲ Clear Channel Communications, Inc. 33,300 | 1,013 |
| ▲ Comcast Corp. 32,100 | 893 |
| •▲ Comcast Corp., Class A 21,700 | 595 |
| •▲ Cox Radio, Inc. 9,700 | 139 |
| •▲ Liberty Media Corp., Class A 24,400 | 194 |
| ▲ McGraw Hill Cos., Inc. 5,700 | 279 |
| ▲ Omnicom Group, Inc. 2,600 | 216 |
| ▲ Readers Digest Association, Inc. 31,400 | 481 |
| ▲◆ The Walt Disney Co. 17,100 | 417 |
| ▲ Time Warner, Inc. 101,450 | 1,809 |
| ▲ Tribune Co. 23,000 | 725 |
| ▲ Westwood One, Inc. 7,600 | 140 |
| •▲ XM Satellite Radio Holdings, Inc. 17,200 | 496 |
| | 7,397 |

Miscellaneous Finance 0.3%

| | |
|--------------------|------------|
| ▲ Fannie Mae 7,800 | 371 |
|--------------------|------------|

Non-Durables & Entertainment 0.5%

| | |
|-----------------------------------------|------------|
| •▲ Applebee's International, Inc. 6,200 | 136 |
| •▲ Electronic Arts, Inc. 8,500 | 483 |
| | 619 |

Oil: Domestic 0.8%

| | |
|---------------------------------------|-----|
| ▲ ChevronTexaco Corp. 1,260 | 72 |
| ▲ Marathon Oil Corp. 1,700 | 102 |
| •▲ Murphy Oil Corp. 4,900 | 229 |
| •▲ National-Oilwell Varco, Inc. 8,500 | 531 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|
| •▲ St. Mary Land & Exploration Co. 5,400 | 184 |
| | 1,118 |

Pharmaceuticals & Biotechnology 3.3%

| | |
|-----------------------------------------------|--------------|
| •▲ Endo Pharmaceutical Holdings, Inc. 4,800 | 129 |
| ▲◆ GlaxoSmithKline PLC 10,600 | 551 |
| •▲ Novartis AG 10,200 | 549 |
| ▲ Perrigo Co. 12,100 | 162 |
| ▲◆ Teva Pharmaceutical Industries Ltd. 17,000 | 648 |
| •▲ Watson Pharmaceuticals, Inc. 30,500 | 1,054 |
| ▲ Wyeth 33,600 | 1,497 |
| | 4,590 |

Producer Goods & Manufacturing 0.1%

| | |
|------------------------------|-----------|
| ▲ Emerson Electric Co. 1,100 | 77 |
|------------------------------|-----------|

Real Estate 1.1%

| | |
|----------------------------------------------|--------------|
| ▲ Biomed Property Trust, Inc. 5,000 | 125 |
| ▲ Equity One, Inc. 5,900 | 138 |
| ▲ Health Care Property Investors, Inc. 6,400 | 163 |
| ▲ Home Properties of New York, Inc. 5,500 | 214 |
| ▲ Plum Creek Timber Co., Inc. 6,500 | 253 |
| ▲ Rayonier, Inc. 8,362 | 320 |
| ▲ The Macerich Co. 2,510 | 161 |
| ▲ Trizec Properties, Inc. 9,260 | 206 |
| | 1,580 |

Retail 0.5%

| | |
|-------------------------------------------|------------|
| ▲ Federated Department Stores, Inc. 8,888 | 545 |
| ▲ The Gap, Inc. 6,300 | 109 |
| | 654 |

Retailing 2.4%

| | |
|-------------------------------|-----|
| ▲ Genuine Parts Co. 2,700 | 120 |
| •▲ Office Depot, Inc. 27,300 | 752 |
| •▲ Saks, Inc. 5,900 | 107 |
| •▲ Sears Holdings Corp. 8,224 | 989 |
| ▲ Talbots, Inc. 4,600 | 120 |
| ▲ Target Corp. 13,600 | 757 |

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

| | |
|----------------------------------|--------------|
| •▲ The TJX Max Cos., Inc. 20,800 | 448 |
| | 3,293 |

| Semiconductors & Semiconductor Equipment 2.3% | |
|-----------------------------------------------|--|
|-----------------------------------------------|--|

| | |
|---------------------------------------------|--------------|
| •▲ Advanced Micro Devices, Inc. 45,900 | 1,066 |
| •▲ Applied Materials, Inc. 32,900 | 539 |
| •▲ Integrated Device Technology, Inc. 4,600 | 45 |
| ▲ Intersil Holding Corp., Class A 45,000 | 1,024 |
| ▲ Microchip Technology, Inc. 15,500 | 468 |
| | 3,142 |

| Software & Services 1.6% | |
|--------------------------|--|
|--------------------------|--|

| | |
|-------------------------------------------------|--------------|
| ▲ Adobe Systems, Inc. 11,800 | 381 |
| •▲ Check Point Software Technologies Ltd. 7,500 | 168 |
| •▲ Electronic Data Systems Corp. 36,700 | 855 |
| •▲ Google, Inc. 2,000 | 744 |
| •▲ Verity, Inc. 6,300 | 63 |
| | 2,211 |

| Technology Hardware & Equipment 5.4% | |
|--------------------------------------|--|
|--------------------------------------|--|

| | |
|------------------------------------------------|--------------|
| •▲ Avaya, Inc. 6,300 | 73 |
| •▲ Avocent Corp. 3,100 | 95 |
| •▲ Corning, Inc. 25,500 | 512 |
| •▲ EMC Corp. 47,500 | 663 |
| •▲ Flextronics International Ltd. 7,800 | 72 |
| •▲ Foundry Networks, Inc. 7,200 | 86 |
| ▲⑨ Hewlett Packard Co. 68,200 | 1,912 |
| ▲ International Business Machines Corp. 14,100 | 1,155 |
| •▲ Juniper Networks, Inc. 22,700 | 530 |
| •▲ Lucent Technologies, Inc. 220,900 | 630 |
| ▲ Motorola, Inc. 13,100 | 290 |
| ▲ Qualcomm, Inc. 15,100 | 600 |
| •▲ Solectron Corp. 139,900 | 494 |
| •▲ Vishay Intertechnology, Inc. 12,800 | 145 |
| •▲ Xerox Corp. 17,100 | 232 |
| | 7,489 |

| Telecommunication Services 1.6% | |
|---------------------------------|--|
|---------------------------------|--|

| | |
|---------------------------------------------|-----|
| ▲ Alltel Corp. 2,900 | 179 |
| ▲ Century Telephone Enterprises, Inc. 8,400 | 275 |

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

| | |
|----------------------------------------------------|--------------|
| •▲ IDT Corp. 8,135 | 100 |
| •▲ Qwest Communication International, Inc. 297,200 | 1,296 |
| ▲ Suntrust Banks, Inc. 3,678 | 267 |
| •▲ Wireless Facilities, Inc. 17,400 | 116 |
| | 2,233 |

| Telephone 0.7% | |
|----------------|--|
|----------------|--|

| | |
|-----------------------------------|------------|
| ▲ SBC Communications, Inc. 39,700 | 947 |
|-----------------------------------|------------|

| Transportation 2.8% | |
|---------------------|--|
|---------------------|--|

| | |
|------------------------------------------------|--------------|
| ▲ CNF, Inc. 20,000 | 1,126 |
| ▲ CSX Corp. 34,800 | 1,594 |
| ▲ J.B. Hunt Transport Services, Inc. 14,500 | 282 |
| •▲ Kansas City Southern Industries, Inc. 7,500 | 166 |
| ▲ Laidlaw International, Inc. 12,000 | 273 |
| •▲ Norfolk Southern Corp. 1,900 | 76 |
| ▲ Union Pacific Corp. 3,200 | 221 |
| ▲ Werner Enterprises, Inc. 7,200 | 129 |
| | 3,867 |

| Utilities 1.1% | |
|----------------|--|
|----------------|--|

| | |
|--------------------------------------------|--------------|
| ▲ American Electric Power Co., Inc. 25,500 | 968 |
| ▲ Constellation Energy Group, Inc. 4,500 | 247 |
| ▲ DPL, Inc. 12,500 | 322 |
| | 1,537 |

| Utilities: Electric & Gas 0.4% | |
|--------------------------------|--|
|--------------------------------|--|

| | |
|-------------------|------------|
| ▲ TXU Corp. 5,200 | 524 |
|-------------------|------------|

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

| U.S. Government Securities 8.7% of net assets | |
|-----------------------------------------------|--|
|-----------------------------------------------|--|

| | | |
|--------------------|-------|-------|
| U.S. Treasury Bond | | |
| 9.13%, 05/15/18 | 100 | 141 |
| 9.00%, 11/15/18 | 125 | 176 |
| ▶ 8.13%, 08/15/19 | 1,300 | 1,737 |
| 6.25%, 08/15/23 | 300 | 350 |
| 6.88%, 08/15/25 | 250 | 315 |
| ▲ 6.00%, 02/15/26 | 1,100 | 1,265 |

Portfolio Holdings continued

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | Value (\$ x 1,000) |
|--------------------------------------------|-----------------------------|-----------------------|
| ▲ 6.63%, 02/15/27 | 1,000 | 1,238 |
| U.S. Treasury Inflation-Protected Security | | |
| 0.88%, 04/15/10 | 100 | 100 |
| ▲ 1.63%, 01/15/15 | 300 | 299 |
| U.S. Treasury Note | | |
| 3.75%, 05/15/08 | 600 | 591 |
| ▲ 7 4.00%, 06/15/09 | 2,000 | 1,971 |
| 3.63%, 01/15/10 | 100 | 97 |
| 6 3.50%, 02/15/10 | 2,500 | 2,407 |
| 4.00%, 02/15/14 | 200 | 192 |
| 4.25%, 08/15/14 | 200 | 195 |
| 4.25%, 11/15/14 | 900 | 878 |
| U.S. Treasury Stripped Bond | | |
| 0.00%, 11/15/16 | 300 | 178 |
| | | 12,130 |

Foreign Government Securities

1.8% of net assets

| | | |
|-------------------|-------|--------------|
| UK Treasury Gilt | | |
| 6 4.75%, 06/07/10 | 1,100 | 1,981 |
| 4.75%, 09/07/15 | 300 | 549 |
| | | 2,530 |

Corporate Bonds 1.8% of net assets

Fixed-Rate Obligations 1.3%

| | | |
|-------------------------------|-----|--------------|
| DaimlerChrysler NA Holding | | |
| 6.40%, 05/15/06 | 200 | 202 |
| ▲ El Paso Corp. | | |
| 7.80%, 08/01/31 | 100 | 100 |
| Federal Republic of Brazil | | |
| 4.31%, 04/15/09 | 206 | 204 |
| 11.00%, 08/17/40 | 200 | 240 |
| Series El | | |
| 4.25%, 04/15/06 | 16 | 16 |
| General Motors Corp. | | |
| 8.38%, 07/15/33 | 350 | 261 |
| ▲ Harrahs Operating Co., Inc. | | |
| 5.63%, 06/01/15 | 500 | 481 |
| ▲ Republic of Panama | | |
| 9.38%, 01/16/23 | 250 | 305 |
| | | 1,809 |

Variable-Rate Obligations 0.5%

| | | |
|------------------------------|-----|-----|
| ▲ DaimlerChrysler NA Holding | | |
| 4.03%, 05/15/06 | 400 | 400 |
| HSBC Bank USA | | |
| 3.51%, 12/21/05 | 250 | 250 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | Value (\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
| TXU Energy Co, L.L.C. 144A | | |
| 4.92%, 01/17/06 | 50 | 50 |
| | | 700 |

Municipal Bonds 1.3% of net assets

Revenue Bonds 1.3%

| | | |
|------------------------------------|-----|--------------|
| ▲ Golden State, California | | |
| Securitization Corp. | | |
| Revenue Bond, Series 2003-A-1 | | |
| 6.25%, 06/01/33 | 250 | 275 |
| ▲+ Massachusetts State Water | | |
| Resource Authority | | |
| General Revenue Bond, Series 2002J | | |
| 5.00%, 08/01/32 | 250 | 256 |
| ▲ Tobacco Settlement Financing | | |
| Corp. of Rhode Island | | |
| Revenue Bond, Series 2002A | | |
| 6.25%, 06/01/42 | 500 | 530 |
| ▲+ Triborough, New York Bridge & | | |
| Tunnel Authority | | |
| Revenue Bond, Series 2002B | | |
| 5.00%, 11/15/32 | 750 | 767 |
| | | 1,828 |

Agency Mortgage-Backed Securities

17.4% of net assets

Collateralized Mortgage Obligations 0.7%

Fixed-Rate Obligations 0.0%

| | | |
|------------------------|---|---|
| Fannie Mae | | |
| Series 2003-3 Class PA | | |
| 4.50%, 08/25/09 | 1 | 1 |

Variable-Rate Obligations 0.7%

| | | |
|------------------------|-----|------------|
| Freddie Mac Structured | | |
| Series T-61 Class 1A1 | | |
| 3.90%, 11/01/05 | 923 | 927 |
| | | 928 |

U.S. Government Agency Mortgages 16.7%

| | | |
|--------------------|-------|-------|
| Fannie Mae | | |
| 4.00%, 11/01/18 to | | |
| 10/01/20 | 2,875 | 2,728 |
| 4.50%, 07/01/33 to | | |
| 09/01/35 | 1,845 | 1,725 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | Value (\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
| ▲ ¹ 5.50%, 09/01/34 | 4,900 | 4,839 |
| ▲ ² 5.50%, 11/01/34 | 2,823 | 2,788 |
| ▶ 5.50%, 11/15/34 | 550 | 543 |
| 5.50%, 02/01/34 to 09/01/35 | 3,762 | 3,717 |
| 8 5.50%, 02/01/35 | 1,951 | 1,926 |
| 10 5.50%, 04/01/35 | 1,928 | 1,903 |
| 6.00%, 04/01/16 to 03/01/18 | 58 | 59 |
| 4 6.00%, 04/01/35 | 2,318 | 2,340 |
| Fannie Mae ARM | | |
| 4.80%, 09/01/31 | 25 | 25 |
| ▶ Fannie Mae ARM TBA | | |
| 0.08%, 11/22/35 | 200 | 202 |
| Freddie Mac | | |
| 6.00%, 09/01/22 | 209 | 213 |
| Freddie Mac ARM | | |
| 4.41%, 09/01/35 | 198 | 196 |
| | | 23,204 |

Non-Agency Mortgage-Backed Securities

1.0% of net assets

Fixed-Rate Obligations 0.1%

| | | |
|--------------------------------------------|-----|------------|
| Bank of America Mortgage Securities | | |
| Series 2004-2 Class 5A1 | | |
| 6.50%, 10/25/19 | 123 | 125 |
| Residential Funding Mortgage Security I | | |
| Series-S9 Class A1 | | |
| 6.50%, 03/25/32 | 67 | 68 |
| | | 193 |

Variable-Rate Obligations 0.9%

| | | |
|------------------------------------------------|-----|-----|
| Bear Stearns Adjustable Rate Mortgage Trust | | |
| Series 2002-11 Class 1A1 | | |
| 5.63%, 11/01/05 | 77 | 77 |
| Series 2002-5 Class 6A | | |
| 5.94%, 11/01/05 | 30 | 30 |
| Series 2002-9 Class 2A | | |
| 5.26%, 11/01/05 | 46 | 46 |
| Series 2005-4 Class 23A2 | | |
| 5.45%, 11/01/05 | 175 | 175 |
| Fannie Mae Grantor Trust | | |
| Series 2005-T3 Class A1A | | |
| 4.08%, 11/25/05 | 162 | 162 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) | Value (\$ x 1,000) |
|--------------------------------------|-----------------------------|-----------------------|
| Quest Trust, 144A | | |
| Series 2004-X2 Class A1 | | |
| 4.60%, 11/25/05 | 67 | 67 |
| Structured Asset Securities Corp. | | |
| Series 2002-13 Class 2A1 | | |
| 4.54%, 11/25/05 | 23 | 23 |
| ▲ Washington Mutual | | |
| Series 2003-R1 Class A1 | | |
| 4.31%, 11/25/05 | 599 | 599 |
| | | 1,179 |
| | | Value |
| Security and Number of Shares | | (\$ x 1,000) |

Preferred Stock 0.0% of net assets

Miscellaneous 0.0%

| | | |
|----------------------|----|---|
| Fannie Mae Preferred | 10 | 1 |
|----------------------|----|---|

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

Short-Term Investments 2.2% of net assets

U.S. Government Securities 0.1%

| | | |
|--------------------|----|------------|
| U.S. Treasury Bill | | |
| ▲ 3.36%, 12/01/05 | 20 | 20 |
| ▲ 3.38%, 12/15/05 | 20 | 20 |
| ▲ 3.43%, 12/15/05 | 85 | 85 |
| | | 125 |

Commercial Paper & Other Corporate Obligations 2.1%

| | | |
|---------------------------|-------|--------------|
| Barclays US Funding Corp. | | |
| 4.17%, 02/24/06 | 1,100 | 1,085 |
| Nordea North America | | |
| 4.08%, 01/20/06 | 500 | 495 |
| 4.09%, 01/20/06 | 700 | 694 |
| UBS Finance, Inc. | | |
| 4.16%, 02/28/06 | 600 | 592 |
| | | 2,866 |

Portfolio Holdings continued

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

Other Investments 2.3% of net assets**Other Investment Companies** 2.3%

| | | |
|------------------------------------------|-----------|--------------|
| ▲ Provident Institutional Funds—TempCash | 186,605 | 187 |
| ▲ Provident Institutional Funds—TempFund | 3,068,758 | 3,069 |
| | | <u>3,256</u> |

| Security Description | Number of Contracts | Value (\$ x 1,000) |
|----------------------|------------------------|-----------------------|
|----------------------|------------------------|-----------------------|

Options 0.0% of net assets**Call Options** 0.0%

| | | |
|------------------------------------------------------------------|-----|-----------|
| 3 Month LIBOR Futures, Strike Price 4.25, Expires 10/19/06 | 110 | 2 |
| 3 Month LIBOR Futures, Strike Price 4.50, Expires 10/04/06 | 210 | 6 |
| 3 Month LIBOR Futures, Strike Price 4.50, Expires 10/18/06 | 210 | 7 |
| | | <u>15</u> |

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 12/19/05 | 50 | 1 |
| 90 Day LIBOR Futures, Strike Price 94.375, Expires 12/21/05 | 10 | —* |
| | | <u>1</u> |

End of investments.

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

Short Sales 6.0% of net assets**U.S. Government Agency Mortgages** 1.2%

| | | |
|-------------------------------------|-------|--------------|
| ▶ Fannie Mae TBA 6.00%, 11/14/05 | 1,600 | 1,614 |
|-------------------------------------|-------|--------------|

U.S. Government Securities 4.9%

| | | |
|-----------------------------------------|-------|--------------|
| ▶ U.S. Treasury Note 4.38%, 05/15/07 | 500 | 500 |
| 6.00%, 08/15/09 | 400 | 421 |
| 4.00%, 11/15/12 | 1,100 | 1,066 |
| 3.63%, 05/15/13 | 3,200 | 3,024 |
| 4.13%, 05/15/15 | 1,800 | 1,738 |
| | | <u>6,749</u> |

| Security Description | Number of Contracts | Value (\$ x 1,000) |
|----------------------|------------------------|-----------------------|
|----------------------|------------------------|-----------------------|

Options Written 0.0% of net assets**Call Options** 0.0%

| | | |
|------------------------------------------------------------------|----|-------------|
| 3 Month LIBOR Futures, Strike Price 4.31, Expires 10/19/06 | 50 | (2) |
| 3 Month LIBOR Futures, Strike Price 4.54, Expires 10/04/06 | 90 | (6) |
| 3 Month LIBOR Futures, Strike Price 4.56, Expires 10/18/06 | 90 | (7) |
| | | <u>(15)</u> |

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 10/31/05. All numbers x 1,000 except number of futures contracts.

| Swap Agreements | | |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------------|
| | Notional Amount (Foreign) | Unrealized Gains/(Losses) (USD) |
| Interest Rate Swaps | | |
| British Pounds | | |
| Receive fixed rate payments of 6 month LIBOR, Pay variable rate payments of 5.00%, expires 09/15/10, Citibank | 100 | —* |
| Receive fixed rate payments of 6 month LIBOR, Pay variable rate payments of 5.00%, expires 09/15/10, Barclays Bank | 600 | (5) |
| European Euro | | |
| Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.00%, expires 12/15/14, Merrill Lynch | 1,200 | 7 |
| Japanese Yen | | |
| Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 1.5%, expires 06/15/15, Merrill Lynch | 20,000 | 1 |
| Receive fixed rate payments of 6 month LIBOR, Pay variable rate payments of 1.5%, expires 06/15/15, Barclays Bank | 10,000 | 1 |
| U.S. Dollars | | |
| Receive fixed rate payments of 3 month LIBOR, Pay variable rate payments of 4.00%, expires 12/15/10, Greenwich Capital | 5,300 | (152) |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 5.00%, expires 12/15/15, JP Morgan Chase | 1,000 | 56 |
| Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 6.00%, expires 12/15/24, UBS AG | 200 | 3 |
| Credit Default Swaps | | |
| U.S. Dollars | | |
| GMAC Rate 1.90%, expires 09/20/06, Lehman Brothers, Inc. | 500 | —* |
| Eli Lilly & Co. Rate 0.16%, expires 12/20/08, Barclays Bank PLC | 100 | —* |

*Amounts stated as "—" are less than \$1.

All numbers x 1,000 except number of futures contracts.

Swap Agreements (continued)

| | Notional Amount | Unrealized Gains/(Losses) |
|-----------------------------------------------------------------------------------|--------------------|------------------------------|
| Johnson & Johnson, Inc. Rate 0.11%, expires 12/20/08, Lehman Brothers, Inc. | 100 | —* |
| Eaton Corp. Rate 0.28%, expires 12/20/08, Citibank N.A. | 100 | —* |
| Whirlpool Corp. Rate 0.29%, expires 12/20/08, Lehman Brothers, Inc. | 100 | —* |
| Home Depot, Inc. Rate 0.12%, expires 12/20/08, Lehman Brothers, Inc. | 100 | —* |
| Fedex Corp. Rate 0.29%, expires 12/20/08, Citibank N.A. | 100 | —* |
| Allstate Corp. Rate 0.26%, expires 12/20/08, Morgan Stanley | 100 | —* |
| Wal-mart Stores, Inc. Rate 0.14%, expires 12/20/08, Citibank N.A. | 200 | —* |
| Ingersoll-Rand Co. Ltd. Rate 0.32%, expires 12/20/08, Merrill Lynch | 100 | (1) |
| Emerson Electric Co. Rate 0.21%, expires 12/20/08, Morgan Stanley | 100 | —* |
| Autozone, Inc. Rate 0.35%, expires 12/20/08, UBS AG | 200 | 1 |
| Radioshack Corp. Rate 0.35%, expires 12/20/08, Lehman Brothers, Inc. | 100 | 1 |
| Masco Corp. Rate 0.30%, expires 12/20/08, Lehman Brothers, Inc. | 100 | —* |
| People's Republic of China Rate 0.40%, expires 06/20/09, Lehman Brothers, Inc. | 200 | (2) |
| Turkey Rate 2.70%, expires 09/20/10, Morgan Stanley | 100 | (3) |
| DJ CDX Rate 0.40%, expires 06/20/10, Barclays Bank PLC | 1,700 | 5 |
| | | (88) |

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Gains/(Losses) |
|---------------------------------------------------------|------------------------|-------------------|------------------------------|
| 90 Day Eurodollar, Long expires 12/19/05 | 1 | 239 | (2) |
| 90 Day Eurodollar, Long expires 03/13/06 | 76 | 18,100 | (35) |
| 5 Year, Long U.S. Treasury Note, expires 12/20/05 | 60 | 6,353 | (116) |

*Amounts stated as "—" are less than \$1.

All numbers x 1,000 except number of futures contracts.

Futures Contracts (continued)

| | Number of Contracts | Contract Value | Unrealized Gains/(Losses) |
|-----------------------------------------------------------|------------------------|-------------------|------------------------------|
| 10 Year, Short U.S. Treasury Note, expires 12/20/05 | (23) | 2,494 | 24 |
| 10 Year, Short Euro-Bund, expires 12/08/05 | (6) | 866 | 7 |
| UK Gilt, Long expires 12/28/05 | 2 | 398 | (6) |
| | | | (128) |

Forward Foreign Currency Contracts

| Expiration Date | Currency to be Received | Amount of Currency to be Received | Currency to be Delivered | Amount of Currency to be Delivered | Unrealized Gains/(Losses) |
|-----------------|----------------------------|-----------------------------------------|-----------------------------|------------------------------------------|------------------------------|
| 11/08/05 | European Euro | 72 | U.S. Dollars | 87 | —* |
| 11/08/05 | U.S. Dollars | 30 | European Euro | 25 | —* |
| 11/21/05 | U.S. Dollars | 2,625 | British Pounds | 1,493 | (16) |
| 12/01/05 | Japanese Yen | 116,200 | U.S. Dollars | 1,022 | (21) |
| 01/26/06 | Singapore Dollars | 28 | U.S. Dollars | 17 | (1) |
| 01/26/06 | South Korean Won | 34,900 | U.S. Dollars | 34 | (1) |
| 02/02/06 | Chilean Pesos | 1,898 | U.S. Dollars | 3 | —* |
| 02/13/06 | Russian Ruble | 257 | U.S. Dollars | 9 | —* |
| 02/22/06 | Chilean Pesos | 16,625 | U.S. Dollars | 31 | —* |
| 02/22/06 | Brazilian Real | 54 | U.S. Dollars | 22 | 1 |
| 02/22/06 | Peruvian New Sol | 35 | U.S. Dollars | 11 | —* |
| 02/24/06 | Singapore Dollars | 16 | U.S. Dollars | 10 | —* |
| 02/24/06 | South Korean Won | 10,500 | U.S. Dollars | 10 | —* |
| 02/24/06 | Polish Zloty | 33 | U.S. Dollars | 10 | —* |
| 02/24/06 | Taiwanese Dollars | 300 | U.S. Dollars | 9 | —* |
| 02/28/06 | Mexican Pesos | 179 | U.S. Dollars | 16 | —* |
| 03/02/06 | Slovakian Koruna | 331 | U.S. Dollars | 10 | —* |
| 03/13/06 | Peruvian New Sol | 63 | U.S. Dollars | 19 | (1) |
| 03/20/06 | Indian Rupee | 1,362 | U.S. Dollars | 31 | (1) |
| 03/20/06 | Singapore Dollars | 16 | U.S. Dollars | 10 | —* |
| 03/21/06 | South Korean Won | 10,700 | U.S. Dollars | 10 | —* |
| 03/21/06 | Taiwanese Dollars | 300 | U.S. Dollars | 9 | —* |
| 03/22/06 | Russian Ruble | 276 | U.S. Dollars | 10 | —* |
| 03/27/06 | Polish Zloty | 34 | U.S. Dollars | 11 | —* |
| 03/27/06 | Slovakian Koruna | 603 | U.S. Dollars | 19 | (1) |
| | | | | | (41) |

*Amounts stated as "—" are less than \$1.

Statement of

Assets and Liabilities

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

Assets

| | |
|--------------------------------------------------------|----------------|
| Investments, at value | \$145,246 |
| Foreign currency | 45 |
| Receivables: | |
| Fund shares sold | 131 |
| Dividends | 64 |
| Interest | 397 |
| Due from brokers for futures | 1 |
| Investments sold | 882 |
| Investments sold short | 10,087 |
| Unrealized gains on forward foreign currency contracts | 1 |
| Prepaid expenses | + 18 |
| Total assets | 156,872 |

Liabilities

| | |
|---------------------------------------------------------|---------------|
| Securities sold short, at value | 8,363 |
| Options written, at value | 15 |
| Swap agreements, at fair value | 287 |
| Payables: | |
| Fund shares redeemed | 97 |
| Investments bought | 7,363 |
| Due to brokers for futures | 2 |
| Covered short sales | 1,643 |
| Investment adviser and administrator fees | 7 |
| Transfer agency and shareholder service fees | 3 |
| Trustee fees | 1 |
| Withholding taxes on foreign dividends | 2 |
| Unrealized losses on forward foreign currency contracts | 42 |
| Accrued expenses | + 55 |
| Total liabilities | 17,880 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 156,872 |
| Total liabilities | - 17,880 |
| Net assets | \$138,992 |

Net Assets by Source

| | |
|-------------------------------------------|---------|
| Capital received from investors | 127,985 |
| Net investment income not yet distributed | 1,187 |
| Net realized capital gains | 3,808 |
| Net unrealized capital gains | 6,012 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$129,795 | | 10,101 | | \$12.85 |
| Select Shares | \$9,197 | | 714 | | \$12.87 |

All numbers x 1,000 except number of written option contracts.

The fund paid \$139,051 for these securities.

Includes certain restricted but deemed liquid 144A securities worth \$117 or 0.1% of the fund's total net assets.

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

| | |
|------------------|-----------|
| Purchases | \$139,038 |
| Sales/maturities | \$140,306 |

The fund's long-term government security transactions were:

| | |
|------------------|-----------|
| Purchases | \$245,901 |
| Sales/maturities | \$231,804 |

The fund paid \$43 for this currency.

The proceeds for securities sold short is \$8,429.

| Options Written | Number of Contracts | Premiums Received |
|---------------------|---------------------|-------------------|
| Beginning of period | 982 | \$219 |
| Options written | 314 | 50 |
| Options closed | (373) | (78) |
| Options expired | (693) | (168) |
| Options exercised | + | - |
| End of period | 230 | \$23 |

The fund received \$199 to enter into these swap agreements.

These derive from investments, short sales, options, foreign currency transactions, futures and swap agreements.

Federal Tax Data

| | |
|-----------------------------------------|----------------|
| Portfolio cost | \$139,357 |
| Net unrealized gains and losses: | |
| Gains | \$11,261 |
| Losses | + (5,372) |
| | \$5,889 |

Net Undistributed earnings:

| | |
|--------------------------------|----------------|
| Ordinary income | \$1,124 |
| Long-term capital gains | \$4,013 |
| Capital losses utilized | \$9,521 |

Reclassifications:

| | |
|-------------------------------------------|------|
| Net investment income not yet distributed | \$55 |
|-------------------------------------------|------|

Reclassified as:

| | |
|-----------------------------|--------|
| Net realized capital losses | (\$55) |
|-----------------------------|--------|

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$1,457 |
| Interest | + 1,653 |
| Total investment income | 3,110 |

Net of \$3 foreign withholding tax.

Net Realized Gains and Losses

| | |
|-----------------------------------------------------|---------------|
| Net realized gains on investments | 14,032 |
| Net realized gains on short sales | 21 |
| Net realized gains on foreign currency transactions | 56 |
| Net realized gains on option contracts | 104 |
| Net realized gains on futures contracts | 132 |
| Net realized gains on swap agreements | + 132 |
| Net realized gains | 14,477 |

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 | (3,982) |
| Net unrealized gains on short sales | 150 |
| Net unrealized gains on foreign currency transactions | 52 |
| Net unrealized losses on option contracts | (8) |
| Net unrealized losses on futures contracts | (349) |
| Net unrealized losses on swap agreements | + (219) |
| Net unrealized losses | (4,356) |

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 | 1,111 |
| Transfer agent and shareholder service fees: | |
| Investor shares | 335 |
| Select shares | 10 |
| Trustees' fees | 7 |
| Custodian and portfolio accounting fees | 187 |
| Professional fees | 43 |
| Registration fees | 35 |
| Shareholder reports | 31 |
| Other expenses | + 8 |
| Total expenses | 1,767 |
| Expense reduction | - 245 |
| Net expenses | 1,522 |

For the fund's independent trustees only.

Includes \$240 from the investment adviser (CSIM) and \$5 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 | 1.10% |
| Select Shares | 0.95% |

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

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 3,110 |
| Net expenses | - 1,522 |
| Net investment income | 1,588 |
| Net realized gains | 14,477 |
| Net unrealized losses | + (4,356) |
| Increase in net assets from operations | \$11,709 |

These add up to a net gain on investments of \$10,121.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$1,588 | \$852 |
| Net realized gains | 14,477 | 8,042 |
| Net unrealized gains or losses | + (4,356) | 782 |
| Increase in Net Assets from Operations | 11,709 | 9,676 |

Distributions Paid**Dividends from Net Investment Income**

| | | |
|---------------------------------------------------|--------------|----------------|
| Investor Shares | 947 | 1,360 |
| Select Shares | + 21 | — |
| Total dividends from net investment income | \$968 | \$1,360 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|-------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 1,399 | \$17,588 | 3,519 | \$40,718 |
| Select Shares | + 679 | 8,627 | 169 | 1,957 |
| Total shares sold | 2,078 | \$26,215 | 3,688 | \$42,675 |
| Shares Reinvested | | | | |
| Investor Shares | 71 | \$883 | 112 | \$1,274 |
| Select Shares | + 2 | 20 | — | — |
| Total shares reinvested | 73 | \$903 | 112 | \$1,274 |
| Shares Redeemed | | | | |
| Investor Shares | (2,354) | (\$29,691) | (2,489) | (\$28,746) |
| Select Shares | + (105) | (1,307) | (31) | (361) |
| Total shares redeemed | (2,459) | (\$30,998) | (2,520) | (\$29,107) |
| Net transactions in fund shares | (308) | (\$3,880) | 1,280 | \$14,842 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 + | (308) | 6,861 | 1,280 | 23,158 |
| End of period | 10,815 | \$138,992 | 11,123 | \$132,131 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for this report period qualify for the dividends-received deductions.

The fund designates \$968 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions are:

Current period

| | |
|-------------------------|-------|
| Ordinary income | \$968 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|---------|
| Ordinary income | \$1,360 |
| Long-term capital gains | \$1 |

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.

Current period

| | |
|-----------------|------------|
| Investor Shares | \$1 |
| Select Shares | + \$— |
| Total | \$1 |

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 \$1,187 and \$512 at the end of the current period and prior period, respectively.

Laudus Small-Cap MarketMasters Fund™

Financial Statements

Financial Highlights

| Investor Shares | 11/1/04– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 12.18 | 11.08 | 7.18 | 8.73 | 12.27 |
| Income or loss from investment operations: | | | | | |
| Net investment income or loss | (0.14) | (0.14) | (0.09) | 0.04 | 0.41 |
| Net realized and unrealized gains or losses | 1.34 | 1.24 | 3.99 | (1.54) | (2.68) |
| Total income or loss from investment operations | 1.20 | 1.10 | 3.90 | (1.50) | (2.27) |
| Less distributions: | | | | | |
| Dividends from net investment income | — | — | (0.00) ¹ | (0.03) | (0.55) |
| Distributions from net realized gains | — | — | — | (0.02) | (0.72) |
| Total distributions | — | — | — | (0.05) | (1.27) |
| Net asset value at end of period | 13.38 | 12.18 | 11.08 | 7.18 | 8.73 |
| Total return (%) | 9.85 | 9.93 | 54.32 | (17.34) | (19.99) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratios to average net assets: | | | | | |
| Net operating expenses | 1.55 | 1.55 | 1.55 | 0.93 ^{2,3} | 0.50 ² |
| Gross operating expenses | 1.69 | 1.77 | 1.80 | 1.31 ² | 0.91 ² |
| Net investment income or loss | (0.95) | (1.08) | (0.98) | 0.06 | 4.17 |
| Portfolio turnover rate | 94 | 140 | 94 | 324 | 172 |
| Net assets, end of period (\$ x 1,000,000) | 108 | 129 | 115 | 81 | 111 |

¹ Per-share amount was less than \$0.01.

² 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.

³ The ratio of net operating expenses would have been 0.84% if certain non-routine expenses (proxy fees) had not been included.

| Select Shares | 11/1/04– 10/31/05 | 6/9/04 ¹ – 10/31/04 |
|--------------------------------------------|----------------------|-----------------------------------|
| Per-Share Data (\$) | | |
| Net asset value at beginning of period | 12.19 | 12.11 |
| Income or loss from investment operations: | | |
| Net investment loss | (0.11) | (0.03) |
| Net realized and unrealized gains | 1.33 | 0.11 |
| Total income from investment operations | 1.22 | 0.08 |
| Net asset value at end of period | 13.41 | 12.19 |
| Total return (%) | 10.01 | 0.66 ² |
| Ratios/Supplemental Data (%) | | |
| Ratio to average net assets: | | |
| Net operating expenses | 1.37 | 1.37 ³ |
| Gross operating expenses | 1.63 | 1.79 ³ |
| Net investment loss | (0.76) | (0.91) ³ |
| Portfolio turnover rate | 94 | 140 ² |
| Net assets, end of period (\$ x 1,000,000) | 1 | 0.32 |

¹ Commencement of operations.

² Per-share amount was less than \$0.01.

³ Annualized.

⁴ Not annualized.

Portfolio Holdings as of October 31, 2005

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.

We use the symbol below to designate certain characteristics of the security.

- ① Top ten holding
- Non-income producing security

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|-----------------------------|-------------------------------------|---------------------------|----------------------------|
| 93.2% | Common Stock | 86,094 | 101,694 |
| 0.7% | Foreign Common Stock | 835 | 764 |
| 0.2% | Short-Term Investments | 199 | 199 |
| 5.3% | Other Investments | 5,796 | 5,796 |
| 99.4% | Total Investments | 92,924 | 108,453 |
| 0.6% | Other Assets and Liabilities | | 652 |
| 100.0% | Total Net Assets | | 109,105 |

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

Common Stock 93.2% of net assets

Air Transportation 3.2%

| | | |
|------------------------------|---------|--------------|
| •③ AirTran Holdings, Inc. | 109,800 | 1,642 |
| • Continental Airlines, Inc. | 66,800 | 865 |
| • Jetblue Airways Corp. | 35,400 | 659 |
| SkyWest, Inc. | 12,450 | 365 |
| | | 3,531 |

Banks 0.9%

| | | |
|--------------------------|--------|-----|
| Commerce Bancorp, Inc. | 6,820 | 208 |
| North Fork Bancorp, Inc. | 14,150 | 358 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|-------------------------------|-------|-----------------------|
| Peoples Bank | 4,905 | 158 |
| Zions Bancorp. | 3,100 | 228 |
| | | <hr/> 952 |

Business Machines & Software 0.3%

| | | |
|----------------------------------------|--------|------------|
| • Lexmark International, Inc., Class A | 5,170 | 215 |
| • Seachange International, Inc. | 13,100 | 82 |
| | | 297 |

Business Services 1.6%

| | | |
|----------------------------------|--------|--------------|
| • Akamai Technologies, Inc. | 24,400 | 423 |
| • Aquantive, Inc. | 42,500 | 920 |
| • Cross Country Healthcare, Inc. | 16,950 | 308 |
| Mentor Graphics Corp. | 11,300 | 94 |
| | | 1,745 |

Capital Goods 9.5%

| | | |
|----------------------------------------|---------|---------------|
| • 3Com Corp. | 168,860 | 650 |
| • Alliant Techsystems, Inc. | 5,500 | 386 |
| Baldor Electric Co. | 35,440 | 861 |
| • BE Aerospace, Inc. | 42,100 | 763 |
| Bucyrus International, Inc. | 3,175 | 132 |
| • Builders Firstsource, Inc. | 32,250 | 631 |
| Dover Corp. | 8,300 | 324 |
| • EMCOR Group, Inc. | 5,250 | 320 |
| • General Cable Corp. | 44,020 | 715 |
| • Global Power Equipment Group, Inc. | 25,375 | 159 |
| Grainger, Inc. | 5,500 | 368 |
| Granite Construction, Inc. | 18,175 | 620 |
| • Infrasure Services, Inc. | 5,975 | 77 |
| Pall Corp. | 5,600 | 147 |
| SPX Corp. | 5,800 | 250 |
| Teleflex, Inc. | 7,950 | 526 |
| The Manitowoc Co., Inc. | 12,190 | 649 |
| • Trex Company, Inc. | 20,870 | 434 |
| •⑨ URS Corp. | 31,125 | 1,258 |
| • Washington Group International, Inc. | 15,200 | 755 |
| York International Corp. | 5,990 | 336 |
| | | 10,361 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| Chemical 0.8% | | Diversified Financials 4.5% | |
| • Cabot Microelectronics Corp. 22,410 | 659 | First Marblehead Corp. (The) 22,490 | 666 |
| Cytec Industries, Inc. 4,550 | 188 | Jefferies Group, Inc. 21,525 | 914 |
| | 847 | • Knight Trading Group, Inc., Class A 72,130 | 690 |
| Commercial Services & Supplies 4.8% | | Raymond James Financial, Inc. 22,460 | 764 |
| ABM Industries, Inc. 6,800 | 134 | ② The Chicago Mercantile Exchange 5,000 | 1,826 |
| Administaff, Inc. 7,200 | 305 | | 4,860 |
| Bowne & Co., Inc. 15,200 | 216 | Electronics 1.5% | |
| • DeVry, Inc. 10,575 | 239 | • Kemet Corp. 32,700 | 226 |
| • Education Management Corp. 20,360 | 628 | • LAM Research Corp. 8,900 | 300 |
| Knoll, Inc. 21,975 | 350 | • LSI Logic Corp. 32,700 | 265 |
| • Portfolio Recovery Associates, Inc. 25,750 | 1,002 | • RF Micro Devices, Inc. 31,450 | 165 |
| ⑤ Steelcase, Inc., Class A 109,830 | 1,573 | • Sierra Wireless, Inc. 43,250 | 477 |
| • Teletech Holdings, Inc. 10,400 | 108 | Tektronix, Inc. 10,985 | 253 |
| • TRC Cos., Inc. 14,980 | 200 | | 1,686 |
| • Watson Wyatt & Co., Holdings 20,340 | 539 | Energy 4.6% | |
| | 5,294 | • Cooper Cameron Corp. 3,600 | 265 |
| Consumer Durables & Apparel 8.6% | | • Dresser-Rand Group, Inc. 16,950 | 368 |
| ① Beazer Homes USA, Inc. 36,675 | 2,125 | ENSCO International, Inc. 4,200 | 191 |
| • Comstock Homebuilding Cos., Class A 1,375 | 23 | • Global Industry Ltd. 22,100 | 281 |
| Jones Apparel Group, Inc. 8,285 | 226 | • Helmerich & Payne, Inc. 14,370 | 796 |
| La-Z-Boy Chair Co. 43,220 | 512 | • Oceaneering International, Inc. 20,190 | 972 |
| Leggett & Platt, Inc. 15,150 | 303 | • Offshore Logistics, Inc. 8,175 | 278 |
| MDC Holdings, Inc. 14,123 | 969 | • Tetra Technologies, Inc. 8,400 | 235 |
| • ⑥ Meritage Corp. 24,950 | 1,554 | Tidewater, Inc. 19,720 | 906 |
| ⑩ Standard Pacific Corp. 31,000 | 1,196 | • Whiting Petroleum Corp. 18,490 | 750 |
| ⑦ The Ryland Group, Inc. 21,700 | 1,460 | | 5,042 |
| • Toll Brothers, Inc. 26,300 | 971 | Energy: Raw Materials 0.1% | |
| | 9,339 | • Weatherford International Ltd. 1,300 | 82 |
| Consumer Services 3.7% | | Food & Staples Retailing 0.4% | |
| • California Pizza Kitchen, Inc. 25,415 | 813 | • Performance Food Group Co. 15,920 | 439 |
| • Cosi, Inc. 54,250 | 475 | Food Beverage & Tobacco 1.2% | |
| • O' Charleys, Inc. 41,820 | 573 | • Hain Celestial Group, Inc. 45,730 | 883 |
| • Six Flags, Inc. 101,180 | 748 | MGP Ingredients, Inc. 11,700 | 126 |
| • Texas Roadhouse, Inc., Class A 43,500 | 685 | Molson Coors Brewing Co. 4,520 | 279 |
| • Vail Resorts, Inc. 21,950 | 735 | | 1,288 |
| | 4,029 | | |

| Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------------|-----------------------|
| Health Care Equipment & Services 10.4% | |
| Analogic Corp. 14,850 | 695 |
| • Arthrocare Corp. 27,300 | 1,003 |
| Beckman Coulter, Inc. 4,800 | 236 |
| • Cholestech Corp. 14,325 | 123 |
| • Edwards Lifesciences Corp. 6,000 | 248 |
| • EV3, Inc. 23,050 | 346 |
| • Foxhollow Technologies, Inc. 24,650 | 1,117 |
| Hillenbrand Industries, Inc. 5,400 | 249 |
| • Intuitive Surgical, Inc. 11,175 | 992 |
| • Kyphon, Inc. 17,300 | 694 |
| LCA-Vision, Inc. 14,550 | 611 |
| • Lifecell Corp. 18,975 | 307 |
| • Neurometric, Inc. 8,900 | 331 |
| • NuVasive, Inc. 32,050 | 559 |
| • Pharmaceutical Product Development, Inc. 8,890 | 511 |
| • Rita Medical Systems, Inc. 35,200 | 118 |
| • SurModics, Inc. 12,225 | 483 |
| • Syneron Medical Ltd. 6,550 | 235 |
| • Synovis Life Technologies, Inc. 10,775 | 97 |
| • Thermo Electron Corp. 12,300 | 371 |
| • Thoratec Corp. 49,725 | 984 |
| • Varian, Inc. 11,550 | 425 |
| • VCA Antech, Inc. 21,950 | 566 |
| | 11,301 |
| Healthcare / Drugs & Medicine 2.1% | |
| • Lifepoint Hospitals, Inc. 27,500 | 1,075 |
| • ResMed, Inc. 26,250 | 1,001 |
| Valeant Pharmaceuticals International 15,000 | 258 |
| | 2,334 |
| Household & Personal Products 0.5% | |
| • NBTY, Inc. 28,030 | 561 |
| Household Products 0.5% | |
| Estee Lauder Cos., Inc., Class A 8,600 | 285 |
| International Flavors & Fragrances, Inc. 7,500 | 248 |
| | 533 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------|-----------------------|
| Insurance 0.9% | |
| Arthur J. Gallagher & Co. 9,200 | 271 |
| Assurant, Inc. 11,090 | 423 |
| Old Republic International Corp. 12,800 | 332 |
| | 1,026 |
| Materials 1.1% | |
| • Aleris International, Inc. 18,850 | 489 |
| Martin Marietta Materials, Inc. 9,340 | 737 |
| | 1,226 |
| Media 2.3% | |
| Dow Jones & Co., Inc. 5,500 | 186 |
| • Emmis Communications Corp. 34,390 | 673 |
| • Entercom Communications Corp. 3,450 | 100 |
| • Radio One, Inc., Class D 50,470 | 596 |
| • Univision Communications, Inc. 7,600 | 199 |
| • Valassis Communications, Inc. 18,110 | 566 |
| Westwood One, Inc. 7,800 | 144 |
| | 2,464 |
| Oil: Domestic 0.1% | |
| • Murphy Oil Corp. 1,800 | 84 |
| Pharmaceuticals & Biotechnology 3.9% | |
| • Adams Respiratory Therapeutics, Inc. 14,800 | 554 |
| • Andrx Corp. 26,820 | 415 |
| • Charles River Laboratories, Inc. 5,290 | 231 |
| • Human Genome Sciences, Inc. 28,590 | 239 |
| • Momenta Pharmaceuticals, Inc. 17,000 | 366 |
| • Par Pharmaceutical Cos., Inc. 6,200 | 160 |
| Perrigo Co. 46,740 | 625 |
| • Techne Corp. 4,325 | 234 |
| • United Therapeutics Corp. 19,600 | 1,448 |
| | 4,272 |
| Producer Goods & Manufacturing 1.8% | |
| • GrafTech International Ltd. 16,100 | 79 |
| Pentair, Inc. 10,600 | 344 |
| • The Shaw Group, Inc. 59,400 | 1,592 |
| | 2,015 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| Railroad & Shipping 0.5% | | Software & Services 7.8% | |
| • Sharper Image Corp. 48,800 | 497 | • Agile Software Corp. 30,450 | 216 |
| | | • Aspen Technology, Inc. 46,600 | 282 |
| | | • Blue Coat Systems, Inc. 11,225 | 527 |
| | | • Ciber, Inc. 120,095 | 766 |
| | | • Corillian Corp. 13,925 | 44 |
| | | • Gevity HR, Inc. 12,300 | 317 |
| | | • Global Payments, Inc. 14,300 | 613 |
| | | • Indus International, Inc. 57,575 | 167 |
| | | • Informatica Corp. 36,330 | 432 |
| | | • Internet Security Systems, Inc. 41,180 | 1,014 |
| | | • Keane, Inc. 14,475 | 164 |
| | | • Lionbridge Technologies, Inc. 35,600 | 241 |
| | | • ManTech International Corp., Class A 28,250 | 783 |
| | | • Maximus, Inc. 18,290 | 663 |
| | | • Micromuse 49,250 | 353 |
| | | • MRO Software, Inc. 5,900 | 97 |
| | | • Raindance Communications, Inc. 58,750 | 117 |
| | | • Talx Corp. 17,175 | 679 |
| | | • Tibco Software, Inc. 87,110 | 661 |
| | | • Tumbleweed Communications Corp. 12,585 | 43 |
| | | • Unisys Corp. 25,700 | 131 |
| | | • Webmethods, Inc. 27,125 | 189 |
| | 2,131 | | 8,499 |
| Retailing 5.3% | | Technology Hardware & Equipment 4.1% | |
| • Ann Taylor Stores Corp. 4,800 | 116 | • Andrew Corp. 69,850 | 742 |
| • Coldwater Creek, Inc. 39,650 | 1,070 | • Anixter International, Inc. 5,150 | 191 |
| • Cost Plus, Inc. 30,950 | 475 | • Arrow Electronics, Inc. 2,200 | 65 |
| • Family Dollar Stores, Inc. 13,500 | 299 | • Avid Technology, Inc. 8,700 | 428 |
| • Federated Department Stores, Inc. 6,072 | 373 | • Celestica, Inc. 22,605 | 216 |
| • Genesco, Inc. 28,750 | 1,058 | • Cognex Corp. 21,550 | 616 |
| • Guess, Inc. 12,450 | 338 | • Diebold, Inc. 10,740 | 388 |
| • Netflix, Inc. 28,650 | 757 | • F5 Networks, Inc. 14,550 | 757 |
| • Officemax, Inc. 12,790 | 358 | • Powerwave Technologies, Inc. 27,975 | 314 |
| • Tiffany & Co. 7,500 | 296 | • Viisage Technology, Inc. 87,690 | 403 |
| • Wetseal, Inc., Class A 132,300 | 684 | • Vishay Intertechnology, Inc. 35,800 | 406 |
| | 5,824 | | 4,526 |
| Semiconductors & Semiconductor Equipment 3.8% | | | |
| • Brooks Automation, Inc. 17,075 | 200 | | |
| • Cymer, Inc. 7,650 | 266 | | |
| • Cypress Semiconductor Corp. 25,600 | 348 | | |
| • Freescale Semiconductor, Inc., Class B 14,900 | 356 | | |
| • Intersil Holding Corp., Class A 12,200 | 278 | | |
| • Kopin Corp. 13,700 | 77 | | |
| • Micron Technology, Inc. 13,000 | 169 | | |
| • National Semiconductor Corp. 19,560 | 443 | | |
| • Novellus Systems, Inc. 17,800 | 389 | | |
| • Teradyne, Inc. 33,600 | 455 | | |
| • Trident Microsystems, Inc. 26,400 | 799 | | |
| • Ultratech, Inc. 23,680 | 326 | | |
| | 4,106 | | |

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

Transportation 0.5%

| | | |
|---------------------------------|--------|------------|
| American Commercial Lines, Inc. | 17,900 | 503 |
|---------------------------------|--------|------------|

Foreign Common Stock 0.7% of net assets**Israel 0.5%**

| | | |
|---------------------|--------|------------|
| • ECI Telecom, Ltd. | 76,600 | 582 |
|---------------------|--------|------------|

United Kingdom 0.2%

| | | |
|----------------------------|-------|------------|
| Willis Group Holdings Ltd. | 4,900 | 182 |
|----------------------------|-------|------------|

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

Short-Term Investments 0.2% of net assets**U.S. Government Securities 0.2%**

| | | |
|----------------------------------------|-----|------------|
| U. S. Treasury Bill 3.33%, 12/15/05 | 200 | 199 |
|----------------------------------------|-----|------------|

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

Other Investments 5.3% of net assets**Other Investment Companies 5.3%**

| | | |
|--------------------------------------------|---------|-----|
| Provident Institutional Funds— TempCash | 442,718 | 443 |
|--------------------------------------------|---------|-----|

| | | |
|--------------------------------------------|-----------|-------|
| Provident Institutional Funds— TempFund | 5,352,663 | 5,353 |
|--------------------------------------------|-----------|-------|

5,796**End of investments.**

Statement of

Assets and Liabilities

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

Assets

| | |
|-----------------------|----------------|
| Investments, at value | \$108,453 |
| Receivables: | |
| Fund shares sold | 28 |
| Dividends | 36 |
| Investments sold | 2,600 |
| Prepaid expenses | + 16 |
| Total assets | 111,133 |

Liabilities

| | |
|----------------------------------------------|--------------|
| Payables: | |
| Fund shares redeemed | 160 |
| Investments bought | 1,792 |
| Investment adviser and administrator fees | 9 |
| Transfer agency and shareholder service fees | 2 |
| Trustee fee | 1 |
| Accrued expenses | + 64 |
| Total liabilities | 2,028 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 111,133 |
| Total liabilities | - 2,028 |
| Net assets | \$109,105 |

Net Assets by Source

| | |
|-------------------------------------------|--------|
| Capital received from investors | 85,251 |
| Net investment income not yet distributed | 11 |
| Net realized capital gains | 8,314 |
| Net unrealized capital gains | 15,529 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$108,284 | | 8,094 | | \$13.38 |
| Select Shares | \$821 | | 61 | | \$13.41 |

Unless stated, all numbers x 1,000.

The fund paid \$92,924 for these securities.

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

| | |
|------------------|-----------|
| Purchases | \$110,312 |
| Sales/maturities | \$147,697 |

These derive from investments and futures.

Federal Tax Data

| | |
|-----------------------------------------|-----------------|
| Portfolio cost | \$93,518 |
| Net unrealized gains and losses: | |
| Gains | \$20,226 |
| Losses | + (5,291) |
| | \$14,935 |

Net undistributed earnings:

| | |
|--------------------------------|--------------|
| Ordinary income | \$11 |
| Long-term capital gains | \$8,917 |
| Capital losses utilized | \$787 |

Reclassifications:

| | |
|-------------------------------------------|---------|
| Net investment income not yet distributed | \$1,145 |
|-------------------------------------------|---------|

Reclassified as:

| | |
|---------------------------------|-----------|
| Net realized capital gains | \$47 |
| Capital received from investors | (\$1,192) |

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Investment Income

| | |
|--------------------------------|------------|
| Dividends | \$ 735 |
| Interest | + 4 |
| Total investment income | 739 |

Net Realized Gains and Losses

| | |
|-----------------------------------------|--------------|
| Net realized gains on investments | 9,175 |
| Net realized gains on futures contracts | + 262 |
| Net realized gains | 9,437 |

Net Unrealized Gains and Losses

| | |
|-------------------------------------|--------------|
| Net unrealized gains on investments | 3,833 |
|-------------------------------------|--------------|

Expenses

| | |
|----------------------------------------------|--------------|
| Investment adviser and administrator fees | 1,490 |
| Transfer agent and shareholder service fees: | |
| Investor shares | 304 |
| Select shares | 2 |
| Trustees' fees | 6 |
| Custodian and portfolio accounting fees | 140 |
| Professional fees | 48 |
| Registration fees | 33 |
| Shareholder reports | 42 |
| Other expenses | + 8 |
| Total expenses | 2,073 |
| Expense reduction | - 175 |
| Net expenses | 1,898 |

Decrease in Net Assets from Operations

| | |
|-----------------------------------------------|----------------|
| Total investment income | 739 |
| Net expenses | - 1,898 |
| Net investment loss | (1,159) |
| Net realized gains | 9,437 |
| Net unrealized gains | + 3,833 |
| Increase in net assets from operations | 12,111 |

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 \$174 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% |

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

These add up to a net gain on investments of \$13,270.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment loss | (\$1,159) | (\$1,436) |
| Net realized gains | 9,437 | 21,842 |
| Net unrealized gains or losses | + 3,833 | (9,695) |
| Increase in net assets from operations | \$12,111 | \$10,711 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|-------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 351 | \$4,603 | 3,329 | \$40,268 |
| Select Shares | + 75 | 993 | 28 | 329 |
| Total shares sold | 426 | \$5,596 | 3,357 | \$40,597 |
| Shares Redeemed | | | | |
| Investor Shares | (2,867) | (\$37,600) | (3,099) | (\$36,800) |
| Select Shares | + (40) | (541) | (2) | (16) |
| Total shares redeemed | (2,907) | (\$38,141) | (3,101) | (\$36,816) |
| Net transactions in fund shares | (2,481) | (\$32,545) | 256 | \$3,781 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 + | (2,481) | (20,434) | 256 | 14,492 |
| End of period | 8,155 | \$109,105 | 10,636 | \$129,539 |

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.

Current period

| | | |
|-----------------|---|------------|
| Investor Shares | | \$2 |
| Select Shares | + | \$– |
| Total | | \$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 distributed net investment income in the amount of \$11 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– 10/31/05 | 11/1/03– 10/31/04 | 11/1/02– 10/31/03 | 11/1/01– 10/31/02 | 11/1/00– 10/31/01 |
|-------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Per-Share Data (\$) | | | | | |
| Net asset value at beginning of period | 13.58 | 11.95 | 8.74 | 10.80 | 15.53 |
| Income or loss from investment operations: | | | | | |
| Net investment income | 0.06 | 0.02 | 0.03 | 0.10 | 0.73 |
| Net realized and unrealized gains or losses | 3.16 | 1.65 | 3.18 | (1.43) | (3.90) |
| Total income or loss from investment operations | 3.22 | 1.67 | 3.21 | (1.33) | (3.17) |
| Less distributions: | | | | | |
| Dividends from net investment income | (0.02) | (0.04) | (0.00) ¹ | (0.07) | (0.77) |
| Distributions from net realized gains | – | – | – | (0.66) | (0.79) |
| Total distributions | (0.02) | (0.04) | – | (0.73) | (1.56) |
| Net asset value at end of period | 16.78 | 13.58 | 11.95 | 8.74 | 10.80 |
| Total return (%) | 23.75 | 13.98 | 36.74 | (13.65) | (22.41) |
| Ratios/Supplemental Data (%) | | | | | |
| Ratio to average net assets: | | | | | |
| Net operating expenses | 1.65 | 1.65 | 1.65 | 0.99 ^{2,3} | 0.50 ³ |
| Gross operating expenses | 1.74 | 1.89 | 1.92 | 1.32 ³ | 0.88 ³ |
| Net investment income | 0.37 | 0.15 | 0.33 | 0.60 | 5.13 |
| Portfolio turnover rate | 53 | 69 | 99 | 158 | 51 |
| Net assets, end of period (\$ x 1,000,000) | 794 | 552 | 302 | 206 | 215 |

¹ The per share amount was less than \$0.01.

² The ratio of net operating expenses would have been 0.93% if certain non-routine expenses (proxy fees) had not been included.

³ 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.

| Select Shares | 11/1/04– 10/31/05 | 4/2/04 ¹ – 10/31/04 |
|-------------------------------------------------|----------------------|-----------------------------------|
| Per-Share Data (\$) | | |
| Net asset value at beginning of period | 13.61 | 13.64 |
| Income or loss from investment operations: | | |
| Net investment income | 0.08 | 0.02 |
| Net realized and unrealized gains or losses | 3.17 | (0.05) |
| Total income or loss from investment operations | 3.25 | (0.03) |
| Less distributions: | | |
| Dividends from net investment income | (0.05) | — |
| Net asset value at end of period | 16.81 | 13.61 |
| Total return (%) | 23.90 | (0.22) ² |
| Ratios/Supplemental Data (%) | | |
| Ratio to average net assets: | | |
| Net operating expenses | 1.47 | 1.47 ³ |
| Gross operating expenses | 1.68 | 1.86 ³ |
| Net investment income | 0.59 | 0.37 ³ |
| Portfolio turnover rate | 53 | 69 ² |
| Net assets, end of period (\$ x 1,000,000) | 274 | 81 |

¹ Commencement of operations.

² Not annualized.

³ Annualized.

Portfolio Holdings as of October 31, 2005

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.

We use the symbol below to designate certain characteristics of the security.

- ① Top ten holding
- Non-income producing security
- ◆ American Depositary Receipt
- ▲ Collateral for future contract

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|-----------------------------|-------------------------------------|---------------------------|----------------------------|
| 94.6% | Foreign Common Stock | 818,625 | 1,009,892 |
| 0.1% | Short-Term Investments | 896 | 896 |
| 4.5% | Other Investments | 48,278 | 48,278 |
| 99.2% | Total Investments | 867,799 | 1,059,066 |
| 0.8% | Other Assets and Liabilities | | 8,814 |
| 100.0% | Total Net Assets | | 1,067,880 |

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

Foreign Common Stock 94.6% of net assets**Australia 2.3%**

| | | |
|----------------------------------------------|---------|-------|
| Australia and New Zealand Banking Group Ltd. | 468,000 | 8,262 |
| BHP Billiton Ltd. | 193,200 | 2,997 |
| Billabong International Ltd. | 161,200 | 1,565 |
| Macquarie Bank Ltd. | 64,900 | 3,151 |
| Publishing & Broadcasting Ltd. | 21,456 | 260 |

| Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------|-----------------------|
| • Raiffeisen International Bank Holdings 43,000 | 2,708 |
| SFE Corp. 209,654 | 1,957 |
| Sigma Co., Ltd. 161,200 | 1,450 |
| Toll Holdings Ltd. 179,400 | 1,681 |
| | <hr/> 24,031 |

Austria 0.4%

| | | |
|------------------------------------------------|--------|--------------------|
| Andritz AG | 17,557 | 1,595 |
| Erste Bank der Oesterreichischen Sparkassen AG | 48,100 | 2,503 |
| | | <hr/> 4,098 |

Bahamas 0.0%

| | | |
|------------------------|--------|------------|
| • Steiner Leisure Ltd. | 15,349 | 523 |
|------------------------|--------|------------|

Belgium 0.5%

| | | |
|----------------------------|--------|--------------------|
| EVS Broadcast Equipment SA | 16,526 | 556 |
| Interbrew SA | 56,866 | 2,272 |
| • Option N.V. | 36,667 | 2,320 |
| | | <hr/> 5.148 |

Brazil 0.7%

| | | |
|----------------------------------|---------|-------------|
| Banco Itau SA Preferred | 125,000 | 2,992 |
| •Diagnosticos da America SA | 31,100 | 504 |
| ◆Gol Linhas Aereas International | 25,000 | 866 |
| •Natura Cosmeticos SA | 38,700 | 1,532 |
| Petrobras Brasileiro SA | 95,700 | 1,369 |
| ◆Telesp Celular Participacoes SA | 183,258 | 669 |
| | | <hr/> 7,932 |

Canada 2.2%

| | | |
|------------------------------------|---------|-------|
| ▲ Canadian National Railway Co. | 54,300 | 3,931 |
| Corus Entertainment, Inc. | 10,200 | 269 |
| Encana Corp. | 60,400 | 2,762 |
| Extendicare, Inc., Class A | 144,199 | 2,322 |
| • Gildan Activewear, Inc. | 24,000 | 839 |
| Home Capital Group, Inc., Class B | 42,613 | 1,282 |
| Manulife Financial Corp. | 54,400 | 2,831 |
| ◆ Nortel Networks Corp. | 367,100 | 1,193 |
| Peyto Energy Trust | 56,632 | 1,248 |
| • Research in Motion Ltd. | 34,500 | 2,121 |
| Ritchie Brothers Auctioneers, Inc. | 18,700 | 767 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| • RONA, Inc. 54,100 | 1,005 | • JC Decaux SA 114,318 | 2,337 |
| • Rothmans, Inc. 91,688 | 1,873 | • Klepierre 7,900 | 741 |
| • Shoppers Drug Mart Corp. 21,500 | 715 | • L'Oreal 82,000 | 6,030 |
| | 23,158 | • Lvmh Moet Hennessy Louis Vutton SA 21,089 | 1,708 |
| Cayman Islands 0.1% | | • Neopost SA 59,500 | 5,741 |
| ◆ Ctrip.Com International Ltd. 13,900 | 800 | • Nexity Co. 74,694 | 3,406 |
| Chile 0.4% | | • Orpea 24,400 | 1,316 |
| ◆ Banco Santander Chile SA 26,600 | 1,039 | • PagesJaunes SA 57,513 | 1,482 |
| ◆ Cencosud SA ,144A 52,700 | 1,663 | • Pernod-Ricard 10,175 | 1,780 |
| • S.A.C.I. Falabella SA 646,900 | 1,593 | • Pinault-Printemps-Redoute SA 15,803 | 1,661 |
| | 4,295 | • Pinguely-Haulotte 107,277 | 1,939 |
| Colombia 0.1% | | • Publicis Groupe SA 270,400 | 8,943 |
| ◆ Bancolombia S.A. Sponsored 44,800 | 1,062 | • Saft Groupe SA 32,407 | 1,025 |
| Denmark 0.3% | | • Sagem SA 7,350 | 146 |
| • Bang Olufsen A/ S Class B 15,915 | 1,523 | • Sanofi-Aventis 109,300 | 8,757 |
| • Genmab A/S 59,250 | 1,139 | ▲ Silicon-On-Insulator Technologies 163,623 | 2,453 |
| • Vestas Wind System A/S 4,400 | 95 | ▲ SR Teleperformance 73,352 | 2,160 |
| | 2,757 | • Technip SA 37,200 | 2,013 |
| Egypt 0.1% | | • Television Francaise 1 104,000 | 2,668 |
| • Orascom Construction Industries 46,705 | 1,586 | • Total SA, Class B 5,000 | 1,258 |
| Finland 0.2% | | • Vinci SA 27,800 | 2,174 |
| • Nokian Renkaat Oyj 163,190 | 2,543 | • Vivendi Universal SA 155,586 | 4,897 |
| France 9.1% | | • Wavecom SA 94,060 | 1,356 |
| • Accor SA 12,772 | 638 | • Zodiac SA 23,000 | 1,254 |
| • Alten 35,356 | 1,030 | | 97,414 |
| • April Group 48,294 | 1,701 | Germany 8.2% | |
| • AXA 50,349 | 1,458 | • Allianz AG 17,443 | 2,460 |
| • AXAlto Holding N.V. 41,130 | 1,120 | • AWD Holding AG 25,400 | 681 |
| ⑤ Banque National de Paris 160,500 | 12,174 | ④ Bayerische Motoren-Werke AG 305,800 | 13,302 |
| • Carrefour SA 46,235 | 2,056 | • Bayerische Vereinsbank AG 71,617 | 2,002 |
| • Essilor International SA 25,600 | 2,108 | • Bijou Brigitte Modische Accessoires AG 12,323 | 2,562 |
| • Eurazeo 13,200 | 1,283 | • Celesio AG 29,520 | 2,551 |
| • GameLoft 82,600 | 547 | • Commerzbank AG 80,500 | 2,104 |
| • Groupe Steria SCA 42,937 | 2,199 | • Continental AG 36,200 | 2,767 |
| • Hermes International 8,900 | 1,997 | • CTS Eventim AG 36,592 | 995 |
| • Iliad SA 17,150 | 915 | • Deutsche Boerse AG 92,500 | 8,705 |
| • Ipsos 7,946 | 943 | • Deutsche Euroshop AG 21,965 | 1,158 |
| | | • Deutsche Post AG 86,351 | 1,930 |
| | | • DIS Deutscher Industrie Service AG 30,145 | 1,640 |
| | | • E.ON AG 53,003 | 4,803 |
| | | • GFK AG 19,060 | 632 |

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|----------------------------------------------------------------|-----------------------|----------------------------------------------------|-----------------------|
| Hannover Rueckversicherung AG 119,500 | 4,313 | China Mobile Ltd. 1,065,500 | 4,780 |
| •Heidelberger Druckmaschinen AG 11,881 | 377 | •China Paradise Electronics Retail Ltd. 568,954 | 172 |
| Henkel KGaA 90,000 | 7,221 | Citic Pacific Ltd. 27,250 | 71 |
| Hugo Boss AG Preferred 41,231 | 1,366 | Cosco Pacific Ltd. 50,000 | 82 |
| •Interhyp AG 10,335 | 619 | Esprit Holdings Ltd. 252,000 | 1,785 |
| •MTU Aero Engines Holdings AG 18,581 | 540 | •Foxconn International Holdings 1,629,000 | 1,751 |
| •Pfleiderer AG 28,581 | 521 | •Fu Ji Food & Catering Services 265,000 | 302 |
| •Porsche AG Preferred 3,650 | 2,640 | Giordano International Ltd. 1,436,000 | 826 |
| •ProsiebenSat. 1 Media AG Preferred 98,647 | 1,699 | Li & Fung Ltd. 1,222,000 | 2,622 |
| Rational AG 10,401 | 1,166 | Li Ning Co., Ltd. 1,028,000 | 625 |
| •RWE AG 9,064 | 577 | Lifestyle International Holdings Ltd. 239,500 | 346 |
| •SAP AG 36,300 | 6,225 | MTR Corp., Ltd. 345,200 | 654 |
| •SBS Broadcasting SA 35,075 | 1,859 | •Pacific Basin Shipping Ltd. 2,742,000 | 1,268 |
| Software AG 58,252 | 2,654 | Ports Design Ltd. 363,500 | 342 |
| Solarworld AG 13,258 | 1,801 | Sung Hung Kai Properties 136,900 | 1,299 |
| Stada Arzneimittel AG 26,900 | 879 | Techtronic Industries Co., Ltd. 1,041,500 | 2,563 |
| •Techem AG 20,378 | 811 | •Vtech Holdings Ltd. 263,000 | 1,120 |
| •Vivacon AG 73,924 | 2,215 | | 23,430 |
| •Wincor Nixdorf AG 21,684 | 1,901 | | |
| | 87,676 | | |
| Greece 0.8% | | Hungary 0.2% | |
| Coca-Cola Hellenic Bottling Co., SA 34,500 | 941 | Otp Bank Rt. 44,200 | 1,597 |
| EFG Eurobanck Ergasias 51,300 | 1,546 | | |
| Germanos SA 80,700 | 1,202 | India 0.6% | |
| •Intralot SA Integrated Lottery 63,928 | 954 | Associated Cement Cos., Ltd. 86,200 | 852 |
| National Bank of Greece SA 63,400 | 2,474 | •Bharat Forge 513 | 3 |
| •Q-Cells AG 200 | 11 | •Bharti Televentures Ltd. 110,700 | 794 |
| •Siemens AG 20,087 | 1,493 | HDFC Bank Ltd. 95,700 | 1,298 |
| | 8,621 | Housing Development Finance Corp., Ltd. 75,300 | 1,622 |
| | | •Infosys Technologies Ltd. 25,300 | 1,419 |
| | | | 5,988 |
| Hong Kong 2.2% | | Ireland 1.6% | |
| Cheung Kong Holdings Ltd. 75,600 | 790 | Anglo Irish Bank Corp. PLC 188,200 | 2,565 |
| •China Construction Bank, Class H 1,900,400 | 576 | Bank of Ireland 821,000 | 12,500 |
| China Insurance International Holdings Co., Ltd. 102,000 | 199 | Kingspan Group PLC 90,100 | 1,043 |
| •China Insurance International Holdings Co., Ltd. 1,509,132 | 546 | •Paddy Power PLC 51,951 | 878 |
| •China Mengniu Dairy Co. 902,000 | 711 | •United Drug PLC 152,000 | 592 |
| | | | 17,578 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---------------------------------------------------|-----------------------|-------------------------------------------------|-----------------------|
| Israel 0.2% | | | |
| ◆ Orbotech Ltd. 25,000 | 543 | Hoya Corp. 33,400 | 1,170 |
| Partner Communications Co., Ltd. 168,557 | 1,386 | • Hoya Corp., WI 85,200 | 2,950 |
| | 1,929 | Intelligence, Ltd. 733 | 1,453 |
| | | ITO EN Ltd. 15,000 | 722 |
| | | • J-Oil Mills, Inc. 201,000 | 856 |
| | | Japan Tobacco, Inc. 79 | 1,249 |
| Italy 2.9% | | • Jupiter Telecommunications Co., Ltd. 2,668 | 2,151 |
| Amplifon SPA 18,563 | 1,213 | • K.K. Davinci Advisors 753 | 3,551 |
| Assicurazioni Generali 63,332 | 1,884 | Kao Corp. 71,000 | 1,700 |
| Banco Popolare di Verona e Novara ScrI 139,000 | 2,566 | • Kennedy-Wilson Japan 221 | 907 |
| Credito Emiliano SPA 90,400 | 954 | Keyence Corp. 17,500 | 4,027 |
| Eni SPA 73,162 | 1,958 | Komeri Co., Ltd. 39,200 | 1,389 |
| • Gemina SPA 640,200 | 1,450 | Meitec Corp. 120,000 | 3,878 |
| • Luxottica Group SPA 117,800 | 2,843 | Mitsubishi Corp. 153,000 | 2,975 |
| Pirelli & C. Real Estate SPA 14,100 | 772 | • Mitsubishi Estate Co., Ltd. 46,000 | 680 |
| Recordati SPA 353,547 | 2,586 | Mitsubishi Tokyo Financial Group, Inc. 443 | 5,568 |
| • Saipem SPA 281,300 | 4,026 | Mitsui & Co., Ltd. 51,500 | 632 |
| San Paolo IMI SPA 90,900 | 1,313 | Mitsui Fudosan Co., Ltd. 24,000 | 393 |
| Tod's SPA 33,359 | 1,908 | Mizuho Financial Group, Inc. 584 | 3,899 |
| Unicredito Italiano SPA 1,044,000 | 5,830 | Nabtesco Corp. 279,598 | 2,345 |
| • Valentino Fashion Group SPA 89,783 | 2,101 | Nakanishi, Inc. 8,400 | 1,100 |
| | 31,404 | • Neomax Co., Ltd. 31,600 | 956 |
| Japan 18.6% | | Nidec Corp. 22,800 | 1,338 |
| ABC-Mart, Inc. 38,000 | 1,033 | • Nidec Corp., WI 19,000 | 1,053 |
| • ABC-Mart, Inc., WI 56,000 | 1,477 | Nitori Co., Ltd. 13,280 | 1,006 |
| • AEON Co., Ltd. 3,900 | 81 | Nitto Denko Corp. 33,400 | 2,022 |
| Aeon Credit Service Co., Ltd. 23,100 | 1,814 | NIWS Co., Ltd. 515 | 560 |
| Aeon Mall Co., Ltd 35,500 | 1,508 | NTT DoCoMo, Inc. 6,360 | 10,983 |
| • Amano Corp. 127,000 | 2,091 | Orix Corp. 44,800 | 8,400 |
| Askul Corp. 14,400 | 872 | • Pal Co., Ltd. 25,540 | 1,597 |
| • Bridgestone Corp. 39,700 | 811 | Park24 Co., Ltd. 46,000 | 1,087 |
| • Chiyoda Corp. 85,000 | 1,468 | Point, Inc. 74,240 | 4,611 |
| • Chugai Pharmaceutical Co., Ltd. 258,900 | 5,669 | Rohm Co., Ltd. 71,000 | 5,754 |
| Credit Saison Co., Ltd. 126,400 | 5,735 | • Ryohin Keikaku Co., Ltd. 26,900 | 1,794 |
| • Daifuku Co., Ltd. 226,000 | 2,979 | Sega Sammy Holdings, Inc. 64,524 | 2,322 |
| Daiwa Securities Group, Inc. 865,500 | 7,110 | • Sega Sammy Holdings, Inc., WI 61,424 | 2,211 |
| en-Japan, Inc. 192 | 818 | Sharp Corp. 425,000 | 5,836 |
| Hitachi Koki Co., Ltd. 199,000 | 2,708 | Shimamura Co., Ltd. 15,400 | 1,975 |
| • Hogy Medical Co., Ltd. 28,100 | 1,534 | Shinsei Bank Ltd. 490,000 | 2,851 |
| ⑦ Honda Motor Co., Ltd. 221,700 | 12,330 | SMC Corp. 10,800 | 1,437 |
| Honeys Co., Ltd. 12,900 | 671 | Sparx Asset Management Co., Ltd. 360 | 876 |

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------|-----------------------|----------------------------------------|-----------------------|
| Sumitomo Trust and Banking Co., Ltd. 82,750 | 704 | • ASM Lithography Holding N.V. 138,303 | 2,342 |
| Sundrug Co., Ltd. 17,600 | 993 | • ASML Holding N.V. 24,500 | 416 |
| Sysmex Corp. 19,600 | 780 | • Ballast Nedam N.V. CVA 52,552 | 2,147 |
| • Sysmex Corp., WI 23,000 | 877 | Euronext N.V. 236,000 | 10,029 |
| ⑩ Takeda Chemical Industries Ltd. 200,500 | 10,990 | Fortis N.V. 161,373 | 4,594 |
| • Takeuchi Mfg. Co., Ltd. 17,300 | 939 | Heijmans N.V. 41,079 | 1,856 |
| Toagosei Chemical Ltd. 491,000 | 2,492 | Heineken Holding N.V. 200,000 | 5,922 |
| Toyo Tire & Rubber Co., Ltd. 364,000 | 2,067 | ING Groep N.V. 69,945 | 2,017 |
| Tsugami Corp. 230,000 | 1,481 | • Kon Philips Electronics N.V. 199,100 | 5,207 |
| Tsumura & Co. 136,000 | 2,961 | Koninklijke Ten Cate N.V. 12,952 | 1,363 |
| Uni-Charm Corp. 182,200 | 8,230 | Ordina Beheer N.V. 132,541 | 2,234 |
| United Arrows Ltd. 22,600 | 1,205 | ▲ Stork N.V. 66,745 | 2,482 |
| Urban Corp. 49,200 | 3,043 | • TomTom N.V. 55,300 | 2,130 |
| Yamada Denki Co., Ltd. 31,500 | 2,782 | | 55,470 |
| • Yoshinoya D&C Co., Ltd. 1,572 | 2,968 | | |
| • Zephyr Co., Ltd. 920 | 3,045 | | |
| | 198,530 | | |
| Malaysia 0.2% | | Norway 1.9% | |
| • Airasia BHD 1,734,000 | 736 | Acta Holdings ASA 977,361 | 2,298 |
| • Commerce Asset-Holding Berhad 861,500 | 1,255 | • Aker ASA 300 | 8 |
| Transmile Group Berhad 89,900 | 255 | • Fred Olsen Energy ASA 85,617 | 2,352 |
| | 2,246 | • Norwegian Air Shuttle ASA 79,067 | 772 |
| | | • Petroleum Geo Services ASA 36,487 | 918 |
| Mexico 1.5% | | • Songa Offshore ASA 301,293 | 1,319 |
| America Mobil SA de CV 944,500 | 1,233 | Statoil ASA 83,300 | 1,849 |
| • Consorcio ARA SA de CV 155,700 | 575 | • Stolt Offshores SA 303,179 | 3,147 |
| • Corporacion Geo SA, Series B 411,100 | 1,269 | • SubSea 7, Inc. 228,464 | 2,380 |
| ◆ Desarrolladora Homex SA de CV 32,500 | 971 | • Tandberg Television ASA 158,118 | 1,969 |
| ◆ Grupo Aeroportuario del Sureste SA de CV 25,300 | 822 | • TGS Nopec Geophysical Co. ASA 28,758 | 1,081 |
| ◆ Grupo Televisa SA de CV 80,200 | 5,863 | • Tomra Systems ASA 282,741 | 1,932 |
| • Urbi Desarrollos Urbanos SA de CV 219,300 | 1,384 | | 20,025 |
| Walmart de Mexico, Series V 825,700 | 4,019 | | |
| | 16,136 | Portugal 0.2% | |
| Netherlands 5.2% | | Banco Comercial Portugues SA 805,889 | 2,039 |
| Aalberts Industries N.V. 31,163 | 1,516 | | |
| AKZO Nobel N.V. 224,200 | 9,691 | Russia 0.7% | |
| • AM N.V. 129,699 | 1,524 | • AFK Sistema, 144A GDR 41,838 | 937 |
| | | ◆ Lukoil Holding Co. 79,300 | 4,373 |
| | | ◆ Novatek OAO, 144A 48,900 | 1,076 |
| | | ◆ Pyaterochka Holding N.V. 144A 63,900 | 1,253 |
| | | | 7,639 |
| | | Singapore 1.8% | |
| | | Capitaland Ltd. 1,368,000 | 2,575 |
| | | ▲ Cosco Investments 3,444,520 | 4,490 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|-----------------------------------------------|-----------------------|--------------------------------------------|-----------------------|
| • Goodpack Ltd. 414,000 | 448 | Grupo Ferrovial SA 22,800 | 1,685 |
| Hyflux Ltd. 1,045,500 | 1,850 | • Inditex SA 121,978 | 3,612 |
| Jaya Holdings Ltd. 1,232,000 | 976 | Prisa-Promotora de Informaciones SA 95,384 | 1,749 |
| Keppel Corp., Ltd. 177,500 | 1,218 | Prosegur Compania de Seguridad SA 71,220 | 1,741 |
| Osim International Ltd. 669,600 | 612 | Tubacex SA 552,948 | 2,320 |
| • Singapore Airlines Ltd. 267,600 | 1,772 | | 14,264 |
| Singapore Telecommunications Ltd. 905,407 | 1,247 | | |
| • United Overseas Bank Ltd. 48,200 | 67 | | |
| • United Overseas Bank Ltd. 482,000 | 3,935 | | |
| | 19,190 | | |
| South Africa 0.5% | | Sweden 1.7% | |
| • Aspen Pharmacare Holdings Ltd. 177,300 | 819 | • Capio AB 151,553 | 2,618 |
| Edgars Consolidated Stores Ltd. 234,900 | 1,043 | Clas Ohlson AB Class B 50,900 | 994 |
| Investec Ltd. 28,011 | 1,006 | Elekta AB, Class B 191,587 | 2,924 |
| MTN Group Ltd. 162,000 | 1,206 | • Ericsson Telefonab LM AB Class B 290,000 | 950 |
| Naspers Ltd. 67,600 | 976 | ♦ Ericsson Telefonab LM SP 47,200 | 1,549 |
| | 5,050 | HIQ International AB 190,347 | 927 |
| | | JM AB 61,049 | 2,537 |
| | | Lindex AB 41,612 | 2,023 |
| | | • Modern Times Group AB Series B 23,750 | 910 |
| | | Unibet Group PLC 80,878 | 1,690 |
| | | • Wm-Data AB, Class B 299,206 | 823 |
| | | | 17,945 |
| South Korea 3.9% | | Switzerland 9.3% | |
| Hana Bank 41,450 | 1,497 | • Actelion Ltd. 12,050 | 1,355 |
| Hyundai Motor Co. Ltd. 36,200 | 2,676 | • Charles Voegelé Holding AG 15,662 | 1,144 |
| • Kookmin Bank 197,480 | 11,236 | • Credit Suisse Group 214,500 | 9,488 |
| ♦ Kookmin Bank 1,000 | 58 | • EFG International 38,900 | 1,118 |
| • Korea Investment Holdings, Co., Ltd. 25,800 | 667 | • Georg Fischer AG 4,740 | 1,467 |
| Korea Tobacco and Ginseng Corp. 152,600 | 6,249 | Givaudan AG 11,700 | 7,540 |
| NHN Corp. 8,200 | 1,372 | • Kudelski SA 19,000 | 674 |
| Samsung Electronics Co., Ltd. Preferred 3,770 | 2,007 | Lonza Group AG 106,400 | 6,132 |
| • Shinhan Financial Group Co., Ltd. 43,640 | 1,463 | ① Nestlé SA 53,739 | 16,001 |
| ♦ SK Telecom Co., Ltd. 10,500 | 212 | • Nobel Biocare Holding AG 7,197 | 1,659 |
| ⑥ SK Telecom Co., Ltd. 71,200 | 12,876 | ③ Novartis AG 263,874 | 14,192 |
| • Ssangyong Motor Co. 169,500 | 1,327 | Phonak Holding AG 23,300 | 972 |
| | 41,640 | • Roche Holding AG Genusschein 71,417 | 10,670 |
| | | Schweizerische Rueckversicherung 10,820 | 730 |
| Spain 1.3% | | Swatch Group AG 65,500 | 9,086 |
| Banco Bilbao Vizcaya Argentaria SA 104,821 | 1,849 | • Syngenta AG 57,800 | 6,207 |
| Banco Santander Central Hispano SA 102,705 | 1,308 | • Synthes, Inc. 1,433 | 152 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------------------------------|-----------------------|
| United Bank of Switzerland AG 122,486 | 10,443 |
| | 99,030 |
| Taiwan 0.9% | |
| • Chinatrust Financial Holding Co., Ltd. 1,075,293 | 837 |
| ◆ Chunghwa Telecom Co., Ltd. 60,300 | 1,044 |
| Hon Hai Precision Industry Co., Ltd. 627,240 | 2,717 |
| Largan Precision Co., Ltd. 111,850 | 1,015 |
| MediaTek, Inc. 238,400 | 2,063 |
| Novatek Microelectronics Corp., Ltd. 277,302 | 1,217 |
| • Wistron Corp. 499,000 | 524 |
| | 9,417 |
| Turkey 0.1% | |
| • Turkiye Garanti Bankasi A.S. 522,000 | 1,561 |
| United Kingdom 13.7% | |
| Aegis Group PLC 1,715,500 | 3,780 |
| Aggreko PLC 356,927 | 1,511 |
| • Amino Technologies PLC 75,203 | 177 |
| • Ark Therapeutics Group PLC 297,014 | 525 |
| • Ashtead Group PLC 767,264 | 1,915 |
| Associated British Ports Holdings PLC 746,000 | 7,235 |
| ▲ BG Group PLC 701,900 | 6,175 |
| BP PLC 375,000 | 4,154 |
| ▲ British Sky Broadcasting Group PLC 1,039,940 | 9,387 |
| Burren Energy PLC 94,800 | 1,344 |
| Cadbury Schweppes PLC 890,782 | 8,778 |
| • Cairn Energy PLC 61,500 | 1,881 |
| Capital Group PLC 293,820 | 2,029 |
| Carnival PLC 24,242 | 1,229 |
| ⑤ Diageo PLC 896,000 | 13,235 |
| • Enodis PLC 1,515,000 | 3,412 |
| ▲② GlaxoSmithKline PLC 585,700 | 15,234 |
| Homeserve PLC 59,313 | 1,061 |
| • IG Group Holdings PLC 779,359 | 2,063 |
| Intertek Group 73,500 | 927 |
| ▲ ITV PLC 1,239,821 | 2,283 |
| Johnston Press PLC 215,000 | 1,784 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------|-----------------------|
| ▲ Kingfisher PLC 792,320 | 2,974 |
| Lloyds TSB Group PLC 994,000 | 8,129 |
| Michael Page Group PLC 1,415,600 | 5,789 |
| • Morgan Crucible Co., PLC 277,955 | 1,034 |
| Morrison Wm. Supermarkets 468,197 | 1,356 |
| • NETeller PLC 145,190 | 1,772 |
| Northgate PLC 42,300 | 749 |
| Reckitt Benkiser PLC 68,297 | 2,064 |
| Rotork PLC 102,186 | 1,035 |
| RTL Group SA 10,160 | 744 |
| S I G PLC 84,003 | 1,012 |
| Signet Group PLC 5,365,000 | 9,659 |
| Smith & Nephew PLC 34,438 | 291 |
| Standard Chartered PLC 106,100 | 2,228 |
| ▲ Tesco PLC 1,051,455 | 5,599 |
| • Trinity Mirror PLC 208,400 | 2,197 |
| • Ultra Electronics Holdings PLC 120,167 | 1,872 |
| • Vodafone Group PLC 2,805,000 | 7,365 |
| • Vt Group PLC 23,800 | 152 |
| | 146,140 |

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) | Value (\$ x 1,000) |
|---------------------------------|-----------------------------|-----------------------|
|---------------------------------|-----------------------------|-----------------------|

Short-Term Investments 0.1% of net assets

U.S. Government Securities 0.1%

| | | |
|------------------------------------------|-----|------------|
| ▲ U. S. Treasury Bill 3.33%, 12/15/05 | 900 | 896 |
|------------------------------------------|-----|------------|

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

Other Investments 4.5% of net assets

Other Investment Companies 4.5%

| | |
|----------------------------------------------------------|---------------|
| ▲ Provident Institutional Funds — TempFund 48,277,919 | 48,278 |
|----------------------------------------------------------|---------------|

End of investments.

In addition to the above, the fund held the following at 10/31/05. All numbers x 1,000 except number of futures contracts.

Futures Contracts

| | Number of Contracts | Contract Value | Unrealized Gains/(Losses) |
|-----------------------------------------|------------------------|-------------------|------------------------------|
| S&P 500 Index, Long expires 12/15/05 | 27 | 8,166 | 107 |

Forward Foreign Currency Contracts

| Expiration Date | Currency to be Received | Amount of Currency to be Received | Currency to be Delivered | Amount of Currency to be Delivered | Unrealized Gains/(Losses) |
|-----------------|----------------------------|-----------------------------------------|-----------------------------|------------------------------------------|------------------------------|
| 11/16/05 | Swiss Francs | 15,500 | U.S. Dollars | 12,164 | (128) |
| 11/16/05 | U.S. Dollars | 13,369 | Swiss Francs | 15,500 | 1,333 |
| 11/17/05 | Swiss Francs | 4,800 | U.S. Dollars | 3,706 | 21 |
| 11/17/05 | U.S. Dollars | 7,757 | Swiss Francs | 9,000 | 768 |
| 11/22/05 | U.S. Dollars | 5,738 | Swiss Francs | 6,600 | 611 |
| 11/28/05 | British Pounds | 3,300 | U.S. Dollars | 5,752 | 85 |
| 11/28/05 | U.S. Dollars | 6,087 | British Pounds | 3,300 | 250 |
| 12/07/05 | U.S. Dollars | 6,085 | British Pounds | 3,200 | 425 |
| 12/07/05 | U.S. Dollars | 3,936 | Swiss Francs | 4,400 | 513 |
| 12/09/05 | U.S. Dollars | 8,014 | British Pounds | 4,200 | 586 |
| * 02/10/06 | British Pounds | 4,400 | U.S. Dollars | 7,733 | 47 |
| 02/10/06 | U.S. Dollars | 9,181 | British Pounds | 4,900 | 516 |
| 05/10/06 | Swiss Francs | 7,600 | U.S. Dollars | 6,058 | (58) |
| 05/10/06 | U.S. Dollars | 6,478 | Swiss Francs | 7,600 | 477 |
| | | | | | 5,446 |

* Consists of two separate forward currency contracts.

| | | | | | |
|----------|----------------|-------|--------------|-------|----|
| 02/10/06 | British Pounds | 600 | U.S. Dollars | 1,046 | 15 |
| 02/10/06 | British Pounds | 3,800 | U.S. Dollars | 6,687 | 32 |

All numbers x 1,000

Foreign Currency Contracts

| Expiration Date | Currency to be Received | Amount of Currency to be Received | Currency to be Delivered | Amount of Currency to be Delivered | Unrealized Gains/(Losses) |
|-----------------|----------------------------|-----------------------------------------|-----------------------------|------------------------------------------|------------------------------|
| 11/01/05 | British Pounds | 384 | U.S. Dollars | 684 | (5) |
| 11/01/05 | Canadian Dollars | 84 | U.S. Dollars | 72 | —* |
| 11/01/05 | Danish Kroner | 2,036 | U.S. Dollars | 330 | (3) |
| 11/01/05 | European Euro | 871 | U.S. Dollars | 1,056 | (11) |
| 11/01/05 | Norwegian Krone | 1,366 | U.S. Dollars | 212 | (2) |
| 11/01/05 | U.S. Dollars | 25 | British Pounds | 14 | —* |
| 11/01/05 | U.S. Dollars | 114 | Danish Krone | 700 | 1 |
| 11/01/05 | U.S. Dollars | 432 | Japanese Yen | 49,866 | 4 |
| 11/01/05 | U.S. Dollars | 439 | Norwegian Krone | 2,826 | 5 |
| 11/01/05 | U.S. Dollars | 16 | Hong Kong Dollars | 121 | —* |
| 11/01/05 | U.S. Dollars | 623 | South Korean Won | 4,908 | 7 |
| 11/02/05 | Australian Dollars | 98 | U.S. Dollars | 74 | (1) |
| 11/02/05 | Danish Kroner | 1,637 | U.S. Dollars | 263 | (1) |
| 11/02/05 | European Euro | 254 | U.S. Dollars | 306 | (2) |
| 11/02/05 | Swiss Francs | 286 | U.S. Dollars | 223 | (2) |
| 11/02/05 | U.S. Dollars | 125 | British Pounds | 70 | —* |
| 11/02/05 | U.S. Dollars | 108 | Danish Krone | 665 | 1 |
| 11/02/05 | U.S. Dollars | 542 | European Euro | 452 | —* |
| 11/02/05 | U.S. Dollars | 367 | Japanese Yen | 42,473 | 1 |
| 11/02/05 | U.S. Dollars | 209 | South Korean Won | 1,650 | 2 |
| 11/03/05 | European Euro | 4 | U.S. Dollars | 5 | —* |
| 11/03/05 | Swedish Krona | 6,560 | U.S. Dollars | 825 | (2) |
| 11/03/05 | U.S. Dollars | 203 | Canadian Dollars | 240 | —* |
| 11/03/05 | U.S. Dollars | 399 | Swedish Krona | 3,180 | —* |
| 11/04/05 | U.S. Dollars | 911 | Japanese Yen | 106,048 | —* |
| 11/07/05 | Singapore Dollars | 92 | U.S. Dollars | 54 | —* |

(8)

* Amounts stated as "—" are less than \$1.

Statement of

Assets and Liabilities

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

Assets

| | |
|---------------------------------------------------------------|------------------|
| Investments, at value | \$1,059,066 |
| Foreign currency | 1,926 |
| Receivables: | |
| Fund shares sold | 3,915 |
| Dividends | 1,464 |
| Due from brokers for futures | 68 |
| Foreign tax reclaims | 431 |
| Investments sold | 5,812 |
| Unrealized appreciation on foreign currency contracts | 21 |
| Unrealized appreciation on forward foreign currency contracts | 5,632 |
| Prepaid expenses | + 46 |
| Total assets | 1,078,381 |

Liabilities

| | |
|---------------------------------------------------------------|---------------|
| Payables: | |
| Fund shares redeemed | 672 |
| Investments bought | 9,304 |
| Investment adviser and administrator fees | 108 |
| Transfer agency and shareholder service fees | 18 |
| Trustee fees | 1 |
| Unrealized depreciation on foreign currency contracts | 29 |
| Unrealized depreciation on forward foreign currency contracts | 186 |
| Accrued expenses | + 183 |
| Total liabilities | 10,501 |

Net Assets

| | |
|--------------------------|--------------------|
| Total assets | 1,078,381 |
| Total liabilities | - 10,501 |
| Net assets | \$1,067,880 |

Net Assets by Source

| | |
|-------------------------------------------|----------|
| Capital received from investors | 898,372 |
| Net investment income not yet distributed | 1,223 |
| Net realized capital losses | (28,505) |
| Net unrealized capital gains | 196,790 |

Net Asset Value (NAV) by Share Class

| Share Class | Net Assets | ÷ | Shares Outstanding | = | NAV |
|-----------------|------------|---|--------------------|---|---------|
| Investor Shares | \$793,524 | | 47,285 | | \$16.78 |
| Select Shares | \$274,356 | | 16,319 | | \$16.81 |

Unless stated, all numbers x 1,000.

The fund paid \$867,799 for these securities.

Includes certain restricted but deemed liquid 144A securities worth \$4,929 or 0.5% 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 | \$676,843 |
| Sales/maturities | \$433,665 |

The fund paid \$1,942 for these currencies.

These derive from investments, foreign currency transactions and futures.

Federal Tax Data

| | |
|-----------------------------------------|------------------|
| Portfolio cost | \$875,021 |
| Net unrealized gains and losses: | |
| Gains | \$196,133 |
| Losses | + (12,088) |
| | \$184,045 |

Net undistributed earnings:

| | |
|-------------------------|----------|
| Ordinary income | \$11,353 |
| Long-term capital gains | \$— |

Capital losses utilized \$56,467

Unused capital losses:

| | |
|-------------------|-----------------|
| Expires 10/31 of: | Loss amount: |
| 2010 | \$22,113 |
| 2011 | + 3,747 |
| | \$25,860 |

Reclassifications:

| | |
|-------------------------------------------|---------|
| Net investment income not yet distributed | (\$902) |
|-------------------------------------------|---------|

Reclassified as:

| | |
|----------------------------|-------|
| Net realized capital gains | \$902 |
|----------------------------|-------|

Statement of

Operations

For November 1, 2004 through October 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | |
|--------------------------------|---------------|
| Dividends | \$17,445 |
| Interest | + 28 |
| Total investment income | 17,473 |

Net Realized Gains and Losses

| | |
|------------------------------------------------------|---------------|
| Net realized gains on investments | 57,962 |
| Net realized losses on foreign currency transactions | (1,391) |
| Net realized gains on futures contracts | + 376 |
| Net realized gains | 56,947 |

Net Unrealized Gains and Losses

| | |
|-------------------------------------------------------|----------------|
| Net unrealized gains on investments | 104,982 |
| Net unrealized gains on foreign currency transactions | 5,355 |
| Net unrealized losses on futures contracts | + (12) |
| Net unrealized gains | 110,325 |

Expenses

| | |
|----------------------------------------------|---------------|
| Investment adviser and administrator fees | 11,332 |
| Transfer agent and shareholder service fees: | |
| Investor Shares | 1,716 |
| Select Shares | 351 |
| Trustees' fees | 11 |
| Custodian and portfolio accounting fees | 1,152 |
| Professional fees | 57 |
| Registration fees | 126 |
| Shareholder reports | 130 |
| Other expenses | + 10 |
| Total expenses | 14,885 |
| Expense reduction | - 982 |
| Net expenses | 13,903 |

Increase in Net Assets from Operations

| | |
|-----------------------------------------------|------------------|
| Total investment income | 17,473 |
| Net expenses | - 13,903 |
| Net investment income | 3,570 |
| Net realized gains | 56,947 |
| Net unrealized gains | + 110,325 |
| Increase in net assets from operations | \$170,842 |

Net of \$1,794 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 \$753 from the investment adviser (CSIM) and \$229 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 | 1.65% |
| Select Shares | 1.47% |

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

These add up to a net gain on investments of \$167,272.

Statements of

Changes in Net Assets

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

Operations

| | 11/1/04–10/31/05 | 11/1/03–10/31/04 |
|-----------------------------------------------|------------------|------------------|
| Net investment income | \$3,570 | \$789 |
| Net realized gains | 56,947 | 12,953 |
| Net unrealized gains | + 110,325 | 39,625 |
| Increase in net assets from operations | 170,842 | 53,367 |

Distributions Paid**Dividends from Net Investment Income**

| | | |
|---------------------------------------------------|----------------|----------------|
| Investor Shares | 907 | 1,007 |
| Select Shares | + 317 | — |
| Total dividends from net investment income | \$1,224 | \$1,007 |

Transactions in Fund Shares

| | 11/1/04–10/31/05 | | 11/1/03–10/31/04 | |
|----------------------------------------|------------------|--------------------|------------------|-------------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares Sold | | | | |
| Investor Shares | 17,457 | \$271,992 | 22,257 | \$290,173 |
| Select Shares | + 11,835 | 185,351 | 6,216 | 82,103 |
| Total shares sold | 29,292 | \$457,343 | 28,473 | \$372,276 |
| Shares Reinvested | | | | |
| Investor Shares | 58 | \$837 | 77 | \$938 |
| Select Shares | + 20 | 278 | — | — |
| Total shares reinvested | 78 | \$1,115 | 77 | \$938 |
| Shares Redeemed | | | | |
| Investor Shares | (10,865) | (\$169,365) | (6,975) | (\$91,166) |
| Select Shares | + (1,515) | (24,118) | (237) | (3,110) |
| Total shares redeemed | (12,380) | (\$193,483) | (7,212) | (\$94,276) |
| Net transactions in fund shares | 16,990 | \$264,975 | 21,338 | \$278,938 |

Shares Outstanding and Net Assets

| | 11/1/04–10/31/05 | | 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 | + 16,990 | 434,593 | 21,338 | 331,298 |
| End of period | 63,604 | \$1,067,880 | 46,614 | \$633,287 |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

Current period

| | |
|-------------------------|---------|
| Ordinary income | \$1,224 |
| Long-term capital gains | \$— |

Prior period

| | |
|-------------------------|---------|
| 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 | \$102 |
| Select Shares | + 26 |
| Total | \$128 |

Prior period

| | |
|-----------------|--------------|
| Investor Shares | \$129 |
| Select Shares | + 24 |
| Total | \$153 |

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 distributable net investment income in the amount of \$1,223 and distributions in excess of net investment income in the amount of \$221 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.

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 Institutional Select S&P 500 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 Large-Cap Growth Fund
 Schwab Small-Cap Equity Fund
 Schwab Hedged Equity Fund
 Schwab Premier Equity Fund
 Financial Services Fund
 Health Care Fund
 Technology Fund
 Schwab Target 2010 Fund
 Schwab Target 2020 Fund
 Schwab Target 2030 Fund
 Schwab Target 2040 Fund
 Schwab Retirement Income 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 interest swap, 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 10/31/05 (\$ × 1,000) | Average Borrowing* (\$ × 1,000) | Weighted Average Interest Rate* (%) |
|----------------------------------------|------------------------------------------------------|---------------------------------------|----------------------------------------------|
| Laudus U.S. MarketMasters Fund | — | 471 | 3.34% |
| Laudus Balanced MarketMasters Fund | — | 73 | 4.05% |
| Laudus Small-Cap MarketMasters Fund | — | 403 | 2.80% |

* 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 utilizes market data, including swap yield curves, to calculate prices. Swaps may also 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.
- **Mutual Funds:** valued at their respective net asset values as determined by these funds, in accordance with the 1940 Act for a given day.

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 pre-

miums 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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of:

Laudus U.S. MarketMasters Fund

Laudus Balanced MarketMasters Fund

Laudus Small-Cap MarketMasters Fund

Laudus International MarketMasters Fund

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

PricewaterhouseCoopers LLP

San Francisco, California

December 16, 2005

Investment Advisory and Sub-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 agreements 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 agreements 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 agreements. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreements between Schwab Capital Trust (the “Trust”) and CSIM, and the individual sub-advisory agreements between CSIM and Harris Associates L.P., TCW Investment Management Company and Thornburg Investment Management, Inc. relating to Laudus U.S. MarketMasters Fund; CSIM and Janus Capital Management LLC (who in turn has an agreement with Perkins, Wolf, McDonnell and Company, LLC for investment services), Pacific Investment Management Company LLC and TCW Investment Management Company relating to Laudus Balanced MarketMasters Fund; CSIM and TAMRO Capital Partners, LLC, TCW Investment Management Company, Tocqueville Asset Management LP and Veredus Asset Management LLC relating to Laudus Small-Cap MarketMasters Fund; and CSIM and American Century Global Investment Management,

Inc., Artisan Partners Limited Partnership, Harris Associates L.P. and William Blair & Company, LLC relating to the Laudus International MarketMasters Fund (collectively, the “Sub-Advisors”). Such investment advisory and sub-advisory agreements are collectively referred to herein as the “Agreements”.

At these meetings, the trustees also review certain other agreements pursuant to which CSIM provides investment advisory services to other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM and the Sub-Advisors, including information about their 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 memoranda from counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, 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 and the Sub-Advisors, as appropriate. The trustees also discuss with CSIM the funds’ operations and CSIM’s ability, consistent with the “manager of managers” structure of each of the funds to (i) identify and recommend to the trustees sub-advisors for each fund, (ii) monitor and oversee the performance and investment capabilities of each sub-advisor, and (iii) recommend the replacement of a sub-advisor when appropriate.

As part of the renewal process and ongoing oversight of the advisory and sub-advisory relationships, counsel to the Independent Trustees sent an information request letter to CSIM and CSIM sent information request letters to the Sub-Advisors seeking certain relevant information. The responses by CSIM and the

Sub-Advisors were provided to the trustees for their review prior to their meeting, and the trustees were provided with the opportunity to request any additional materials from CSIM and the Sub-Advisors.

The trustees received, among other materials and information:

- descriptions of any significant changes (actual or anticipated) to principal activities, personnel and services provided to the funds;
- a copy of CSIM's and the Sub-Advisors' most recent audited or unaudited financial statements (with the exception of Thornburg Investment Management, Inc.);
- a copy of CSIM's and the Sub-Advisors' Form ADV, Parts I and II;
- summaries of any material past, pending or anticipated litigation or regulatory proceedings involving CSIM or the Sub-Advisors or their personnel, including the results of any recent regulatory examination or independent audit;
- descriptions of CSIM's and the Sub-Advisors' experience providing portfolio management services, including the services provided to other clients, including other registered investment companies;
- descriptions of the personnel who are assigned primary responsibility for managing the funds;
- descriptions of the basis upon which portfolio managers are compensated;
- discussions regarding CSIM's and the Sub-Advisors' participation in "soft dollar" arrangements, if any, or other brokerage allocation policies with respect to fund transactions, including each firm's methodology for obtaining best execution on fund transactions and their use of affiliated broker-dealers;
- descriptions of any actual or potential conflicts of interest anticipated in managing fund assets;
- discussions of CSIM's and the Sub-Advisors' compliance programs with regard to federal regulations and fund requirements;
- information regarding CSIM's and the Sub-Advisors' codes of ethics and insider trading policies, including a description of any material changes thereto;
- descriptions of CSIM's and the Sub-Advisors' affiliation with any broker-dealer;
- discussions of any anticipated change in CSIM's and the Sub-Advisors' controlling persons; and
- verification of CSIM's and the Sub-Advisors' insurance coverage with regards to the services provided to the funds.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreements for an additional one year period. In making such approvals, the trustees considered the best interests of each Fund separately. In each instance, the Board's approval of the Agreements was based on consideration and evaluation of the information and material provided to the Board and a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreements, including the resources of CSIM and its affiliates, and the Sub-Advisors, dedicated to the funds;
2. each fund's investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund's expenses and how those expenses compared to those of certain other comparable mutual funds and other types of accounts;
4. the profitability of CSIM and its affiliates, including Charles Schwab & Co., Inc. ("Schwab"), with respect to the funds, including both direct and indirect

benefits accruing to CSIM and its affiliates, as well as the profitability of the Sub-Advisors; and

5. the extent to which economies of scale would be realized as the funds grow, and whether fee levels in the Agreements reflect those economies of scale for the benefit of fund investors.

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

Fund Performance. The Board considered fund performance in determining whether to renew the Agreements. Specifically, the trustees considered each fund's performance relative to a peer group of other

mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both market risk and shareholder risk expectations for such fund and whether, irrespective of relative performance, each Sub-Advisor's absolute performance was consistent with expectations for such Sub-Advisor's unique investment methodology. Following such evaluation, the Board concluded, within the context of its full deliberations, that the performance of the funds supported renewal of the Agreements.

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

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM and the Sub-Advisors from their relationship with the funds, such as whether, by virtue of their management of the funds, CSIM or any Sub-Advisor obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreements and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and the Sub-Advisors and their respective affiliates. The Board also considered the profitability of the Sub-Advisors with respect to the sub-advisory services they provide to the funds, although, when doing so, the Board took into account the fact that the Sub-Advisors are compensated by CSIM, and not by the funds directly, and such compensation with respect to any Sub-Advisor reflects an arms-length negotiation between the Sub-Advisor and CSIM. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM and the Sub-Advisors is reasonable and supported renewal of the Agreements.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual

expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreements and concluded that the compensation under the Agreements 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.

At a meeting of the Board of Trustees held on November 16, 2004, CSIM recommended and the Board of Trustees, including a majority of the Independent Trustees, approved a new investment sub-advisory agreement between CSIM and Gardner Lewis Asset Management, L.P. relating to the Laudus U.S. MarketMasters Fund and Laudus Balanced MarketMasters Fund. This new sub-advisory agreement was effective December 27, 2004, and, because the agreement has an initial term of two years, it was not necessary for the Board to renew the agreement at the May 24, 2005 Board meeting. Accordingly, the sub-advisory agreement between Gardner Lewis Asset Management, L.P. and CSIM is excluded from the considerations, evaluations and conclusions set forth above.

Trustees and Officers

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

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

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

| Independent Trustees | | |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
| Mariann Byerwalter 1960 | 2000 (all trusts). | Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children’s Hospital; Director, Pacific Life Insurance Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ² <i>Until 2001:</i> Stanford University, Special Advisor to the President. <i>From 1996-2001:</i> Stanford University, Vice President of Business Affairs, Chief Financial Officer. |
| Donald F. Dorward 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> Executive Vice President, Managing Director, Grey Advertising San Francisco. <i>Until 1996:</i> President, Chief Executive Officer, Allen & Dorward Advertising. |

¹ 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.

² This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Independent Trustees continued

| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Hasler 1941 | 2000 (all trusts). | <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Soletron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ³ |
| Robert G. Holmes 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm). |
| Gerald B. Smith 1950 | 2000 (all trusts). | <i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy). |
| Donald R. Stephens 1938 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust). |
| Michael W. Wilsey 1943 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments). |

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Interested Trustees

| Name and Year of Birth | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charles R. Schwab ⁴ 1937 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art. |
| Randall W. Merk ⁴ 1954 | Trustee, 2005 (all trusts). | Executive Vice President and President, Asset Management Products & Services Enterprise, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (6/01 to 8/02); Chief Investment Officer, Fixed, American Century Companies, Inc. (1/97 to 6/01). |

Officers of the Trust

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|--------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Dilsaver 1955 | President, Chief Executive Officer (all trusts). | Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 1955 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kimon Daifotis 1959 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 1963 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 1960 | Chief Compliance Officer (all trusts). | Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc. |
| Koji E. Felton 1961 | Secretary (all trusts). | Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco. |
| George Pereira 1964 | Treasurer, Principal Financial Officer (all trusts) | Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. |

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.

Internet¹

www.schwab.com/marketmasters

Schwab by Phone™²

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 website at www.schwab.com/marketmasters, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1.800.435.4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds 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

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

² 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 Target Funds

Annual Report

October 31, 2005

Schwab Target 2010 Fund

Schwab Target 2020 Fund

Schwab Target 2030 Fund

Schwab Target 2040 Fund

Schwab Retirement Income Fund

A suite of five mutual funds to help keep your retirement investments properly allocated over your lifetime.

In This Report

| | |
|--------------------------------------------------|----|
| Management's Discussion | 2 |
| Performance and Fund Facts | |
| Schwab Target 2010 Fund | 7 |
| Schwab Target 2020 Fund | 9 |
| Schwab Target 2030 Fund | 11 |
| Schwab Target 2040 Fund | 13 |
| Schwab Retirement Income Fund | 15 |
| Fund Expenses | 17 |
| Financial Statements | |
| Schwab Target 2010 Fund | 18 |
| Schwab Target 2020 Fund | 23 |
| Schwab Target 2030 Fund | 28 |
| Schwab Target 2040 Fund | 33 |
| Schwab Retirement Income Fund | 38 |
| Financial Notes | 43 |
| Investment Advisory Agreement Approval | 47 |
| Trustees and Officers | 50 |
| Glossary | 54 |

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

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 1-800-435-4000. Please read the prospectus carefully before investing.

Performance data quoted represents past performance and does not indicate future results. Current performance may be lower or higher. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Small-cap funds are subject to greater volatility than those in other asset categories.

Dear Shareholder,

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

I take particular pride in the Schwab Funds. Founded over 15 years ago, they have now grown to include more than 50 funds with over \$140 billion in assets as of this report date. With a variety of investment strategies, Schwab Funds provide a range of innovative investment choices that can serve as a foundation for your asset allocation plan. We've continued to expand our product offering over the past year, as Schwab Funds President Evelyn Dilsaver explains in more detail on the following page.

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

This commitment and experience is evident in our funds' performance. I'm especially pleased to highlight the strong performance of the Schwab Small-Cap Equity Fund which ranked in the top 2% of its category for the one-year period ended October 31, 2005.¹

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

Sincerely,

A handwritten signature in dark ink that reads "Charles Schwab".

¹ Source: Lipper Small Cap Core Funds. For the one-year period, rankings were: Select Shares #11 and Investor Shares #12 out of 604 funds. Numbers assume reinvestment of dividends and capital gains over each time period. Lipper, Inc. rankings are based on average total returns not including sales charges.

Management's Discussion for the year ended October 31, 2005



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

Dear Shareholder,

I'm pleased to bring you the first annual report for the Schwab Target Funds. The Schwab Target Funds commenced operations on July 1, 2005 and as of the close of the report period, have grown to over \$100 million in assets.

The Schwab Target Funds are part of our suite of asset allocation funds. Research has shown that asset allocation can be the most important factor in determining overall portfolio performance—more important than which securities you choose or when you decide to buy and sell them. Asset allocation funds, such as the Schwab Target Funds, offer investors a convenient way to manage their entire portfolio in one investment. What's more, with a single investment in a Schwab Target Fund, you can avoid a common investment mistake, failing to adjust your portfolio over time.

We continue to develop and manage Schwab Funds to help you achieve your goals and to provide an uncomplicated way to build a well-diversified portfolio. During this report period, we added to our suite of actively managed funds with the launch of the Schwab Large-Cap Growth Fund, which commenced operations on October 3, 2005. This fund seeks capital appreciation by selecting companies with market capitalizations greater than \$5 billion and is actively managed by a team of investment professionals that understands how a disciplined investment strategy can help achieve competitive returns.

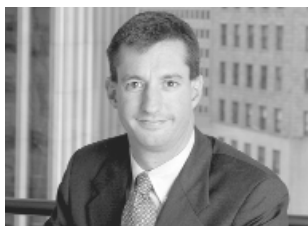
I speak for all of Schwab Funds when I say we want Schwab to be the place where investors can find useful, quality financial products and services to help them succeed.

Thank you for investing in Schwab Funds.

Sincerely,

A handwritten signature in black ink that reads "Evelyn Dilsaver". The signature is written in a cursive, flowing style.

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 eight years in asset management.



Kimon Daifotis, CFA, senior vice president and chief investment officer, fixed-income, of the investment adviser, is responsible for the overall management of the bond and cash portions of the funds. Prior to joining the firm in September 1997, he worked for more than 20 years in research and asset management.

The Investment Environment and the Funds

Despite a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit all-time highs and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the Fed Funds Target eight consecutive times in the one-year report period. The moves had a limited impact on overall economic growth, due primarily to the record-low level of interest rates from which the increases began.

Despite concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.6%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past few months was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructure in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September. However, a quick action by the federal government to release Strategic Petroleum Reserves and soften oil demand led to a subsequent decline off that peak. While the full economic effect of the hurricanes was unknown at the end of the report period, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in the area.

Another significant event that occurred during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he has not yet been confirmed into office, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Source of Sector Classification: S&P and MSCI.



Tom Brown, an associate portfolio manager of the investment adviser, is responsible for day-to-day co-management of the funds. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

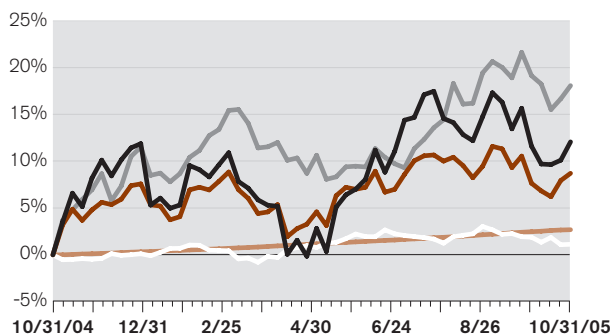
Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks held up well. The S&P 500 Index¹ posted gains of 8.72% for the one-year period ending on October 31, 2005 while the Russell 2000 Index also displayed a positive return of 12.08%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE (Morgan Stanley Capital International, Inc. Europe, Australasia, and Far East) Index also had an impressive return of 18.09% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 1.13%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we were in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

Asset Class Performance Comparison % returns for the one-year the report period ending October 31, 2005

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

- 8.72% **S&P 500® Index:** measures U.S. large-cap stocks
- 12.08% **Russell 2000® Index:** measures U.S. small-cap stocks
- 18.09% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.13% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 2.69% **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.

¹ 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.

Performance at a Glance

Total return for the period from inception (7/1/05) through 10/31/05

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

Schwab Target 2010 Fund¹ 2.40%
Benchmark **1.69%**
Fund Category **1.37%**
Performance Details pages 7

Schwab Target 2020 Fund¹ 2.80%
Benchmark **2.03%**
Fund Category **1.37%**
Performance Details pages 9

Schwab Target 2030 Fund¹ 3.10%
Benchmark **2.33%**
Fund Category **2.15%**
Performance Details pages 11

Schwab Target 2040 Fund¹ 3.60%
Benchmark **2.68%**
Fund Category **2.15%**
Performance Details pages 13

Schwab Retirement Income Fund¹ 0.16%
Benchmark **0.28%**
Fund Category **0.23%**
Performance Details pages 15

The Schwab Target Funds all share the same investment approach: each seeks to achieve its objective of capturing market returns by investing in a combination of other Schwab Funds and Laudus Funds. The underlying funds include a combination of equity, fixed income, and money market mutual funds to meet their various target asset allocations and investment styles. Furthermore, each of the four dated funds is rebalanced from a more aggressive to a more conservative style as it approaches its target retirement year, helping keep your investment properly allocated over your lifetime.

The Schwab Target Funds produced strong results for their first reporting period with four funds beating their respective benchmarks and fund categories. All total returns are for the period since the funds' inception date (July 3, 2005) through October 31, 2005 and are not annualized.

Performance of the Schwab Target Funds will reflect a blend of the results of their underlying funds. As shown on the next page, each fund has its own distinct target portfolio allocation and is designed to accommodate different investment goals and risk tolerances. Bear in mind that these are intended asset allocations, but due to the funds moving closer to their target retirement years and fluctuating market conditions, these allocations will vary over time. The portfolios of the funds with an earlier target retirement date are more heavily allocated to fixed income, ultra-short fixed income and money market funds and represent a more conservative principle of investing.

The Schwab Retirement Income Fund is designed for investors currently in retirement, and as such, has a majority of its portfolio invested in fixed income, ultra-short fixed income and money market funds. The fund is intended to provide monthly income with equity growth potential. Since the fund invests up to 75% of its assets in fixed income, its return was impacted by the bond markets' sluggish performance during the report period. The Schwab Retirement Fund returned 0.16%, tracking its respective benchmark for the 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. 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.

¹ Total return is for 7/1/05 – 10/31/05. Performance results less than one year are not annualized.

Of the four dated funds, the Schwab Target 2010 Fund has the shortest time horizon and as such, has the lowest percentage of its assets allocated to equities. The Schwab Target 2010 Fund returned 2.40% for the period, beating its benchmark and fund category average.

Further along the spectrum, funds with later target retirement dates take a more aggressive approach in their investment strategy by allocating a higher percentage of their assets to equity securities. The Schwab Target 2040 Fund, which is the fund with the latest retirement date, has the highest percentage of assets allocated to equities. For the report period, the Schwab Target 2040 Fund returned 3.60% for the period and outperformed its benchmark.

For this report period, the underlying investment funds that produced the best results were those with an international equity focus, namely Laudus Rosenberg International Small Capitalization Fund and Laudus MarketMasters International Fund. Funds with a domestic equity focus also fared well. The fixed income sector faced challenging market conditions during the brief report period. Despite those challenges, the Schwab Total Bond Market Fund still outperformed its respective benchmark for the period.

| Target Asset Allocation ¹ | | | | | |
|--------------------------------------|-------------------------------|------------------------|------------------------|------------------------|------------------------|
| Asset Class | Schwab Retirement Income Fund | SchwabTarget 2010 Fund | SchwabTarget 2020 Fund | SchwabTarget 2030 Fund | SchwabTarget 2040 Fund |
| Equity Securities | 20% | 64% | 71% | 78% | 85% |
| Fixed-Income Securities | 50% | 34% | 27% | 20% | 13% |
| Ultra-Short Fixed Income Securities | 25% | 1% | 1% | 1% | 1% |
| Money Market Funds | 5% | 1% | 1% | 1% | 1% |

¹ The actual asset allocation as of the end of the report period is shown in the Performance and Fund Facts section of this book.
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.

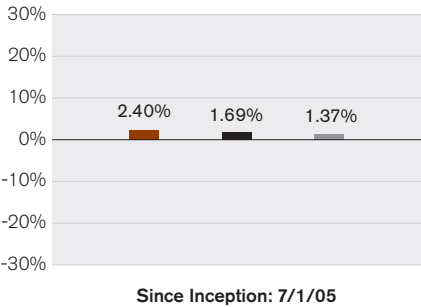
Schwab Target 2010 Fund

Performance as of 10/31/05

Total Returns^{1, 2, 3}

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

- **Fund** Ticker Symbol: SWBRX
- **Benchmark: Target 2010 Composite Index**
- **Fund Category: Morningstar Moderate Allocation**

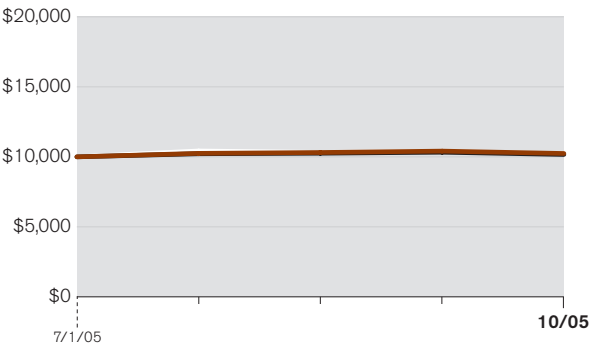


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Performance of a Hypothetical \$10,000 Investment^{2, 3}

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.

- \$10,240 **Fund**
- \$10,169 **Target 2010 Composite Index**
- \$10,208 **Dow Jones Wilshire 5000 Composite IndexSM**
- \$9,854 **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.

¹ 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.

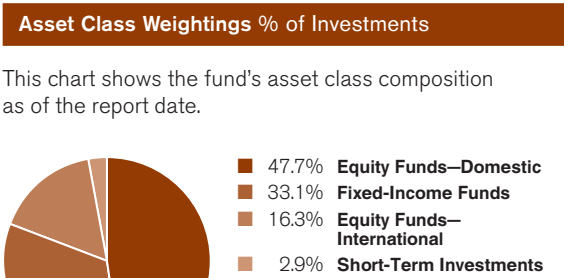
² Source for category information: Morningstar, Inc.

³ The Target 2010 Composite Index is derived using the following portion allocations: 48% Dow Jones Wilshire 5000 Composite Index, 16% MSCI EAFE Index, 34% Lehman Brothers U.S. Aggregate Bond Index, and 2% Lehman Brothers U.S. Treasury Bills: 1-3 Months.

Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|----------------------------------------------------------------------------------|-----------------|
| Security | % of Net Assets |
| ① Schwab Total Bond Market Fund™ | 32.2% |
| ② Schwab Core Equity Fund™ | 23.4% |
| ③ Laudus International MarketMasters Fund™, Select Shares® | 10.2% |
| ④ Schwab Small-Cap Equity Fund™, Select Shares | 6.9% |
| ⑤ Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 6.8% |
| ⑥ Schwab Dividend Equity Fund™, Select Shares | 6.7% |
| ⑦ Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 6.1% |
| ⑧ Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 3.8% |
| ⑨ Schwab YieldPlus Fund®, Select Shares | 1.0% |
| ⑩ Schwab Value Advantage Money Fund®, Institutional Shares | 1.0% |
| Total | 98.1% |

| Statistics | |
|-----------------------------------------------------------------------------|----------|
| Number of Holdings | 10 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$39,248 |
| Price/Earnings Ratio (P/E) | 19.1 |
| Price/Book Ratio (P/B) | 2.7 |
| Portfolio Turnover Rate | 0% |
| Minimum Initial Investment ² (\$1,000 for custodial accounts) | \$2,500 |



Portfolio holdings may have changed since the report date.
Source of Sector Classification: S&P and MSCI.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

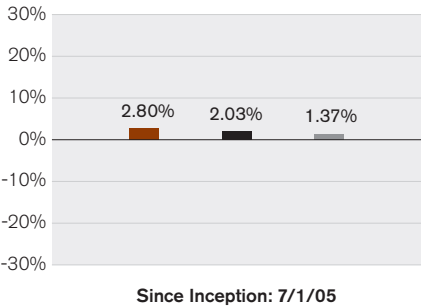
Schwab Target 2020 Fund

Performance as of 10/31/05

Total Returns^{1, 2, 3}

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

- **Fund** Ticker Symbol: SWCRX
- **Benchmark: Target 2020 Composite Index**
- **Fund Category: Morningstar Moderate Allocation**

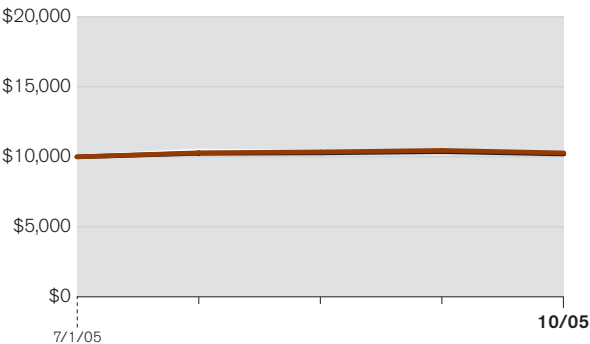


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Performance of a Hypothetical \$10,000 Investment^{2, 3}

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.

- \$10,280 **Fund**
- \$10,203 **Target 2020 Composite Index**
- \$10,208 **Dow Jones Wilshire 5000 Composite IndexSM**
- \$9,854 **Lehman Brothers U.S. Aggregate Bond Index**



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¹ 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.

² Source for category information: Morningstar, Inc.

³ The Target 2020 Composite Index is derived using the following portion allocations: 53% Dow Jones Wilshire 5000 Composite Index, 18% MSCI EAFE Index, 27% Lehman Brothers U.S. Aggregate Bond Index, and 2% Lehman Brothers U.S. Treasury Bills: 1-3 Months.

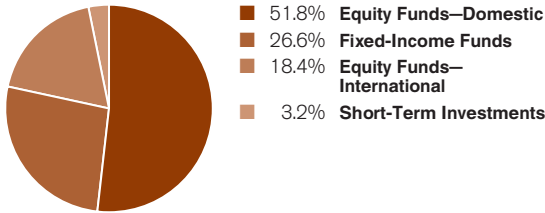
Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|----------------------------------------------------------------------------------|-----------------|
| Security | % of Net Assets |
| ① Schwab Total Bond Market Fund™ | 25.6% |
| ② Schwab Core Equity Fund™ | 23.4% |
| ③ Laudus International MarketMasters Fund, Select Shares® | 10.1% |
| ④ Schwab Small-Cap Equity Fund™, Select Shares | 8.9% |
| ⑤ Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 8.2% |
| ⑥ Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 7.8% |
| ⑦ Schwab Dividend Equity Fund™, Select Shares | 7.7% |
| ⑧ Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 3.8% |
| ⑨ Schwab Value Advantage Money Fund®, Institutional Shares | 1.0% |
| ⑩ Schwab YieldPlus Fund®, Select Shares | 1.0% |
| Total | 97.5% |

| Statistics | |
|-----------------------------------------------------------------------------|----------|
| Number of Holdings | 10 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$37,658 |
| Price/Earnings Ratio (P/E) | 19.2 |
| Price/Book Ratio (P/B) | 2.7 |
| Portfolio Turnover Rate | 0% |
| Minimum Initial Investment ² (\$1,000 for custodial accounts) | \$2,500 |

Asset Class Weightings % of Investments

This chart shows the fund'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.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

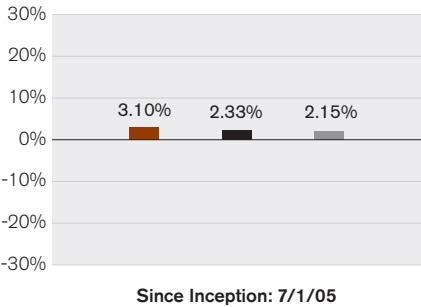
Schwab Target 2030 Fund

Performance as of 10/31/05

Total Returns^{1, 2, 3}

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

- **Fund** Ticker Symbol: SWDRX
- **Benchmark: Target 2030 Composite Index**
- **Fund Category: Morningstar Large-Cap Blend**

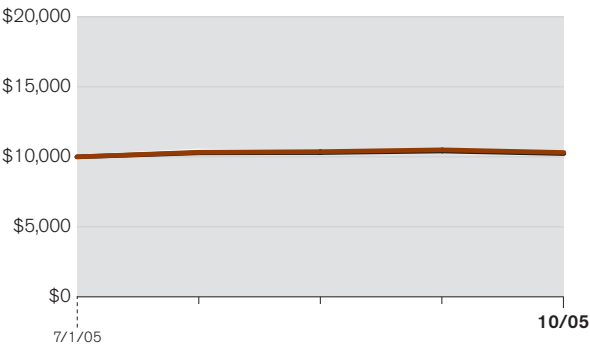


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Performance of a Hypothetical \$10,000 Investment^{2, 3}

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.

- \$10,310 **Fund**
- \$10,233 **Target 2030 Composite Index**
- \$10,208 **Dow Jones Wilshire 5000 Composite IndexSM**
- \$9,854 **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.

¹ 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.

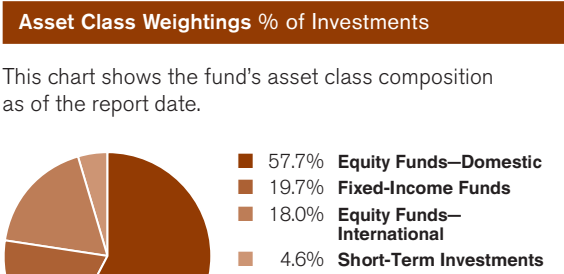
² Source for category information: Morningstar, Inc.

³ The Target 2030 Composite Index is derived using the following portion allocations: 59% Dow Jones Wilshire 5000 Composite Index, 19% MSCI EAFE Index, 20% Lehman Brothers U.S. Aggregate Bond Index, and 2% Lehman Brothers U.S. Treasury Bills: 1-3 Months.

Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|----------------------------------------------------------------------------------|-----------------|
| Security | % of Net Assets |
| ① Schwab Core Equity Fund™ | 25.6% |
| ② Schwab Total Bond Market Fund™ | 18.5% |
| ③ Laudus International MarketMasters Fund, Select Shares® | 10.9% |
| ④ Schwab Small-Cap Equity Fund™, Select Shares | 9.6% |
| ⑤ Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 8.5% |
| ⑥ Schwab Dividend Equity Fund™, Select Shares | 8.4% |
| ⑦ Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 6.9% |
| ⑧ Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 4.7% |
| ⑨ Schwab YieldPlus Fund®, Select Shares | 1.0% |
| ⑩ Schwab Value Advantage Money Fund®, Institutional Shares | 0.9% |
| Total | 95.0% |

| Statistics | |
|-----------------------------------------------------------------------------|----------|
| Number of Holdings | 10 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$38,468 |
| Price/Earnings Ratio (P/E) | 19.1 |
| Price/Book Ratio (P/B) | 2.7 |
| Portfolio Turnover Rate | 0% |
| Minimum Initial Investment ² (\$1,000 for custodial accounts) | \$2,500 |



Portfolio holdings may have changed since the report date.
Source of Sector Classification: S&P and MSCI.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

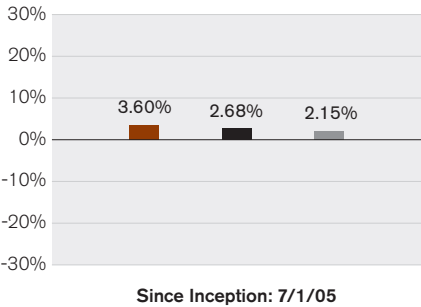
Schwab Target 2040 Fund

Performance as of 10/31/05

Total Returns^{1, 2, 3}

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

- **Fund** Ticker Symbol: SWERX
- **Benchmark: Target 2040 Composite Index**
- **Fund Category: Morningstar Large-Cap Blend**

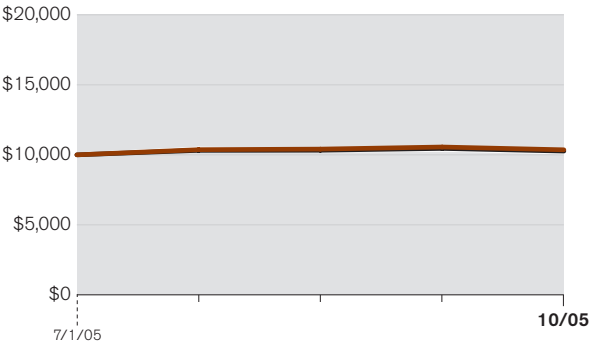


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Performance of a Hypothetical \$10,000 Investment^{2, 3}

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.

- \$10,360 **Fund**
- \$10,268 **Target 2040 Composite Index**
- \$10,208 **Dow Jones Wilshire 5000 Composite IndexSM**
- \$9,854 **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.

¹ 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.

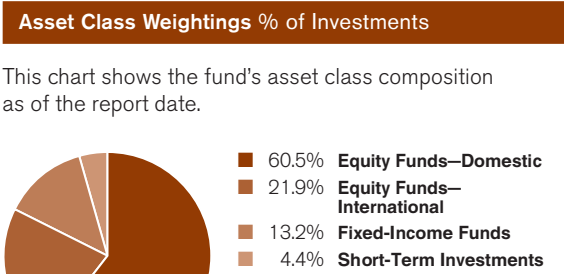
² Source for category information: Morningstar, Inc.

³ The Target 2040 Composite Index is derived using the following portion allocations: 64% Dow Jones Wilshire 5000 Composite Index, 21% MSCI EAFE Index, 13% Lehman Brothers U.S. Aggregate Bond Index, and 2% Lehman Brothers U.S. Treasury Bills: 1-3 Months.

Fund Facts as of 10/31/05

| Top Holdings ¹ | |
|----------------------------------------------------------------------------------|-----------------|
| Security | % of Net Assets |
| ① Schwab Core Equity Fund™ | 26.8% |
| ② Laudus International MarketMasters Fund™, Select Shares® | 12.9% |
| ③ Schwab Total Bond Market Fund™ | 12.2% |
| ④ Schwab Small-Cap Equity Fund™, Select Shares | 10.7% |
| ⑤ Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 8.9% |
| ⑥ Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 8.6% |
| ⑦ Schwab Dividend Equity Fund™, Select Shares | 8.5% |
| ⑧ Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 5.7% |
| ⑨ Schwab Value Advantage Money Fund®, Institutional Shares | 0.9% |
| ⑩ Schwab YieldPlus Fund®, Select Shares | 0.9% |
| Total | 96.1% |

| Statistics | |
|-----------------------------------------------------------------------------|----------|
| Number of Holdings | 10 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$36,775 |
| Price/Earnings Ratio (P/E) | 19.2 |
| Price/Book Ratio (P/B) | 2.7 |
| Portfolio Turnover Rate | 0% |
| Minimum Initial Investment ² (\$1,000 for custodial accounts) | \$2,500 |



Portfolio holdings may have changed since the report date.
Source of Sector Classification: S&P and MSCI.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

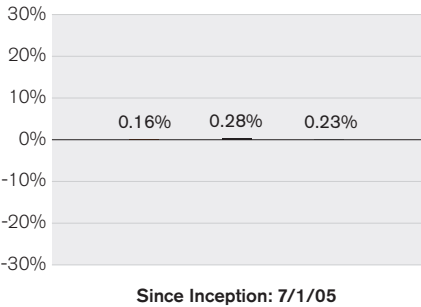
Schwab Retirement Income Fund

Performance as of 10/31/05

Total Returns^{1, 2, 3}

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

- **Fund** Ticker Symbol: SWARX
- **Benchmark: Target Income Composite Index**
- **Fund Category: Morningstar Conservative Allocation**

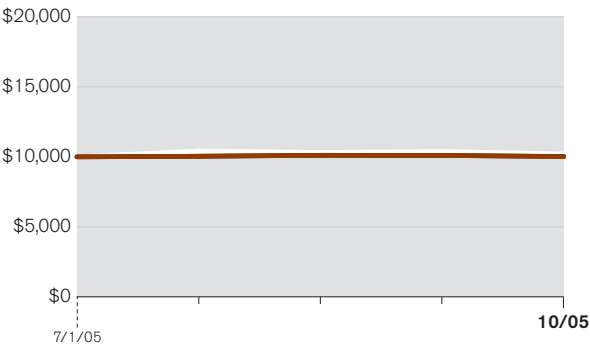


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Performance of a Hypothetical \$10,000 Investment^{2, 3}

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.

- \$10,016 **Fund**
- \$10,028 **Target Income Composite Index**
- \$10,208 **Dow Jones Wilshire 5000 Composite IndexSM**
- \$9,854 **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.

¹ 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.

² Source for category information: Morningstar, Inc.

³ The Target Income Composite Index is derived using the following portion allocations: 15% Dow Jones Wilshire 5000 Composite Index, 5% MSCI EAFE Index, 50% Lehman Brothers U.S. Aggregate Bond Index, and 30% Lehman Brothers U.S. Treasury Bills: 1-3 Months.

Fund Facts as of 10/31/05

Top Holdings¹

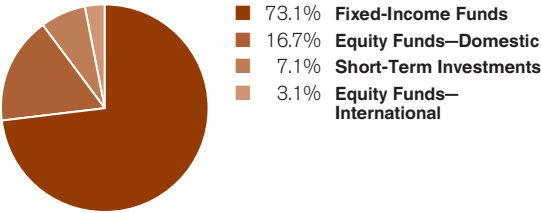
| Security | % of Net Assets |
|---------------------------------------------------------------|--------------------|
| ① Schwab Total Bond Market Fund™ | 47.6% |
| ② Schwab YieldPlus Fund®, Select Shares® | 24.2% |
| ③ Schwab Dividend Equity Fund™, Select Shares | 16.4% |
| ④ Schwab Value Advantage Money Fund®, Institutional Shares | 4.8% |
| ⑤ Laudus International MarketMasters Fund™, Select Shares | 3.1% |
| Total | 96.1% |

Statistics

| | |
|-----------------------------------------------------------------------------|----------|
| Number of Holdings | 6 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$45,806 |
| Price/Earnings Ratio (P/E) | 16.5 |
| Price/Book Ratio (P/B) | 2.6 |
| Portfolio Turnover Rate | 0% |
| Minimum Initial Investment ² (\$1,000 for custodial accounts) | \$2,500 |

Asset Class Weightings % of Investments

This chart shows the fund'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.
¹ This list is not a recommendation of any security by the investment adviser.
² Please see prospectus for further detail and eligibility requirements.

Fund Expenses (unaudited)

Examples for a \$1,000 Investment

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

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

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$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 ¹ (Annualized) | Beginning Account Value at 7/1/05 | Ending Account Value (Net of Expenses) at 10/31/05 | Expenses Paid During Period ² 7/1/05 – 10/31/05 |
|------------------------------------------|--------------------------------------------|-----------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------|
| Schwab Target 2010 Fund | | | | |
| Actual Return | 0.06% | \$1,000 | \$1,024.00 | \$0.21 |
| Hypothetical 5% Return | 0.06% | \$1,000 | \$1,016.64 | \$0.21 |
| Schwab Target 2020 Fund | | | | |
| Actual Return | 0.04% | \$1,000 | \$1,028.00 | \$0.15 |
| Hypothetical 5% Return | 0.04% | \$1,000 | \$1,016.70 | \$0.15 |
| Schwab Target 2030 Fund | | | | |
| Actual Return | 0.03% | \$1,000 | \$1,031.00 | \$0.11 |
| Hypothetical 5% Return | 0.03% | \$1,000 | \$1,016.74 | \$0.11 |
| Schwab Target 2040 Fund | | | | |
| Actual Return | 0.01% | \$1,000 | \$1,036.00 | \$0.03 |
| Hypothetical 5% Return | 0.01% | \$1,000 | \$1,016.82 | \$0.03 |
| Schwab Retirement Investment Fund | | | | |
| Actual Return | 0.10% | \$1,000 | \$1,001.60 | \$0.35 |
| Hypothetical 5% Return | 0.10% | \$1,000 | \$1,016.50 | \$0.35 |

¹ 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 funds invest.

² Expenses for each fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 123 days of the period (from 7/1/05, commencement of operations through 10/31/05), and divided by 365 days of the fiscal year.

Schwab Target 2010 Fund

Financial Statements

Financial Highlights

7/1/05¹–
10/31/05

Per-Share Data (\$)

| | |
|-----------------------------------------|-------|
| Net asset value at beginning of period | 10.00 |
| Income from investment operations: | |
| Net investment income | 0.04 |
| Net realized and unrealized gains | 0.20 |
| Total income from investment operations | 0.24 |
| Net asset value at end of period | 10.24 |
| Total return (%) | 2.40² |

Ratios/Supplemental Data (%)

| | |
|--------------------------------------------|-------|
| Ratios to average net assets: | |
| Net operating expenses³ | 0.06⁴ |
| Gross operating expenses³ | 0.37⁴ |
| Net investment income | 1.51⁴ |
| Portfolio turnover rate | — |
| Net assets, end of period (\$ x 1,000,000) | 32 |

¹ Commencement of operations.

² Not annualized.

³ 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.

⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's 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.

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 ten holding

■ Issuer is affiliated with the fund's adviser

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|------------------------------------------|--------------------|---------------------|
| 98.1% | Other Investment Companies | 30,791 | 31,146 |
| 1.9% | Short-Term Investment | 613 | 613 |
| 100.0% | Total Investments | 31,404 | 31,759 |
| 0.0% | Other Assets and Liabilities, Net | | 5 |
| 100.0% | Total Net Assets | | 31,764 |

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

Other Investment Companies

98.1% of net assets

Equity Funds 64.0%

| | | | |
|----|--------------------------------------------------------------------------------|---------|-------|
| ■⑤ | Laudus International MarketMasters Fund, Select Shares | 192,153 | 3,230 |
| ■⑦ | Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 108,079 | 1,945 |
| ■⑧ | Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 72,489 | 1,220 |

| Value (\$ x 1,000) |
|-----------------------|
|-----------------------|

Security and Number of Shares

| | | | |
|----|------------------------------------------------------------------------------|---------|---------------|
| ■⑤ | Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 252,657 | 2,158 |
| ■② | Schwab Core Equity Fund | 470,052 | 7,432 |
| ■⑥ | Schwab Dividend Equity Fund, Select Shares | 166,236 | 2,128 |
| ■④ | Schwab Small-Cap Equity Fund, Select Shares | 139,745 | 2,205 |
| | | | 20,318 |

Fixed-Income Funds 33.1%

| | | | |
|----|--------------------------------------|-----------|---------------|
| ■① | Schwab Total Bond Market Fund | 1,036,051 | 10,216 |
| ■⑨ | Schwab YieldPlus Fund, Select Shares | 31,715 | 306 |
| | | | 10,522 |

Money Funds 1.0%

| | | | |
|----|---------------------------------------------------------|---------|------------|
| ■⑩ | Schwab Value Advantage Money Fund, Institutional Shares | 305,943 | 306 |
|----|---------------------------------------------------------|---------|------------|

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

Short-Term Investment

1.9% of net assets

Wachovia Bank, Grand Cayman
Time Deposit

| | | |
|-----------------|-----|------------|
| 3.48%, 11/01/05 | 613 | 613 |
|-----------------|-----|------------|

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | | |
|------------------------------------------------------|----------|---------------|
| Investments in affiliated underlying funds, at value | \$31,146 | |
| Investments, at value | 613 | |
| Receivables: | | |
| Fund shares sold | 54 | |
| Prepaid expenses | + | 26 |
| Total assets | | 31,839 |

Liabilities

| | | |
|---------------------------|----|-----------|
| Payables: | | |
| Fund shares redeemed | 50 | |
| Due to investment adviser | 2 | |
| Accrued expenses | + | 23 |
| Total liabilities | | 75 |

Net Assets

| | |
|--------------------------|-----------------|
| Total assets | 31,839 |
| Total liabilities | - 75 |
| Net assets | \$31,764 |

Net Assets by Source

| | |
|-------------------------------------------|--------|
| Capital received from investors | 31,273 |
| Net investment income not yet distributed | 136 |
| Net unrealized capital gains | 355 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$31,764 | | 3,101 | | \$10.24 |

Unless stated, all numbers x 1,000.

The fund paid \$31,404 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 | \$30,448 |
| Sales/maturities | \$- |

Percent of fund shares of other Schwab Funds owned at the end of the report period:

Schwab Active Equity Funds

| | |
|-----------------------|------|
| Core Equity Fund | 1.4% |
| Dividend Equity Fund | 0.2% |
| Small-Cap Equity Fund | 0.9% |

Laudus MarketMasters Funds

| | |
|----------------------------------|------|
| International MarketMasters Fund | 0.3% |
|----------------------------------|------|

Laudus Rosenberg Funds

| | |
|-----------------------------------------|------|
| U.S. Large Capitalization Growth Fund | 8.9% |
| U.S. Discovery Fund | 0.2% |
| International Small Capitalization Fund | 0.2% |

Schwab Bond Funds

| | |
|------------------------|----------------|
| Total Bond Market Fund | 0.9% |
| YieldPlus Fund | Less than 0.1% |

Schwab Money Funds

| | |
|----------------------------|----------------|
| Value Advantage Money Fund | Less than 0.1% |
|----------------------------|----------------|

Federal Tax Data

| | |
|-----------------------|----------|
| Portfolio Cost | \$31,404 |
|-----------------------|----------|

Net unrealized gains and losses:

| | |
|--------|---------------|
| Gains | \$617 |
| Losses | <u>+(262)</u> |
| | \$355 |

Net undistributed earnings:

| | |
|-------------------------|-------|
| Ordinary income | \$136 |
| Long-term capital gains | \$- |

Statement of

Operations

For July 1, 2005 (commencement of operations) through October 31, 2005.

All numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|------------|
| Dividends received from affiliated underlying funds | \$138 |
| Interest | + 4 |
| Total investment income | 142 |

Net Unrealized Gains and Losses

| | |
|-------------------------------------------------------|------------|
| Net unrealized gains from affiliated underlying funds | 355 |
|-------------------------------------------------------|------------|

Expenses

| | | |
|---------------------------|----|----------|
| Trustees' fees | 1 | |
| Custodian fees | 2 | |
| Portfolio accounting fees | 1 | |
| Professional fees | 15 | |
| Registration fees | 9 | |
| Shareholder reports | + | 6 |
| Total expenses | | 34 |
| Expense reduction | − | 28 |
| Net expenses | | 6 |

Increase in Net Assets from Operations

| | |
|----------------------------------------|--------------|
| Total investment income | 142 |
| Net expenses | — 6 |
| Net investment income | <u>136</u> |
| Net unrealized gains | + 355 |
| Increase in net assets from operations | <u>\$491</u> |

Unless stated, all numbers x 1,000.

For the fund's independent trustees only.

These reductions reflect a guarantee by Charles Schwab Investment Management, Inc. (CSIM) and Charles Schwab & Co., Inc. (Schwab) to limit the net operating expenses of this fund through February 28, 2007, to 0.06% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on July 1, 2005, it has no prior report period. All numbers x 1,000.

Operations

| | 7/1/05–10/31/05 |
|-----------------------------------------------|-----------------|
| Net investment income | \$136 |
| Net unrealized gains | + 355 |
| Increase in net assets from operations | \$491 |

Transactions in Fund Shares

| | 7/1/05–10/31/05 | |
|----------------------------------------|-----------------|-----------------|
| | SHARES | VALUE |
| Shares sold | 3,174 | \$32,017 |
| Shares redeemed | + (73) | (744) |
| Net transactions in fund shares | 3,101 | \$31,273 |

Shares Outstanding and Net Assets

| | 7/1/05–10/31/05 | |
|----------------------|-----------------|-----------------|
| | SHARES | NET ASSETS |
| Beginning of period | – | \$– |
| Total increase | + 3,101 | 31,764 |
| End of period | 3,101 | \$31,764 |

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 \$1

Dollar amounts are net of the redemption fee 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 \$136 at the end of the current period.

Schwab Target 2020 Fund

Financial Statements

Financial Highlights

7/1/05¹–
10/31/05

Per-Share Data (\$)

| | |
|-----------------------------------------|-------------------|
| Net asset value at beginning of period | 10.00 |
| Income from investment operations: | |
| Net investment income | 0.04 |
| Net realized and unrealized gains | 0.24 |
| Total income from investment operations | 0.28 |
| Net asset value at end of period | 10.28 |
| Total return (%) | 2.80 ² |

Ratios/Supplemental Data (%)

| | |
|--------------------------------------------|-------------------|
| Ratios to average net assets: | |
| Net operating expenses ³ | 0.04 ⁴ |
| Gross operating expenses ³ | 0.36 ⁴ |
| Net investment income | 1.29 ⁴ |
| Portfolio turnover rate | – |
| Net assets, end of period (\$ x 1,000,000) | 35 |

¹ Commencement of operations.

² Not annualized.

³ 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.

⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's 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.

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 ten holding

■ Issuer is affiliated with the fund's adviser

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|------------------------------------------|--------------------|---------------------|
| 97.5% | Other Investment Companies | 33,428 | 33,862 |
| 2.2% | Short-Term Investment | 778 | 778 |
| 99.7% | Total Investments | 34,206 | 34,640 |
| 0.3% | Other Assets and Liabilities, Net | | 92 |
| 100.0% | Total Net Assets | | 34,732 |

Security and Number of Shares Value
(\$ x 1,000)

Other Investment Companies
97.5% of net assets

Equity Funds 69.9%

| | | | |
|----|--------------------------------------------------------------------------------|---------|-------|
| ■④ | Laudus International MarketMasters Fund, Select Shares | 209,683 | 3,525 |
| ■⑥ | Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 157,304 | 2,831 |
| ■⑥ | Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 79,287 | 1,334 |

Security and Number of Shares

Value
(\$ x 1,000)

| | | | |
|----|------------------------------------------------------------------------------|---------|---------------|
| ■⑥ | Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 315,978 | 2,698 |
| ■② | Schwab Core Equity Fund | 514,134 | 8,128 |
| ■⑦ | Schwab Dividend Equity Fund, Select Shares | 208,174 | 2,665 |
| ■④ | Schwab Small-Cap Equity Fund, Select Shares | 196,358 | 3,099 |
| | | | 24,280 |

Fixed-Income Funds 26.6%

| | | | |
|----|--------------------------------------|---------|--------------|
| ■① | Schwab Total Bond Market Fund | 903,615 | 8,910 |
| ■⑩ | Schwab YieldPlus Fund, Select Shares | 34,801 | 336 |
| | | | 9,246 |

Money Funds 1.0%

| | | | |
|----|---------------------------------------------------------|---------|------------|
| ■⑨ | Schwab Value Advantage Money Fund, Institutional Shares | 335,710 | 336 |
|----|---------------------------------------------------------|---------|------------|

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

Short-Term Investment
2.2% of net assets

Wachovia Bank, Grand Cayman
Time Deposit

3.48%, 11/01/05 778 **778**

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | |
|------------------------------------------------------|---------------|
| Investments in affiliated underlying funds, at value | \$33,862 |
| Investments, at value | 778 |
| Receivables: | |
| Fund shares sold | 102 |
| Dividends | 1 |
| Prepaid expenses | + 18 |
| Total assets | 34,761 |

Liabilities

| | |
|---------------------------|-----------|
| Payables: | |
| Fund shares redeemed | 3 |
| Due to investment adviser | 2 |
| Accrued expenses | + 24 |
| Total liabilities | 29 |

Net Assets

| | |
|--------------------------|-----------------|
| Total assets | 34,761 |
| Total liabilities | - 29 |
| Net assets | \$34,732 |

Net Assets by Source

| | |
|-------------------------------------------|--------|
| Capital received from investors | 34,177 |
| Net investment income not yet distributed | 121 |
| Net unrealized capital gains | 434 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$34,732 | | 3,377 | | \$10.28 |

Unless stated, all numbers x 1,000.

The fund paid \$34,206 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 | \$33,061 |
| Sales/maturities | \$- |

Percent of fund shares of other Schwab Funds owned at the end of the report period:

Schwab Active Equity Funds

| | |
|-----------------------|------|
| Core Equity Fund | 1.5% |
| Dividend Equity Fund | 0.3% |
| Small-Cap Equity Fund | 1.2% |

Laudus MarketMasters Funds

| | |
|----------------------------------|------|
| International MarketMasters Fund | 0.3% |
|----------------------------------|------|

Laudus Rosenberg Funds

| | |
|-----------------------------------------|-------|
| U.S. Large Capitalization Growth Fund | 11.1% |
| U.S. Discovery Fund | 0.2% |
| International Small Capitalization Fund | 0.3% |

Schwab Bond Funds

| | |
|------------------------|----------------|
| Total Bond Market Fund | 0.8% |
| YieldPlus Fund | Less than 0.1% |

Schwab Money Funds

| | |
|----------------------------|----------------|
| Value Advantage Money Fund | Less than 0.1% |
|----------------------------|----------------|

Federal Tax Data

| | |
|-----------------------------------------|--------------|
| Portfolio Cost | \$34,206 |
| Net unrealized gains and losses: | |
| Gains | \$684 |
| Losses | + (250) |
| | \$434 |

Net undistributed earnings:

| | |
|-------------------------|-------|
| Ordinary income | \$121 |
| Long-term capital gains | \$- |

Statement of

Operations

For July 1, 2005 (commencement of operations) through October 31, 2005.
All numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|------------|
| Dividends received from affiliated underlying funds | \$120 |
| Interest | + 5 |
| Total investment income | 125 |

Net Unrealized Gains and Losses

| | |
|-------------------------------------------------------|------------|
| Net unrealized gains from affiliated underlying funds | 434 |
|-------------------------------------------------------|------------|

Expenses

| | | |
|---------------------------|----|----------|
| Trustees' fees | 1 | |
| Custodian fees | 1 | |
| Portfolio accounting fees | 1 | |
| Professional fees | 16 | |
| Registration fees | 7 | |
| Shareholder reports | + | 7 |
| Total expenses | | 33 |
| Expense reduction | - | 29 |
| Net expenses | | 4 |

Increase in Net Assets from Operations

| | |
|----------------------------------------|--------------|
| Total investment income | 125 |
| Net expenses | — 4 |
| Net investment income | <u>121</u> |
| Net unrealized gains | + 434 |
| Increase in net assets from operations | <u>\$555</u> |

Unless stated, all numbers x 1,000.

For the fund's independent trustees only.

These reductions reflect a guarantee by Charles Schwab Investment Management, Inc. (CSIM) and Charles Schwab & Co., Inc. (Schwab) to limit the net operating expenses of this fund through February 28, 2007, to 0.04% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on July 1, 2005, it has no prior report period. All numbers x 1,000

Operations

| | 7/1/05–10/31/05 |
|-----------------------------------------------|-----------------|
| Net investment income | \$121 |
| Net unrealized gains | 434 |
| Increase in net assets from operations | \$555 |

Transactions in Fund Shares

| | 7/1/05–10/31/05 | |
|----------------------------------------|-----------------|-----------------|
| | SHARES | VALUE |
| Shares sold | 3,422 | \$34,636 |
| Shares redeemed | (45) | (459) |
| Net transactions in fund shares | 3,377 | \$34,177 |

Shares Outstanding and Net Assets

| | 7/1/05–10/31/05 | |
|----------------------|-----------------|-----------------|
| | SHARES | NET ASSETS |
| Beginning of period | – | \$– |
| Total increase | 3,377 | 34,732 |
| End of period | 3,377 | \$34,732 |

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 \$1

Dollar amounts are net of the redemption fee 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 \$121 at the end of the current period.

Schwab Target 2030 Fund

Financial Statements

Financial Highlights

7/1/05¹–
10/31/05

Per-Share Data (\$)

| | |
|-----------------------------------------|-------|
| Net asset value at beginning of period | 10.00 |
| Income from investment operations: | |
| Net investment income | 0.03 |
| Net realized and unrealized gains | 0.28 |
| Total income from investment operations | 0.31 |
| Net asset value at end of period | 10.31 |
| Total return (%) | 3.10² |

Ratios/Supplemental Data (%)

| | |
|--------------------------------------------|-------|
| Ratios to average net assets: | |
| Net operating expenses³ | 0.03⁴ |
| Gross operating expenses³ | 0.58⁴ |
| Net investment income | 1.05⁴ |
| Portfolio turnover rate | — |
| Net assets, end of period (\$ x 1,000,000) | 19 |

¹ Commencement of operations.

² Not annualized.

³ 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.

⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's 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.

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 ten holding

■ Issuer is affiliated with the fund's adviser

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|------------------------------------------|--------------------|---------------------|
| 95.0% | Other Investment Companies | 17,848 | 18,100 |
| 3.7% | Short-Term Investments | 695 | 695 |
| 98.7% | Total Investments | 18,543 | 18,795 |
| 1.3% | Other Assets and Liabilities, Net | | 255 |
| 100.0% | Total Net Assets | | 19,050 |

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

Other Investment Companies
95.0% of net assets

Equity Funds 74.6%

| | | | |
|----|--------------------------------------------------------------------------------|---------|-------|
| ■③ | Laudus International MarketMasters Fund, Select Shares | 122,893 | 2,066 |
| ■⑦ | Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 73,339 | 1,320 |
| ■⑧ | Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 52,881 | 890 |
| ■⑥ | Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 189,774 | 1,621 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------|-----------------------|
| ■① Schwab Core Equity Fund | 308,697 |
| ■⑥ Schwab Dividend Equity Fund, Select Shares | 125,094 |
| ■④ Schwab Small-Cap Equity Fund, Select Shares | 116,367 |
| | 14,214 |

Fixed-Income Funds 19.5%

| | | |
|-----------------------------------------|---------|--------------|
| ■② Schwab Total Bond Market Fund | 357,702 | 3,527 |
| ■⑨ Schwab YieldPlus Fund, Select Shares | 18,590 | 180 |
| | | 3,707 |

Money Funds 0.9%

| | | |
|------------------------------------------------------------|---------|------------|
| ■⑩ Schwab Value Advantage Money Fund, Institutional Shares | 179,344 | 179 |
|------------------------------------------------------------|---------|------------|

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

Short-Term Investments
3.7% of net assets

| | | |
|------------------------------------------|-----|------------|
| HSBC Bank, USA Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 175 | 175 |
| Wachovia Bank, Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 520 | 520 |
| | | 695 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | | |
|------------------------------------------------------|---------------|--|
| Investments in affiliated underlying funds, at value | \$18,100 | |
| Investments, at value | 695 | |
| Receivables: | | |
| Fund shares sold | 262 | |
| Prepaid expenses | + 17 | |
| Total assets | 19,074 | |

Liabilities

| | | |
|---------------------------|-----------|--|
| Payables: | | |
| Due to investment adviser | 4 | |
| Accrued expenses | + 20 | |
| Total liabilities | 24 | |

Net Assets

| | | |
|--------------------------|-----------------|--|
| Total assets | 19,074 | |
| Total liabilities | – 24 | |
| Net assets | \$19,050 | |

Net Assets by Source

| | |
|-------------------------------------------|--------|
| Capital received from investors | 18,747 |
| Net investment income not yet distributed | 51 |
| Net unrealized capital gains | 252 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$19,050 | | 1,847 | | \$10.31 |

Unless stated, all numbers x 1,000.

The fund paid \$18,543 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 | \$17,657 |
| Sales/maturities | \$– |

Percent of fund shares of other Schwab Funds owned at the end of the report period:

Schwab Active Equity Funds

| | |
|-----------------------|------|
| Core Equity Fund | 0.9% |
| Dividend Equity Fund | 0.2% |
| Small-Cap Equity Fund | 0.7% |

Laudus MarketMasters Funds

| | |
|--------------------|------|
| International | |
| MarketMasters Fund | 0.2% |

Laudus Rosenberg Funds

| | |
|---------------------------|------|
| U.S. Large Capitalization | |
| Growth Fund | 6.7% |
| U.S. Discovery Fund | 0.1% |
| International Small | |
| Capitalization Fund | 0.1% |

Schwab Bond Funds

| | |
|------------------------|----------------|
| Total Bond Market Fund | 0.3% |
| YieldPlus Fund | Less than 0.1% |

Schwab Money Funds

| | |
|-----------------------|----------------|
| Value Advantage Money | |
| Fund | Less than 0.1% |

Federal Tax Data

| | |
|-----------------------|----------|
| Portfolio Cost | \$18,543 |
|-----------------------|----------|

Net unrealized gains and losses:

| | |
|--------|--------------|
| Gains | \$366 |
| Losses | + (114) |
| | \$252 |

Net undistributed earnings:

| | |
|-------------------------|------|
| Ordinary income | \$51 |
| Long-term capital gains | \$– |

Statement of

Operations

For July 1, 2005 (commencement of operations) through October 31, 2005.
All numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|-----------|
| Dividends received from affiliated underlying funds | \$49 |
| Interest | + 3 |
| Total investment income | 52 |

Net Unrealized Gains and Losses

| | |
|-------------------------------------------------------|------------|
| Net unrealized gains from affiliated underlying funds | 252 |
|-------------------------------------------------------|------------|

Expenses

| | |
|---------------------------|-----------------|
| Trustees' fees | 1 |
| Custodian fees | 1 |
| Portfolio accounting fees | 1 |
| Professional fees | 15 |
| Registration fees | 6 |
| Shareholder reports | + 4 |
| Total expenses | <u>28</u> |
| Expense reduction | - 27 |
| Net expenses | <u>1</u> |

Increase in Net Assets from Operations

| | |
|----------------------------------------|--------------|
| Total investment income | 52 |
| Net expenses | — 1 |
| Net investment income | <u>51</u> |
| Net unrealized gains | + 252 |
| Increase in net assets from operations | <u>\$303</u> |

Unless stated, all numbers x 1,000.

For the fund's independent trustees only.

These reductions reflect a guarantee by Charles Schwab Investment Management, Inc. (CSIM) and Charles Schwab & Co., Inc. (Schwab) to limit the net operating expenses of this fund through February 28, 2007, to 0.03% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on July 1, 2005, it has no prior period. All numbers x 1,000

Operations

| | 7/1/05–10/31/05 |
|-----------------------------------------------|-----------------|
| Net investment income | \$51 |
| Net unrealized gains | + 252 |
| Increase in net assets from operations | \$303 |

Transactions in Fund Shares

| | 7/1/05–10/31/05 | |
|----------------------------------------|-----------------|-----------------|
| | SHARES | VALUE |
| Shares sold | 1,866 | \$18,936 |
| Shares redeemed | + (19) | (189) |
| Net transactions in fund shares | 1,847 | \$18,747 |

Shares Outstanding and Net Assets

| | 7/1/05–10/31/05 | |
|----------------------|-----------------|-----------------|
| | SHARES | NET ASSETS |
| Beginning of period | – | \$– |
| Total increase | + 1,847 | 19,050 |
| End of period | 1,847 | \$19,050 |

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 \$1
Dollar amounts are net of the redemption fee 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 \$51 at the end of the current period.

Schwab Target 2040 Fund

Financial Statements

Financial Highlights

7/1/05¹–
10/31/05

Per-Share Data (\$)

| | |
|-----------------------------------------|-------------------|
| Net asset value at beginning of period | 10.00 |
| Income from investment operations: | |
| Net investment income | 0.02 |
| Net realized and unrealized gains | 0.34 |
| Total income from investment operations | 0.36 |
| Net asset value at end of period | 10.36 |
| Total return (%) | 3.60 ² |

Ratios/Supplemental Data (%)

| | |
|--------------------------------------------|-------------------|
| Ratios to average net assets: | |
| Net operating expenses ³ | 0.01 ⁴ |
| Gross operating expenses ³ | 1.10 ⁴ |
| Net investment income | 0.80 ⁴ |
| Portfolio turnover rate | — |
| Net assets, end of period (\$ x 1,000,000) | 9 |

¹ Commencement of operations.

² Not annualized.

³ 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.

⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's 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.

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 ten holding

■ Issuer is affiliated with the fund's adviser

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|------------------------------------------|--------------------|---------------------|
| 96.1% | Other Investment Companies | 8,535 | 8,659 |
| 3.5% | Short-Term Investments | 314 | 314 |
| 99.6% | Total Investments | 8,849 | 8,973 |
| 0.4% | Other Assets and Liabilities, Net | | 40 |
| 100.0% | Total Net Assets | | 9,013 |

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

Other Investment Companies

96.1% of net assets

Equity Funds 82.0%

| | | | |
|----|--------------------------------------------------------------------------------|--------|-------|
| ■② | Laudus International MarketMasters Fund, Select Shares | 68,885 | 1,158 |
| ■⑤ | Laudus Rosenberg International Small Capitalization Fund, Institutional Shares | 44,743 | 805 |
| ■⑧ | Laudus Rosenberg U.S. Discovery Fund, Institutional Shares | 30,297 | 510 |
| ■⑥ | Laudus Rosenberg U.S. Large Capitalization Growth Fund, Institutional Shares | 90,587 | 774 |

| Security and Number of Shares | Value (\$ x 1,000) |
|------------------------------------------------------|-----------------------|
| ● Schwab Core Equity Fund 152,873 | 2,417 |
| ● Schwab Dividend Equity Fund, Select Shares 59,857 | 766 |
| ● Schwab Small-Cap Equity Fund, Select Shares 60,984 | 962 |
| | 7,392 |

Fixed-Income Funds 13.1%

| | | |
|-----------------------------------------|---------|--------------|
| ■③ Schwab Total Bond Market Fund | 111,468 | 1,099 |
| ■⑩ Schwab YieldPlus Fund, Select Shares | 8,644 | 84 |
| | | 1,183 |

Money Funds 1.0%

| | | |
|------------------------------------------------------------|--------|----|
| ■⑨ Schwab Value Advantage Money Fund, Institutional Shares | 83,391 | 84 |
|------------------------------------------------------------|--------|----|

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

Short-Term Investments

3.5% of net assets

| | | |
|----------------------------------------------------|-----|------------|
| Brown Brothers Harriman, Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 79 | 79 |
| Wachovia Bank, Grand Cayman Time Deposit | | |
| 3.48%, 11/01/05 | 235 | 235 |
| | | 314 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | | |
|------------------------------------------------------|---------|--------------|
| Investments in affiliated underlying funds, at value | \$8,659 | |
| Investments, at value | 314 | |
| Receivables: | | |
| Fund shares sold | 60 | |
| Prepaid expenses | + | 7 |
| Total assets | | 9,040 |

Liabilities

| | | |
|---------------------------|---|-----------|
| Payables: | | |
| Fund shares redeemed | | 2 |
| Due to investment adviser | | 6 |
| Accrued expenses | + | 19 |
| Total liabilities | | 27 |

Net Assets

| | |
|--------------------------|----------------|
| Total assets | 9,040 |
| Total liabilities | - 27 |
| Net assets | \$9,013 |

Net Assets by Source

| | |
|-------------------------------------------|-------|
| Capital received from investors | 8,872 |
| Net investment income not yet distributed | 17 |
| Net unrealized capital gains | 124 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$9,013 | | 870 | | \$10.36 |

Unless stated, all numbers x 1,000.

The fund paid \$8,849 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 | \$8,447 |
| Sales/maturities | \$- |

Percent of fund shares of other Schwab Funds owned at the end of the report period:

Schwab Active Equity Funds

| | |
|-----------------------|------|
| Core Equity Fund | 0.4% |
| Dividend Equity Fund | 0.1% |
| Small-Cap Equity Fund | 0.4% |

Laudus MarketMasters Funds

| | |
|--------------------|------|
| International | |
| MarketMasters Fund | 0.1% |

Laudus Rosenberg Funds

| | |
|---------------------------|------|
| U.S. Large Capitalization | |
| Growth Fund | 3.2% |
| U.S. Discovery Fund | 0.1% |
| International Small | |
| Capitalization Fund | 0.1% |

Schwab Bond Funds

| | |
|------------------------|----------------|
| Total Bond Market Fund | 0.1% |
| YieldPlus Fund | Less than 0.1% |

Schwab Money Funds

| | |
|-----------------------|----------------|
| Value Advantage Money | |
| Fund | Less than 0.1% |

Federal Tax Data

| | |
|-----------------------|---------|
| Portfolio Cost | \$8,849 |
|-----------------------|---------|

Net unrealized gains and losses:

| | |
|--------|--------------|
| Gains | \$176 |
| Losses | + (52) |
| | \$124 |

Net undistributed earnings:

| | |
|-------------------------|------|
| Ordinary income | \$17 |
| Long-term capital gains | \$- |

Statement of

Operations

For July 1, 2005 (commencement of operations) through October 31, 2005.
All numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|-----------|
| Dividends received from affiliated underlying funds | \$15 |
| Interest | + 2 |
| Total investment income | <u>17</u> |

Net Unrealized Gains and Losses

| | |
|-------------------------------------------------------|------------|
| Net unrealized gains from affiliated underlying funds | 124 |
|-------------------------------------------------------|------------|

Expenses

| | |
|---------------------|-----------|
| Trustees' fees | 1 |
| Custodian fees | 1 |
| Professional fees | 16 |
| Registration fees | 3 |
| Shareholder reports | + 2 |
| Total expenses | 23 |
| Expense reduction | - 23 |
| Net expenses | -* |

Increase in Net Assets from Operations

| | | |
|----------------------------------------|---|--------------|
| Total investment income | | 17 |
| Net expenses | — | —* |
| Net investment income | | <u>17</u> |
| Net unrealized gains | + | 124 |
| Increase in net assets from operations | | <u>\$141</u> |

Unless stated, all numbers x 1,000.

For the fund's independent trustees only.

These reductions reflect a guarantee by Charles Schwab Investment Management, Inc. (CSIM) and Charles Schwab & Co., Inc. (Schwab) to limit the net operating expenses of this fund through February 28, 2007, to 0.01% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

*Amount is less than \$1.

Statements of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on July 1, 2005, it has no prior report period. All numbers x 1,000

Operations

| | 7/1/05–10/31/05 | |
|-----------------------------------------------|-----------------|--------------|
| Net investment income | | \$17 |
| Net unrealized gains | + | 124 |
| Increase in net assets from operations | | \$141 |

Transactions in Fund Shares

| | 7/1/05–10/31/05 | |
|----------------------------------------|-----------------|----------------|
| | SHARES | VALUE |
| Shares sold | 894 | \$9,127 |
| Shares redeemed | + | (24) (255) |
| Net transactions in fund shares | 870 | \$8,872 |

Shares Outstanding and Net Assets

| | 7/1/05–10/31/05 | |
|----------------------|-----------------|----------------|
| | SHARES | NET ASSETS |
| Beginning of period | — | \$— |
| Total increase | + | 870 9,013 |
| End of period | 870 | \$9,013 |

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 \$—

Dollar amounts are net of the redemption fee 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 \$17 at the end of the current period.

Schwab Retirement Income Fund

Financial Statements

Financial Highlights

7/1/05¹–
10/31/05

Per-Share Data (\$)

| | |
|-------------------------------------------------|-------------------|
| Net asset value at beginning of period | 10.00 |
| Income or loss from investment operations: | |
| Net investment income | 0.11 |
| Net realized and unrealized losses | (0.09) |
| Total income or loss from investment operations | 0.02 |
| Less distributions: | |
| Dividends from net investment income | (0.12) |
| Net asset value at end of period | 9.90 |
| Total return (%) | 0.16 ² |

Ratios/Supplemental Data (%)

| | |
|--------------------------------------------|-------------------|
| Ratios to average net assets: | |
| Net operating expenses ³ | 0.10 ⁴ |
| Gross operating expenses ³ | 0.64 ⁴ |
| Net investment income | 3.40 ⁴ |
| Portfolio turnover rate | — |
| Net assets, end of period (\$ x 1,000,000) | 14 |

¹ Commencement of operations.

² Not annualized.

³ 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.

⁴ Annualized.

Portfolio Holdings as of October 31, 2005

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's 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.

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 holdings.

① Top holding

■ Issuer is affiliated with the fund's adviser

| Holdings by Category | | Cost (\$x1,000) | Value (\$x1,000) |
|----------------------|------------------------------------------|--------------------|---------------------|
| 96.1% | Other Investment Companies | 13,531 | 13,414 |
| 2.1% | Short-Term Investment | 287 | 287 |
| 98.2% | Total Investments | 13,818 | 13,701 |
| 1.8% | Other Assets and Liabilities, Net | | 256 |
| 100.0% | Total Net Assets | | 13,957 |

Security and Number of Shares

Value
(\$ x 1,000)

Other Investment Companies

96.1% of net assets

Equity Funds 19.4%

| | | | |
|----|--------------------------------------------------------|---------|--------------|
| ■⑥ | Laudus International MarketMasters Fund, Select Shares | 25,405 | 427 |
| ■③ | Schwab Dividend Equity Fund, Select Shares | 178,570 | 2,286 |
| | | | 2,713 |

Security and Number of Shares

Value
(\$ x 1,000)

Fixed-Income Funds 71.8%

| | | | |
|----|--------------------------------------|---------|---------------|
| ■① | Schwab Total Bond Market Fund | 673,773 | 6,643 |
| ■② | Schwab YieldPlus Fund, Select Shares | 350,074 | 3,382 |
| | | | 10,025 |

Money Funds 4.9%

| | | | |
|----|---------------------------------------------------------|---------|------------|
| ■④ | Schwab Value Advantage Money Fund, Institutional Shares | 675,449 | 676 |
|----|---------------------------------------------------------|---------|------------|

Security

Rate, Maturity Date

Face Amount
(\$ x 1,000)

Short-Term Investment

2.1% of net assets

| | | | |
|------------------------------------------|-----|--|------------|
| Wachovia Bank, Grand Cayman Time Deposit | | | |
| 3.48%, 11/01/05 | 287 | | 287 |

End of investments.

Statement of

Assets and Liabilities

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

Assets

| | | |
|------------------------------------------------------|---------------|--|
| Investments in affiliated underlying funds, at value | \$13,414 | |
| Investments, at value | 287 | |
| Receivables: | | |
| Fund shares sold | 282 | |
| Dividends | 1 | |
| Prepaid expenses | + 12 | |
| Total assets | 13,996 | |

Liabilities

| | | |
|---------------------------|-----------|--|
| Payables: | | |
| Dividends to shareholders | 14 | |
| Due to investment adviser | 7 | |
| Accrued expenses | + 18 | |
| Total liabilities | 39 | |

Net Assets

| | | |
|--------------------------|-----------------|--|
| Total assets | 13,996 | |
| Total liabilities | - 39 | |
| Net assets | \$13,957 | |

Net Assets by Source

| | |
|---------------------------------|--------|
| Capital received from investors | 14,074 |
| Net unrealized capital losses | (117) |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$13,957 | | 1,410 | | \$9.90 |

Unless stated, all numbers x 1,000.

The fund paid \$13,818 for these securities.

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

| | |
|------------------|----------|
| Purchases | \$12,823 |
| Sales/maturities | \$- |

Percent of fund shares of other Schwab Funds owned at the end of the report period:

Schwab Active Equity Funds

| | |
|----------------------|------|
| Dividend Equity Fund | 0.2% |
|----------------------|------|

Laudus MarketMasters Funds

| | |
|----------------------------------|----------------|
| International MarketMasters Fund | Less than 0.1% |
|----------------------------------|----------------|

Schwab Bond Funds

| | |
|------------------------|------|
| Total Bond Market Fund | 0.6% |
| YieldPlus Fund | 0.1% |

Schwab Money Funds

| | |
|----------------------------|----------------|
| Value Advantage Money Fund | Less than 0.1% |
|----------------------------|----------------|

Federal Tax Data

| | |
|-----------------------|----------|
| Portfolio Cost | \$13,818 |
|-----------------------|----------|

Net unrealized gains and losses:

| | |
|--------|--------------|
| Gains | \$34 |
| Losses | + (151) |
| | (117) |

Net undistributed earnings:

| | |
|-------------------------|-----|
| Ordinary income | \$- |
| Long-term capital gains | \$- |

Reclassifications:

| | |
|-------------------------------------------|------|
| Net investment income not yet distributed | \$14 |
|-------------------------------------------|------|

| | |
|-----------------------------------------------------|--------|
| Reclassified as: Capital received from investors | (\$14) |
|-----------------------------------------------------|--------|

Statement of

Operations

For July 1, 2005 (commencement of operations) through October 31, 2005.
All numbers x 1,000.

Investment Income

| | |
|-----------------------------------------------------|------------|
| Dividends received from affiliated underlying funds | \$126 |
| Interest | + 2 |
| Total investment income | 128 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------------------------|--------------|
| Net unrealized losses from affiliated underlying funds | (117) |
|--------------------------------------------------------|--------------|

Expenses

| | | |
|---------------------------|----|----------------|
| Trustees' fees | 1 | |
| Custodian fees | 1 | |
| Portfolio accounting fees | 1 | |
| Professional fees | 15 | |
| Registration fees | 3 | |
| Shareholder reports | + | 2 |
| Total expenses | | <hr/> 23 |
| Expense reduction | - | 19 |
| Net expenses | | <hr/> 4 |

Increase in Net Assets from Operations

| | |
|----------------------------------------|------------|
| Total investment income | 128 |
| Net expenses | — 4 |
| Net investment income | <u>124</u> |
| Net unrealized losses | + (117) |
| Increase in net assets from operations | <u>\$7</u> |

Unless stated, all numbers x 1,000.

For the fund's independent trustees only.

These reductions reflect a guarantee by Charles Schwab Investment Management, Inc. (CSIM) and Charles Schwab & Co., Inc. (Schwab) to limit the net operating expenses of this fund through February 28, 2007, to 0.10% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

For the current report period only. Because the fund commenced operations on July 1, 2005, it has no prior report period. All numbers x 1,000

Operations

| | 7/1/05–10/31/05 |
|-----------------------------------------------|-----------------|
| Net investment income | \$124 |
| Net unrealized losses | + (117) |
| Increase in net assets from operations | \$7 |

Distributions Paid

| | |
|--------------------------------------|--------------|
| Dividends from net investment income | \$138 |
|--------------------------------------|--------------|

Transactions in Fund Shares

| | 7/1/05–10/31/05 | |
|----------------------------------------|-----------------|-----------------|
| | SHARES | VALUE |
| Shares sold | 1,508 | \$15,066 |
| Shares reinvested | 10 | 99 |
| Shares redeemed | + (108) | (1,077) |
| Net transactions in fund shares | 1,410 | \$14,088 |

Shares Outstanding and Net Assets

| | 7/1/05–10/31/05 | |
|----------------------|-----------------|-----------------|
| | SHARES | NET ASSETS |
| Beginning of period | – | \$– |
| Total increase | + 1,410 | 13,957 |
| End of period | 1,410 | \$13,957 |

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 0% of the fund's dividends for the report period qualify for the dividends-received deduction.

The fund designates \$8 of the dividend distribution for the fiscal year ended 10/31/05 as qualified dividends for the purpose of the maximum rate under Section 1(h)(ii) of the Internal Revenue Code. Shareholders will be notified in January 2006 via IRS Form 1099 of the amounts for use in preparing their 2005 income tax return.

The tax-basis components of distributions paid are:

Current period

Ordinary income \$138

The fund charges 2.00% of early withdrawal fees on shares redeemed 30 days or less after the purchase.

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.

There was no distributable net investment income 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.

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. For more information about the underlying funds operations and policies, please refer to those funds' semiannual and annual reports.

The funds pay dividends from net investment income and make distributions from net capital gains once a year, except for the Retirement Income Fund, which makes income distributions monthly.

The underlying funds pay fees to affiliates of the investment adviser for various services. Through their trust, the funds and underlying 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. The funds are not charged such fees directly. These fees are included in the net asset value of the underlying funds.

CSIM and Schwab have made 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. 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 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 Institutional Select S&P 500 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 Large-Cap Growth Fund
 Schwab Small-Cap Equity Fund
 Schwab Hedged Equity Fund
 Schwab Financial Services Fund
 Schwab Health Care Fund
 Schwab Technology Fund
Schwab Target 2010 Fund
Schwab Target 2020 Fund
Schwab Target 2030 Fund
Schwab Target 2040 Fund
Schwab Retirement Income Fund

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 10/31/05 (\$ x 1,000) | Average Borrowing* (\$ x 1,000) | Weighted average Interest Rate* (%) |
|--------------------------------------|---------------------------------------------|---------------------------------|-------------------------------------|
| Schwab Target 2010 Fund | — | 133 | 3.68 |
| Schwab Target 2020 Fund | — | 111 | 3.68 |
| Schwab Target 2030 Fund | — | 67 | 3.66 |
| Schwab Target 2040 Fund | — | 47 | 3.92 |
| Schwab Retirement Income Fund | — | 16 | 3.90 |

*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 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 and underlying funds use in preparing their financial statements.

The funds value their investments in underlying funds every business day:

- **Underlying funds:** Valued at their respective net asset values as determined by those funds, in accordance with the Investment Company Act of 1940 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 and underlying funds 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.

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.

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders of:

Schwab Target 2010 Fund

Schwab Target 2020 Fund

Schwab Target 2030 Fund

Schwab Target 2040 Fund

Schwab Retirement Income Fund

In our opinion, the accompanying statements of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Target 2010 Fund, Schwab Target 2020 Fund, Schwab Target 2030 Fund, Schwab Target 2040 Fund, and Schwab Retirement Income Fund (five of the portfolios constituting Schwab Capital Trust, hereafter referred to as the “Funds”) at October 31, 2005, the results of each of their operations, the changes in each of their net assets and the financial highlights for the period July 1, 2005 (commencement of operations) through October 31, 2005, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

December 16, 2005

Investment Advisory Agreement Approval

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

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Capital Trust (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust operating as of December 31 of the previous year and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and

fund performance. The trustees also receive memoranda from counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from their counsel, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

During the report period, at the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved renewal of the Agreement for an additional one year period. As new funds, the Schwab Target 2010 Fund, Schwab Target 2020 Fund, Schwab Target 2030 Fund, Schwab Target 2040 Fund and Schwab Retirement Income Fund (the “Target Funds”) were not included in the Board’s consideration of the renewal of the Agreement at the May 24, 2005 meeting. Rather, at the May 4, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the creation of the Target Funds and approved the amendment of the Agreement to appoint CSIM as investment adviser to the Target Funds. 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 Target Funds under the Agreement, including the resources of CSIM and its affiliates to be dedicated to the Target Funds;
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 Target Funds’ anticipated expenses and how those expenses compared to those of other comparable mutual funds;

4. the profitability of CSIM and its affiliates, including Charles Schwab & Co., Inc. (“Schwab”), with respect to other funds, 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 Target Funds grow and whether fee levels relating to the Target Funds in the Agreement reflect those economies of scale for the benefit of each Target Fund’s 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 Schwab Funds and the resources of CSIM and its affiliates dedicated to such 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. At the May 4, 2005 meeting, the Board considered how these factors could apply to the Target Funds under the terms of the 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 Target Funds and the resources of CSIM and its affiliates to be dedicated to the Target Funds supported approval of the Agreement with respect to the Target Funds.

Fund Performance. At prior meetings, the Board has considered performance of the existing Schwab 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 Schwab Funds, the trustees have considered both risk and shareholder risk expectations for such fund. At the May 4, 2005 meeting, the Board also considered how these factors could apply to the Target Funds under the terms of the Agreement. Following such evaluation, the Board concluded that, within the context of its full deliberations, the performance of the existing Schwab Funds using related investment techniques and performance of CSIM supported approval of the Agreement with respect to the Target Funds.

Fund Expenses. At the May 4, 2005 meeting, with respect to the Target Funds’ expenses, the trustees considered the rate of compensation with respect to the Target Funds called for by the Agreement, and the Target Funds’ 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 Target Funds’ expected peer groups. 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 Target Funds’ 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 Target Funds are reasonable and supported approval of the Agreement with respect to the Target Funds.

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 Schwab 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 Agreement 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 Target Funds. However, because the Target Funds 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 Agreement with respect to the Target Funds.

Economies of Scale. The trustees considered the possible existence of any economies of scale and whether those will be passed along to the Target Funds' 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 the Target Funds' 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 the Target Funds' 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 Target Funds, or funds with investment strategies that are currently 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 Target Funds 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 amending the Agreement to reflect the addition of the Target Funds and concluded that the compensation with respect to the Target Funds under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

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

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

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

| Independent Trustees | | |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
| Mariann Byerwalter 1960 | 2000 (all trusts). | Chairman, JDN Corp. Advisory LLC (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children’s Hospital; Director, Pacific Life Insurance Company (insurance); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ² <i>Until 2001:</i> Stanford University, Special Advisor to the President. <i>From 1996-2001:</i> Stanford University, Vice President of Business Affairs, Chief Financial Officer. |
| Donald F. Dorward 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999:</i> Executive Vice President, Managing Director, Grey Advertising San Francisco. <i>Until 1996:</i> President, Chief Executive Officer, Allen & Dorward Advertising. |

¹ 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.

² This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Independent Trustees continued

| Name and Year of Birth | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Hasler 1941 | 2000 (all trusts). | <i>Until February 2004</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to August 1998</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Director, Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Pacific Stock & Option Exchange; Non-Executive Chairman, Solectron Corporation (manufacturing); Trustee, Laudus Trust and Laudus Variable Insurance Trust. ³ |
| Robert G. Holmes 1931 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm). |
| Gerald B. Smith 1950 | 2000 (all trusts). | <i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Director, Cooper Industries (electrical products, tools and hardware), Chairman, Texas Southern University Foundation; Executive Committee & Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy). |
| Donald R. Stephens 1938 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust). |
| Michael W. Wilsey 1943 | Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments). |

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust.

Interested Trustees

| Name and Year of Birth | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Charles R. Schwab ⁴ 1937 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, National Association; Chairman and Chief Executive Officer, Schwab (SI) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, National Association, U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art. |
| Randall W. Merk ⁴ 1954 | Trustee, 2005 (all trusts). | Executive Vice President and President, Asset Management Products & Services Enterprise, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , Mr. Merk was President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , Mr. Merk was President and Chief Investment Officer, American Century Investment Management, and Director, American Century Companies, Inc. (6/01 to 8/02); Chief Investment Officer, Fixed, American Century Companies, Inc. (1/97 to 6/01). |

Officers of the Trust

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|--------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evelyn Dilsaver 1955 | President, Chief Executive Officer (all trusts). | Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President for Development and Distribution, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 1955 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

| Name and Year of Birth | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|---------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kimon Daifotis 1959 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 1963 | Senior Vice President, Chief Investment Officer (all trusts). | Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 1960 | Chief Compliance Officer (all trusts). | Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc. |
| Koji E. Felton 1961 | Secretary (all trusts). | Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco. |
| George Pereira 1964 | Treasurer, Principal Financial Officer (all trusts) | Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc. |

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.

Internet¹

www.schwab.com

Schwab by Phone™²

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

TeleBroker®

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

Mail

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

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

Proxy Voting Policies, Procedures and Results

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

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

The Schwab Funds Family®

Stock Funds

Schwab Institutional Select® S&P 500 Fund
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 Large-Cap Growth Fund™
Schwab Small-Cap Equity Fund™
Schwab Hedged Equity Fund™
Schwab Financial Services Fund™
Schwab Health Care Fund™
Schwab Technology Fund™

Asset Allocation Funds

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

Bond Funds

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

Schwab Money Funds

Schwab offers an array of money market funds that seek high current income consistent with safety and liquidity.³ 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®.

¹ Shares of Sweep Investments™ may not be purchased directly over the Internet.

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

³ 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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