

# *Schwab Equity Index Funds*

## **Annual Report**

October 31, 2003

Schwab S&P 500 Fund

Schwab 1000 Fund®

Schwab Small-Cap  
Index Fund®

Schwab Total Stock Market  
Index Fund®

Schwab International  
Index Fund®

*charles* **SCHWAB**

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

## In This Report

### Management's Discussion . . . . . 2

The president of SchwabFunds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

Performance at a Glance . . . . . 5

### Schwab S&P 500 Fund

Investor Shares: **SWPIX** Select Shares®: **SWPPX**  
e.Shares®: **SWPEX**

The fund's goal is to track the total return of the S&P 500® Index.<sup>1</sup>

Performance and Fund Facts . . . . . 7

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### Schwab 1000 Fund®

Investor Shares: **SNXFX** Select Shares: **SNXSX**

The fund's goal is to match the total return of the Schwab 1000 Index®.

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### Schwab Small-Cap Index Fund®

Investor Shares: **SWSMX** Select Shares: **SWSSX**

The fund's goal is to track the total return of small capitalization U.S. stocks, as measured by the Schwab Small-Cap Index®.

Performance and Fund Facts . . . . . 14

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### Schwab Total Stock Market Index Fund®

Investor Shares: **SWTIX** Select Shares: **SWTSX**

The fund's goal is to track the total return of the entire U.S. stock market, as measured by the Wilshire 5000 Total Market Index.<sup>2</sup>

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### Schwab International Index Fund®

Investor Shares: **SWINX** Select Shares: **SWISX**

The fund's goal is to track the total return of large, publicly traded non-U.S. companies from countries with developed equity markets outside the United States, as measured by the Schwab International Index®.

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

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

<sup>2</sup> Wilshire and Wilshire 5000 are registered service marks of Wilshire Associates, Inc. The fund is not sponsored, endorsed, sold or promoted by Wilshire Associates, and Wilshire Associates is not in any way affiliated with the fund. Wilshire Associates makes no representation regarding the advisability of investing in the fund or in any stock included in the Wilshire 5000.

## *From the Chairman*



**Charles R. Schwab**, Chairman

In the past few months, the mutual fund industry has been rocked by the discovery of improper practices and arrangements. Investors large and small have seen their confidence shaken, and understandably so.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. Many firms, including our own, have begun thorough investigations of their broker processes and procedures. We are continuing to scrutinize such transactions and arrangements, and are working closely with regulatory authorities. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management (“CSIM”), the investment advisor who manages the SchwabFunds®.

I fully believe that even a small number of irregularities is unacceptable. We have spent nearly 30 years building an ethical firm, and our business is founded on a commitment to doing what’s right for investors. That commitment leaves no room for any failures to follow company policies or industry regulations.

Given the importance of mutual funds to American investors, I can understand why investors find the recent news to be disturbing. At the same time, I would caution investors not to overreact. Before taking any action, investors should consider implications to their portfolio, tax situation and long-term financial goals.

Ultimately, mutual funds still offer all the features that have made them so popular—diversification, liquidity, convenience, low investment minimums, and professional management. For individual investors especially, mutual funds continue to be one of the most cost-effective investment vehicles available. To date, millions of Americans have relied on mutual funds as an important way to invest for retirement, their children’s education, and other financial goals. We see no reason why mutual funds cannot continue to do the same for millions more Americans in the years to come.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

# Management's Discussion

for the year ended October 31, 2003



**Randall W. Merk** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear SchwabFunds® Shareholders:

By now, many of you have read the significant media coverage regarding the mutual fund industry. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. CSIM, which is a separate Charles Schwab subsidiary, has been conducting its own review of the SchwabFunds policies and procedures regarding market timing and late trading. We have examined over two years of activity by CSIM personnel and have not found the types of improper market timing or late trading arrangements that you have been reading about. Our research is still ongoing, so some of these facts may change. Here are our key findings to date:

- **The Integrity of our Staff:** We have not found any indication that any CSIM employees, including portfolio managers and senior managers, have engaged in improper or inappropriate trading for their own account.
- **Market Timing & Late Trading:** We have not found any special arrangements with any shareholders to permit market timing or trading of SchwabFunds after market close.
- **Hedge Funds:** We have not found any special arrangements with hedge funds or other private investment vehicles that would permit them to trade in a way that was inconsistent with a fund's policies and procedures.

As part of the recent mutual fund investigations, requests for information were sent by the SEC to about 90 of the largest mutual fund companies. As the nation's 11th largest fund family with over \$140 billion under management, SchwabFunds also received a request from the SEC. We take these requests very seriously and are working closely with the regulators on this matter.

Charles Schwab founded his firm 30 years ago with a vision to create the most useful and ethical financial services firm in the world. We live by that philosophy every day and nothing means more to our business than the trust of our shareholders.

Your investment in SchwabFunds is an indication of the trust you place in us. As the managers of your money, we have a special obligation to live up to that trust. I want to thank you for investing with us, and want to assure you that we strive relentlessly to operate our business with the highest ethical standards and an unwavering commitment to serve you, our SchwabFunds shareholders.

Sincerely,





**Geri Hom**, a vice president and senior portfolio manager of the investment adviser, has overall responsibility for the management of the funds. Prior to joining the firm in 1995, she worked for nearly 15 years in equity management.

**Larry Mano**, a director and a portfolio manager, is responsible for the day-to-day management of the Total Stock Market and International Index funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.

## The Economy and the Market

**The economy continued to gather strength during the report period, but improvement remained sluggish and uneven.** Although numerous factors had been indicating that the U.S. economy was in recovery when the report period began, many remained concerned about the slow pace of improvement, in particular the absence of job growth. However, the government reported an 8.2% increase in GDP for the third quarter of 2003, job growth for October 2003 was the largest since January 2003, and merger activity picked up—indications that the economy may have gained real strength during the report period.

**Government policies were strongly aimed at stimulating the economy.** The Federal Reserve (the Fed) cut short-term interest rates twice during the period—0.50% in November 2002 and 0.25% in June 2003—bringing the Fed funds target rate to a 45-year low of 1.00%. On the fiscal side, stimulus measures included tax cuts.

Consumer spending held up strongly throughout the economic downturn, bolstered in part by unprecedented activity in mortgage refinancing (as individuals took advantage of the opportunity to refinance at historically low rates). During the period, we also saw business capital spending show signs of life after declining for the past few years.

**Stock prices rose significantly over the period, even as skepticism lingered about the quality of the rally.** After more than two years of generally negative performance, U.S. equity markets reached an apparent bottom during the report period, then rose strongly, ending the period with significant gains. During the report period, the Nasdaq Composite Index rose 46%, while the S&P 500® Index rose nearly 21%.

One striking feature of the overall U.S. stock market during the report period is that stocks with more speculative characteristics tended to perform better than stocks with more demonstrable quality. For example, companies with low earnings or dividends generally outperformed companies with higher earnings or dividends. This held true for other measures of quality as well, such as debt to equity: those with higher levels of debt performed better than companies with lower levels of debt. Consistent with this trend, small-cap stocks (which tend to be more

## Management's Discussion continued

*Factors that have been linked to superior long-term stock performance were not the factors that investors appeared to value most during the period.*

speculative) performed well during the period, and microcap stocks performed even better. Large-cap stocks lagged both groups, but still performed well.

Many market observers have asked why lower quality securities outperformed higher quality and whether it could continue. There are many possible answers, but we believe the more important point is that in the long run, quality has been shown to be a superior indicator of performance.

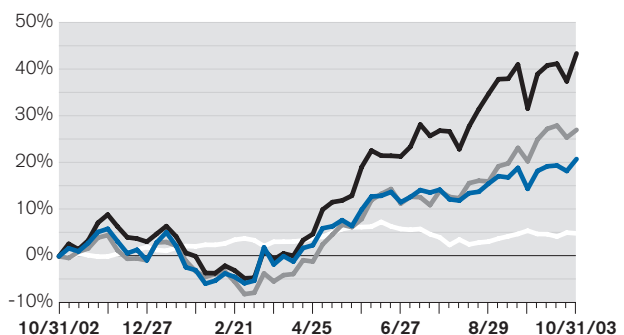
**Despite the dividend tax cut, dividend stocks underperformed the overall market during the period.** Congress passed the tax cut during the period as part of the government's economic stimulus efforts. The cut reduced the double taxation of corporate dividends, thus lowering the cost of capital and encouraging investment. Since companies that pay dividends are generally more established and less speculative, we see the underperformance of these stocks as being part of the larger market trend mentioned earlier.

**U.S. investors saw gains overseas, helped by currency trends.** Most foreign markets showed positive total returns for the period, and these returns were augmented by the fact that the United States dollar fell versus most major foreign currencies.

### 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.

- 20.80% **S&P 500® Index:** measures U.S. large-cap stocks
- 43.37% **Russell 2000® Index:** measures U.S. small-cap stocks
- 27.03% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 4.91% **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 can't invest in them directly. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

## Performance at a Glance

Total return for the 12 months ended 10/31/03

### Schwab S&P 500 Fund

Investor Shares . . . . .	20.39%
Select Shares® . . . . .	20.62%
e.Shares® . . . . .	20.55%
Benchmark . . . . .	20.80%

*Performance Details . . . . . pages 7-9*

### Schwab 1000 Fund®

Investor Shares . . . . .	21.34%
Select Shares . . . . .	21.52%
Benchmark . . . . .	21.84%

*Performance Details . . . . . pages 11-12*

### Schwab Small-Cap Index Fund®

Investor Shares . . . . .	38.72%
Select Shares . . . . .	39.02%
Benchmark . . . . .	39.00%

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

### Schwab Total Stock Market Index Fund®

Investor Shares . . . . .	23.24%
Select Shares . . . . .	23.50%
Benchmark . . . . .	24.43%

*Performance Details . . . . . pages 17-18*

### Schwab International Index Fund®

Investor Shares . . . . .	24.24%
Select Shares . . . . .	24.50%
Benchmark . . . . .	25.55%

*Performance Details . . . . . pages 20-21*

## The Funds

All of the funds in this report posted double-digit total returns for the report period. October 2003, the last month of the period, was an especially strong month for the broad U.S. stock market, and marked the seventh positive month of the last eight. All funds met the goal of closely tracking their respective benchmark indices.

The **Schwab S&P 500 Fund** ended the report period up more than 20%, as the S&P 500® Index closed above 1050 for the first time since May of 2002. Third-quarter earnings were 5% above consensus estimates for the 79% of the companies in the index that had reported their third-quarter earnings by the time this report was written. Information technology, which had been especially hard-hit in recent years, led all sectors during the period with a notable 41% total return. Even the weakest sector, telecom services, was up 3%. The fund was again able to operate tax-efficiently, making no capital gains distribution for 2002.

The results for the **Schwab 1000 Fund** were fairly similar. The fund's inclusion of mid-cap stocks, which as a category outperformed large-caps, added about a percentage point to the index's total return compared to that of the S&P 500 Index. More than half of the fund's performance came from just two sectors: information technology and financial. The fund was again able to operate tax-efficiently, making no capital gains distribution for 2002.

With small-caps outperforming mid- and large-caps, during the period, the **Schwab Small-Cap Index Fund** was able to post total returns approaching 40% for the report period. Even the worst-performing

Past performance does not indicate future results.

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

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. Each fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. For more current performance information visit [www.schwab.com](http://www.schwab.com) or call 1-800-435-4000.

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.

## *Management's Discussion* continued

*Even the worst-performing sector in each fund posted a positive return, with formerly hard-hit sectors such as information technology leading the rebound.*

sector, consumer staples, had a double-digit return (15%), while telecom rose a remarkable 76%. Historically, October has been a bad month for small-cap stocks. However, October 2003 saw small-caps gain 8% (as measured by the Schwab Small-Cap Index). Investors should note that the gains in small-caps were accompanied by high volatility: small-cap stock prices moved more than 1% a day on over 80% of the trading days during the period.

Exposure to volatile but high-performing small-cap stocks helped lift the **Schwab Total Stock Market Index Fund**<sup>®</sup> to a total return of more than 23%. Although small-cap stocks represent only a small portion of the fund's assets, their strong performance helped the fund modestly outpace such large-cap funds as the Schwab S&P 500 Fund. The best-performing sector, technology, was up 42%; the worst-performing, communication services, was up 5%.

Total return for the **Schwab International Index Fund**<sup>®</sup> was more than 24%. Internationally, many of the same factors appeared to be at work as in the United States. Smaller stocks led the field, with high volatility a feature of these stocks in most markets, and speculative stocks proving more popular than stocks of companies with sound fundamentals. All countries in the index posted positive total returns, led by Sweden and Canada, both of which were up by at least 50%.

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



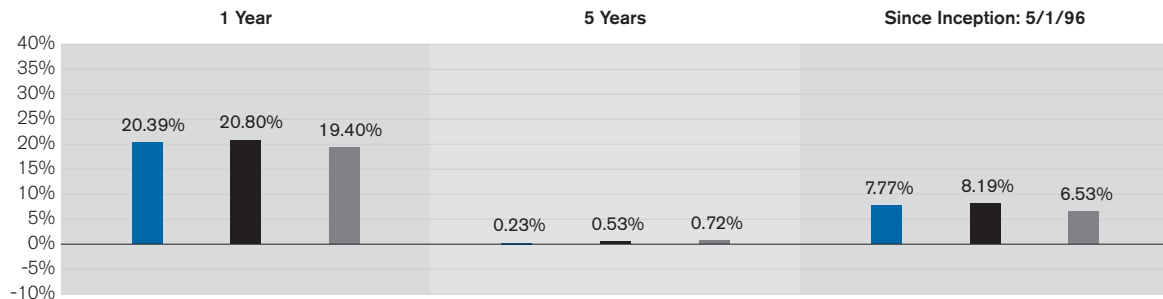
# Schwab S&P 500 Fund

## Investor Shares Performance as of 10/31/03

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

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

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

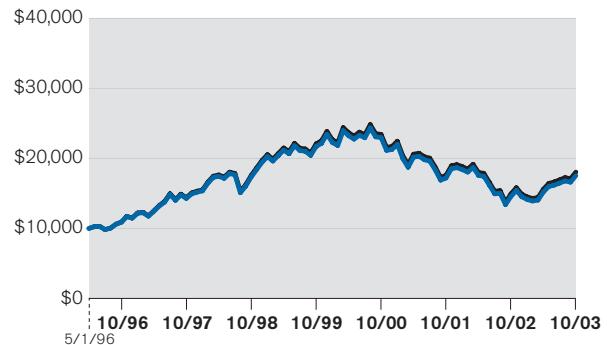


Total Returns After Tax	1 Year	5 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	19.71%	-0.17%	7.39%
<b>Post-Liquidation</b> (shares were sold)	13.13%	0.00%	6.29%

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

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

■ \$17,539 **Investor Shares**  
 ■ \$18,054 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 10/31/03 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume

investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

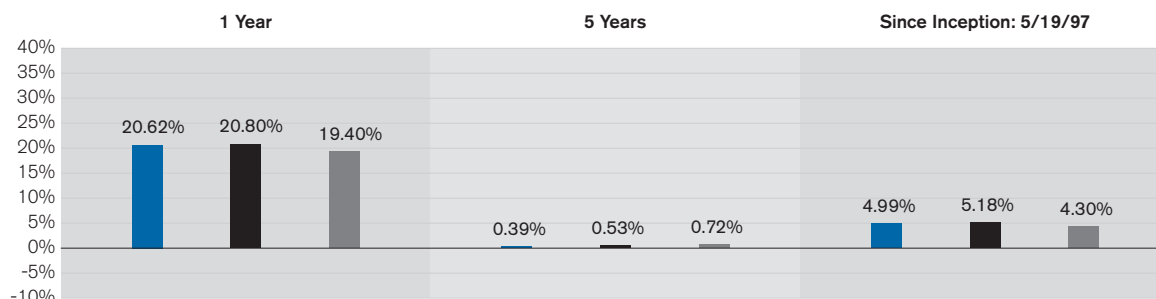
## Schwab S&P 500 Fund

### Select Shares® Performance as of 10/31/03

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

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

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

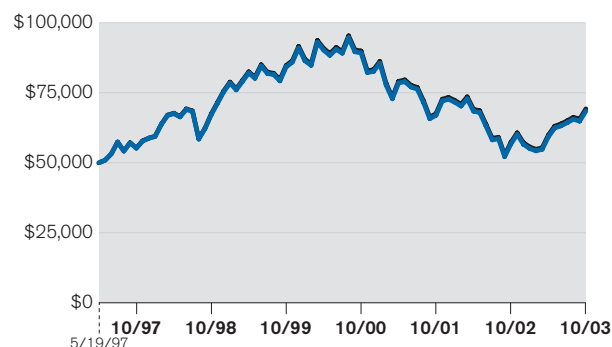


Total Returns After Tax	1 Year		5 Years		Since Inception	
<b>Pre-Liquidation</b> (still own shares)	19.86%	17.07%	-0.07%	-0.61%	4.56%	n/a
<b>Post-Liquidation</b> (shares were sold)	13.26%	10.62%	0.10%	0.26%	3.88%	n/a

#### Performance of a Hypothetical \$50,000 Investment<sup>2</sup>

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

■ \$68,480 **Select Shares**  
 ■ \$69,281 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

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investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

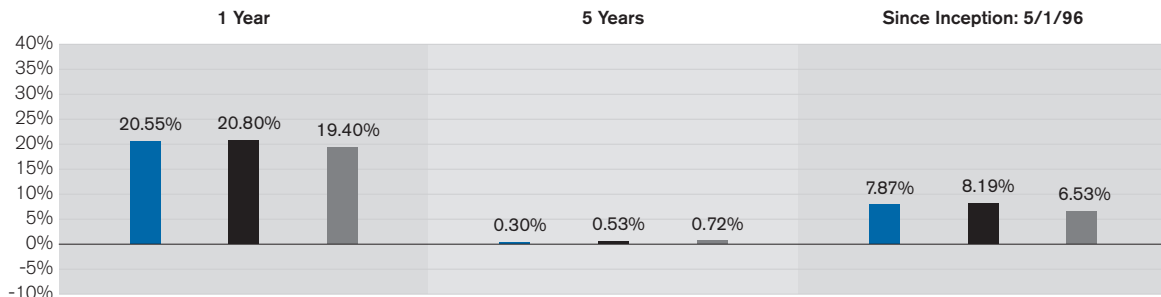
## Schwab S&P 500 Fund

### e.Shares® Performance as of 10/31/03

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

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

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

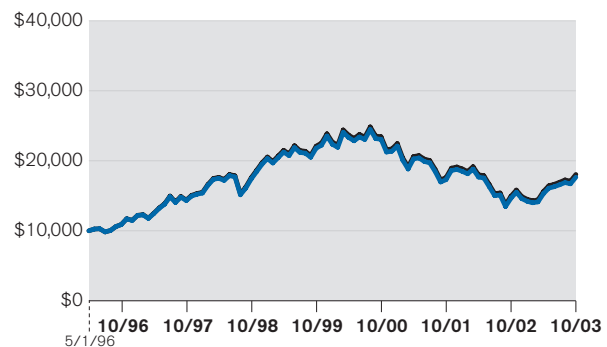


Total Returns After Tax	1 Year	5 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	19.84%	-0.14%	7.45%
<b>Post-Liquidation</b> (shares were sold)	13.22%	0.04%	6.35%

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

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

■ \$17,656 **e.Shares**  
 ■ \$18,054 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

## Schwab S&P 500 Fund

### Fund Facts as of 10/31/03

Fund Category<sup>1</sup>

Investment Style

Value

Blend

Growth

Large

Medium

Small

Market Cap

Statistics

Number of Holdings

502

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

\$86,757

Price/Earnings Ratio (P/E)

22.3

Price/Book Ratio (P/B)

3.2

Portfolio Turnover Rate

3%

Top Holdings<sup>2</sup>

Security

% of Net Assets

① General Electric Co.

3.0%

② Microsoft Corp.

2.9%

③ Wal-Mart Stores, Inc.

2.6%

④ Pfizer, Inc.

2.5%

⑤ Citigroup, Inc.

2.5%

⑥ Exxon Mobil Corp.

2.5%

⑦ Intel Corp.

2.2%

⑧ American International Group, Inc.

1.6%

⑨ International Business Machines Corp.

1.6%

⑩ Johnson & Johnson

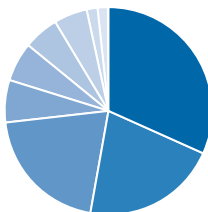
1.5%

Total

22.9%

Sector Weightings % of Portfolio

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.



31.7% Consumer Non-Durables

21.1% Finance

20.4% Technology

6.6% Materials & Services

6.1% Utilities

5.5% Energy

5.2% Capital Goods

1.7% Transportation

1.6% Consumer Durables

0.1% Other

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

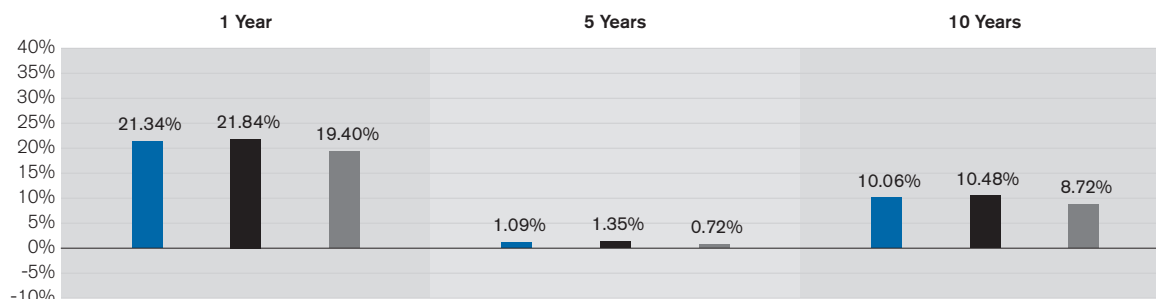
# Schwab 1000 Fund<sup>®</sup>

## Investor Shares Performance as of 10/31/03

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

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

■ Fund: **Investor Shares**  
 ■ Benchmark: **Schwab 1000 Index<sup>®</sup>**  
 ■ Fund Category: **Morningstar Large-Cap Blend**

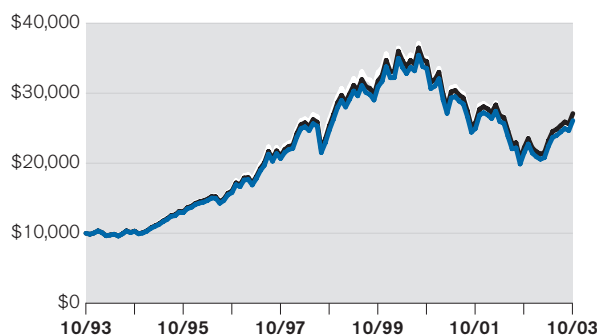


Total Returns After Tax	1 Year	5 Years	10 Years
<b>Pre-Liquidation</b> (still own shares)	20.74%	0.75%	9.59%
<b>Post-Liquidation</b> (shares were sold)	13.76%	0.71%	8.31%

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

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

■ \$26,099 **Investor Shares**  
 ■ \$27,104 **Schwab 1000 Index**  
 □ \$26,959 **S&P 500 Index**



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<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 10/31/03 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume

investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

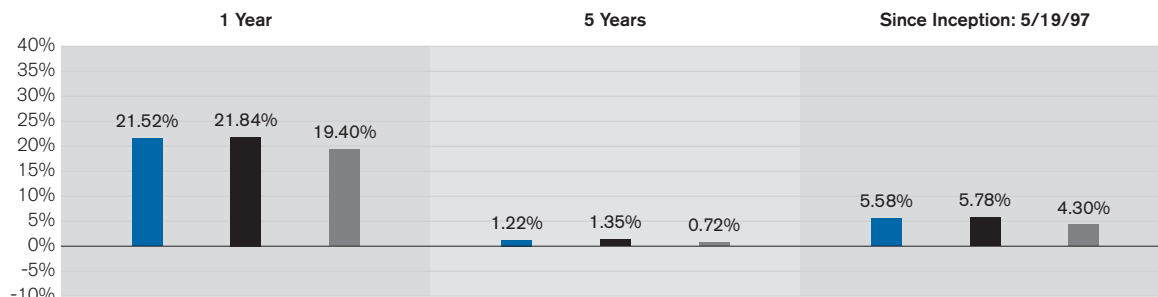
## Schwab 1000 Fund®

### Select Shares® Performance as of 10/31/03

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

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

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

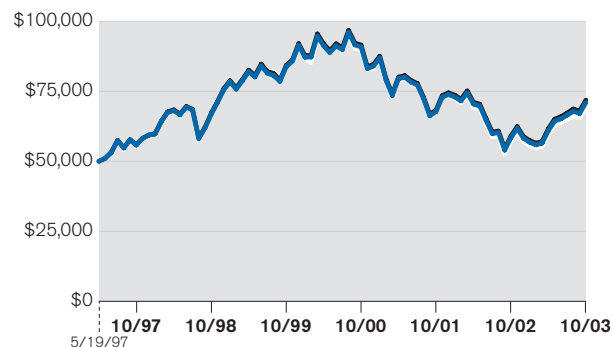


Total Returns After Tax	1 Year	5 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	20.87%	0.83%	5.20%
<b>Post-Liquidation</b> (shares were sold)	13.87%	0.79%	4.39%

#### Performance of a Hypothetical \$50,000 Investment<sup>2</sup>

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

■ \$70,990 **Select Shares**  
 ■ \$71,880 **Schwab 1000 Index**  
 □ \$69,281 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

## Schwab 1000 Fund®

### Fund Facts as of 10/31/03

Fund Category <sup>1</sup>			Top Holdings <sup>2</sup>	
Investment Style			Security	% of Net Assets
Value	Blend	Growth		
			① General Electric Co.	2.6%
			② Microsoft Corp.	2.6%
			③ Wal-Mart Stores, Inc.	2.3%
			④ Pfizer, Inc.	2.2%
			⑤ Citigroup, Inc.	2.2%
			⑥ Exxon Mobil Corp.	2.2%
			⑦ Intel Corp.	1.9%
			⑧ American International Group, Inc.	1.4%
			⑨ International Business Machines Corp.	1.4%
			⑩ Johnson & Johnson	1.4%
			<b>Total</b>	<b>20.2%</b>
Statistics			Sector Weightings % of Portfolio	
Number of Holdings			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.	
Weighted Average Market Cap (\$ x 1,000,000)				
Price/Earnings Ratio (P/E)				
Price/Book Ratio (P/B)				
Portfolio Turnover Rate				

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

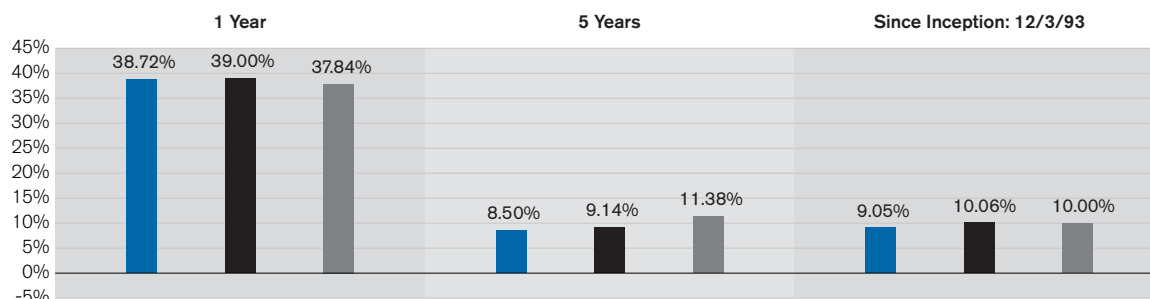
# Schwab Small-Cap Index Fund®

## Investor Shares Performance as of 10/31/03

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

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

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

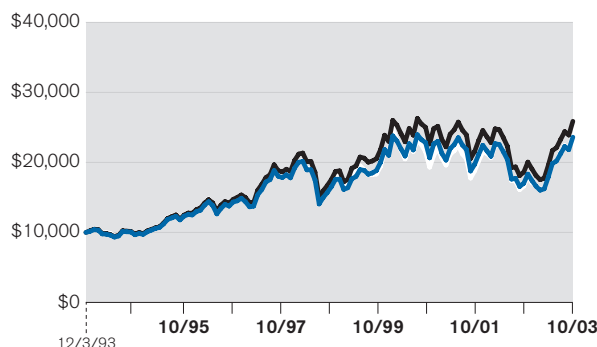


Total Returns After Tax	1 Year		5 Years		Since Inception	
<b>Pre-Liquidation</b> (still own shares)	38.17%	35.45%	7.16%	9.77%	8.28%	n/a
<b>Post-Liquidation</b> (shares were sold)	25.04%	22.22%	6.53%	8.74%	7.40%	n/a

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

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

■ \$23,616 **Investor Shares**  
 ■ \$25,881 **Schwab Small-Cap Index**  
 □ \$23,834 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

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investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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



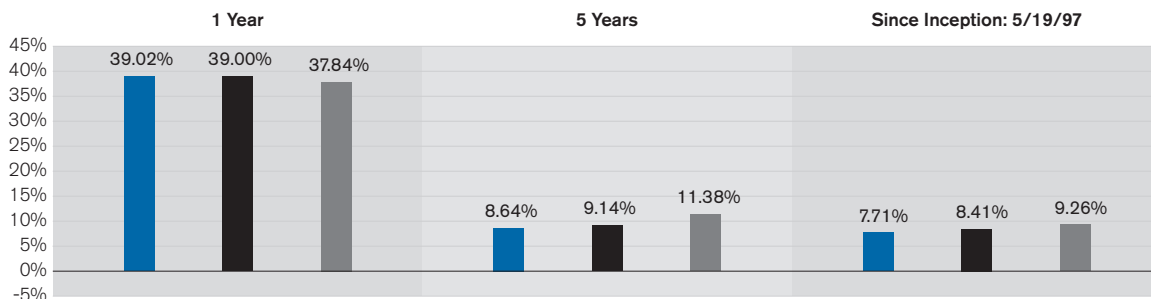
## Schwab Small-Cap Index Fund®

### Select Shares® Performance as of 10/31/03

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

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

■ Fund: **Select Shares**  
 ■ Benchmark: **Schwab Small-Cap Index®**  
 ■ Fund Category: **Morningstar Small-Cap Blend**

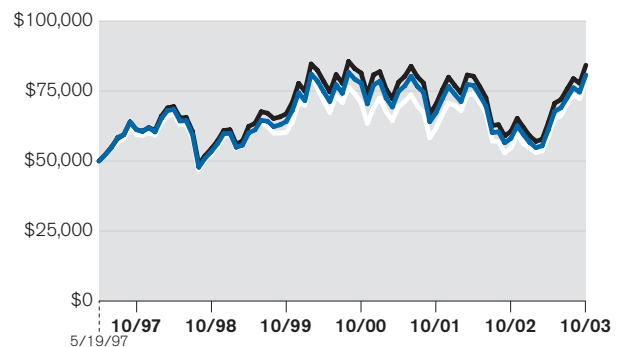


Total Returns After Tax	1 Year	5 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	38.40%	7.25%	6.62%
<b>Post-Liquidation</b> (shares were sold)	25.22%	6.62%	5.99%

#### Performance of a Hypothetical \$50,000 Investment<sup>2</sup>

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

■ \$80,775 **Select Shares**  
 ■ \$84,240 **Schwab Small-Cap Index**  
 □ \$78,307 **Russell 2000 Index**



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



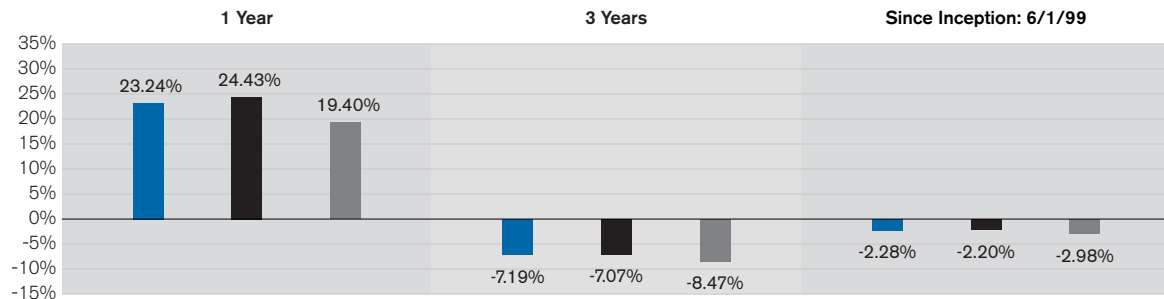
# Schwab Total Stock Market Index Fund®

## Investor Shares Performance as of 10/31/03

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

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

■ Fund: **Investor Shares**  
 ■ Benchmark: **Wilshire 5000 Total Market Index**  
 ■ Fund Category: **Morningstar Large-Cap Blend**

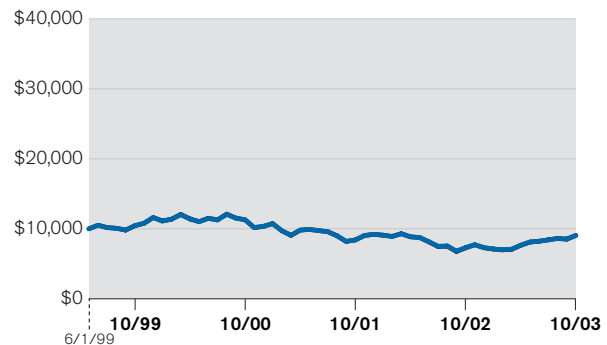


Total Returns After Tax	1 Year	3 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	22.69%	-7.53%	-2.56%
<b>Post-Liquidation</b> (shares were sold)	15.00%	-5.82%	-1.94%

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

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

■ \$9,030 **Investor Shares**  
 ■ \$9,064 **Wilshire 5000 Total Market Index**



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

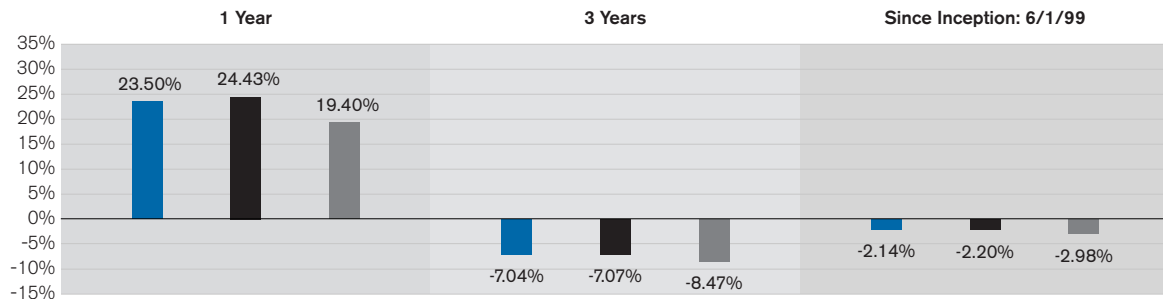
## Schwab Total Stock Market Index Fund®

### Select Shares® Performance as of 10/31/03

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

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

■ Fund: **Select Shares**  
 ■ Benchmark: **Wilshire 5000 Total Market Index**  
 ■ Fund Category: **Morningstar Large-Cap Blend**

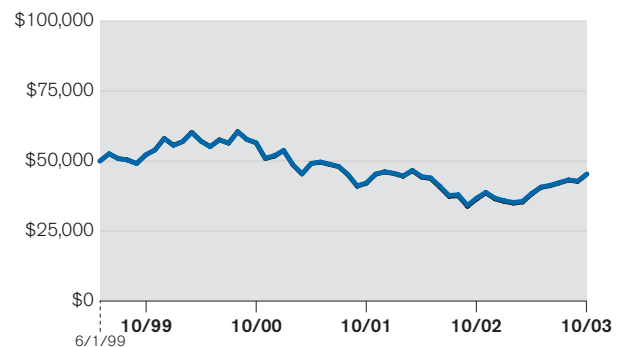


Total Returns After Tax	1 Year	3 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	22.89%	-7.43%	-2.45%
<b>Post-Liquidation</b> (shares were sold)	15.16%	-5.73%	-1.85%

#### Performance of a Hypothetical \$50,000 Investment<sup>2</sup>

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

■ \$45,435 **Select Shares**  
 ■ \$45,318 **Wilshire 5000 Total Market Index**



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

## Schwab Total Stock Market Index Fund®

### Fund Facts as of 10/31/03

#### Fund Category<sup>1</sup>



#### Statistics

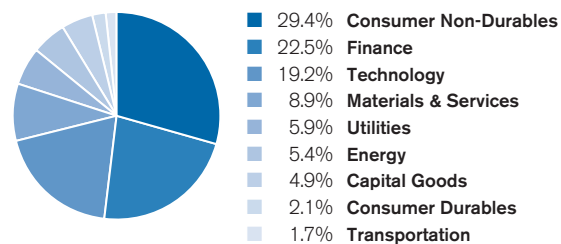
<b>Number of Holdings</b>	3,090
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$69,285
<b>Price/Earnings Ratio</b> (P/E)	22.8
<b>Price/Book Ratio</b> (P/B)	2.9
<b>Portfolio Turnover Rate</b>	3%

#### Top Holdings<sup>2</sup>

Security	% of Net Assets
① General Electric Co.	2.3%
② Microsoft Corp.	2.3%
③ Wal-Mart Stores, Inc.	2.1%
④ Citigroup, Inc.	2.0%
⑤ Exxon Mobil Corp.	2.0%
⑥ Pfizer, Inc.	2.0%
⑦ Intel Corp.	1.7%
⑧ American International Group, Inc.	1.3%
⑨ International Business Machines Corp.	1.3%
⑩ Johnson & Johnson	1.2%
<b>Total</b>	<b>18.2%</b>

#### Sector Weightings % of Portfolio

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.



<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

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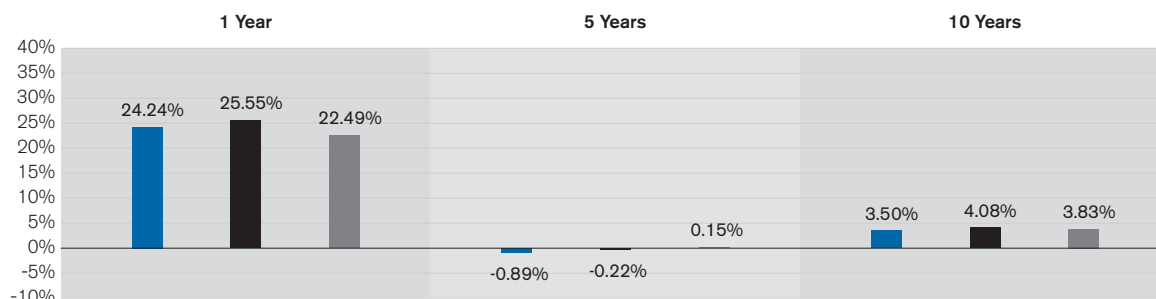
# Schwab International Index Fund®

## Investor Shares Performance as of 10/31/03

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

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

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

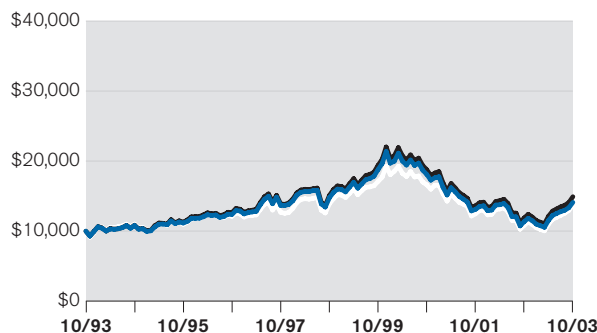


Total Returns After Tax	1 Year	5 Years	10 Years
<b>Pre-Liquidation</b> (still own shares)	23.25%	-1.39%	3.03%
<b>Post-Liquidation</b> (shares were sold)	15.55%	-0.95%	2.63%

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

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

■ \$14,110 **Investor Shares**  
 ■ \$14,917 **Schwab International Index**  
 □ \$13,746 **MSCI-EAFE Index**



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

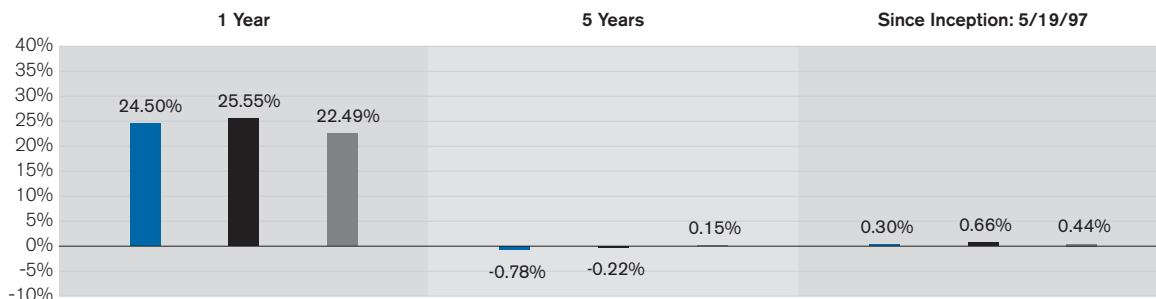
## Schwab International Index Fund®

### Select Shares® Performance as of 10/31/03

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

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

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

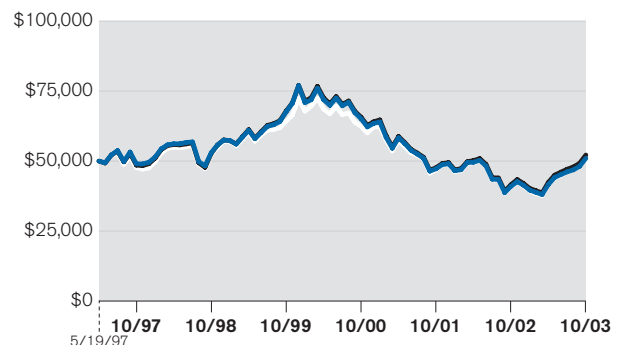


Total Returns After Tax	1 Year	5 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	23.45%	-1.32%	-0.20%
<b>Post-Liquidation</b> (shares were sold)	15.71%	-0.88%	0.00%

#### Performance of a Hypothetical \$50,000 Investment<sup>2</sup>

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

■ \$50,980 **Select Shares**  
 ■ \$52,179 **Schwab International Index**  
 □ \$51,640 **MSCI-EAFE Index**



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

## Schwab International Index Fund®

### Fund Facts as of 10/31/03

#### Fund Category<sup>1</sup>



#### Top Holdings<sup>2</sup>

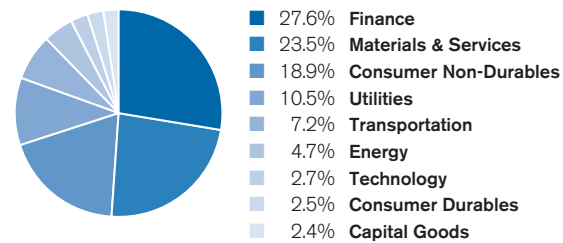
Security	% of Net Assets
① HSBC Holdings PLC	2.9%
② BP PLC	2.7%
③ Vodafone Group PLC	2.6%
④ GlaxoSmithKline PLC	2.3%
⑤ Total Fina Elf SA	1.8%
⑥ Royal Dutch Petroleum Co.	1.7%
⑦ Novartis AG	1.6%
⑧ Nestle SA	1.6%
⑨ AstraZeneca PLC	1.5%
⑩ Toyota Motor Corp.	1.4%
<b>Total</b>	<b>20.1%</b>

#### Statistics

<b>Number of Holdings</b>	355
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$46,938
<b>Price/Earnings Ratio</b> (P/E)	28.5
<b>Price/Book Ratio</b> (P/B)	2.0
<b>Portfolio Turnover Rate</b>	7%

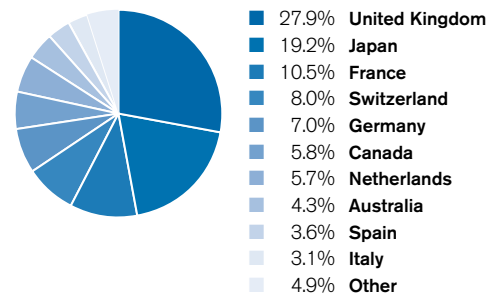
#### Sector Weightings % of Portfolio

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.



#### Country Weightings % of Portfolio

This chart shows the fund's country composition as of the report date.



<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

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# Schwab S&P 500 Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	13.79	16.45	22.15	21.17	17.05
Income or loss from investment operations:					
Net investment income	0.20	0.20	0.17	0.17	0.17
Net realized and unrealized gains or losses	2.57	(2.68)	(5.70)	1.06	4.10
Total income or loss from investment operations	2.77	(2.48)	(5.53)	1.23	4.27
Less distributions:					
Dividends from net investment income	(0.20)	(0.18)	(0.17)	(0.18)	(0.15)
Distributions from net realized gains	–	–	–	(0.07)	–
Total distributions	(0.20)	(0.18)	(0.17)	(0.25)	(0.15)
Net asset value at end of period	16.36	13.79	16.45	22.15	21.17
Total return (%)	20.39	(15.32)	(25.11)	5.81	25.20
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.36	0.35	0.35	0.35 <sup>1</sup>	0.35
Gross operating expenses	0.46	0.46	0.46	0.52	0.62
Net investment income	1.45	1.21	0.95	0.81	1.01
Portfolio turnover rate	3	8	4	9	3
Net assets, end of period (\$ x 1,000,000)	3,510	2,760	3,070	3,617	3,183

<sup>1</sup> The ratio of net operating expenses would have been 0.36% if certain non-routine expenses (proxy fees) had been included.

## Financial Highlights

Select Shares <sup>®</sup>	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	13.83	16.50	22.21	21.23	17.09
Income or loss from investment operations:					
Net investment income	0.24	0.22	0.20	0.20	0.20
Net realized and unrealized gains or losses	2.57	(2.69)	(5.71)	1.06	4.12
Total income or loss from investment operations	2.81	(2.47)	(5.51)	1.26	4.32
Less distributions:					
Dividends from net investment income	(0.23)	(0.20)	(0.20)	(0.21)	(0.18)
Distributions from net realized gains	—	—	—	(0.07)	—
Total distributions	(0.23)	(0.20)	(0.20)	(0.28)	(0.18)
Net asset value at end of period	16.41	13.83	16.50	22.21	21.23
Total return (%)	20.62	(15.20)	(24.97)	5.94	25.42
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.19	0.19	0.19	0.19 <sup>1</sup>	0.19
Gross operating expenses	0.31	0.31	0.31	0.36	0.47
Net investment income	1.63	1.37	1.11	0.98	1.17
Portfolio turnover rate	3	8	4	9	3
Net assets, end of period (\$ x 1,000,000)	3,692	3,029	3,563	4,357	3,750

<sup>1</sup> The ratio of net operating expenses would have been 0.20% if certain non-routine expenses (proxy fees) had been included.

e.Shares®	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	13.79	16.46	22.17	21.21	17.08
Income or loss from investment operations:					
Net investment income	0.23	0.23	0.20	0.20	0.20
Net realized and unrealized gains or losses	2.56	(2.71)	(5.71)	1.04	4.09
Total income or loss from investment operations	2.79	(2.48)	(5.51)	1.24	4.29
Less distributions:					
Dividends from net investment income	(0.21)	(0.19)	(0.20)	(0.21)	(0.16)
Distributions from net realized gains	—	—	—	(0.07)	—
Total distributions	(0.21)	(0.19)	(0.20)	(0.28)	(0.16)
Net asset value at end of period	16.37	13.79	16.46	22.17	21.21
Total return (%)	20.55	(15.32)	(25.02)	5.84	25.28
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.28	0.28	0.28	0.28 <sup>1</sup>	0.28
Gross operating expenses	0.31	0.31	0.31	0.36	0.48
Net investment income	1.54	1.28	1.02	0.88	1.08
Portfolio turnover rate	3	8	4	9	3
Net assets, end of period (\$ x 1,000,000)	246	220	304	441	435

<sup>1</sup> The ratio of net operating expenses would have been 0.29% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts
- Issuer is affiliated with the fund's adviser

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>99.8% Common Stock</b>	<b>7,270,728</b>	<b>7,431,392</b>
<b>0.1% Short-Term Investment</b>	<b>9,324</b>	<b>9,324</b>
<b>0.0% U.S. Treasury Obligations</b>	<b>838</b>	<b>839</b>
<b>99.9% Total Investments</b>	<b>7,280,890</b>	<b>7,441,555</b>
<b>16.2% Collateral Invested for Securities on Loan</b>	<b>1,208,122</b>	<b>1,208,122</b>
<b>(16.1)% Other Assets and Liabilities, Net</b>		<b>(1,202,293)</b>
<b>100.0% Total Net Assets</b>		<b>7,447,384</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock 99.8% of net assets****Aerospace / Defense 1.6%**

The Boeing Co.	644,022	24,788
Crane Co.	44,919	1,262
General Dynamics Corp.	149,982	12,553
Goodrich Corp.	88,739	2,451
Lockheed Martin Corp.	345,596	16,022
Northrop Grumman Corp.	142,372	12,728
Raytheon Co.	315,772	8,362
Rockwell Automation, Inc.	139,698	4,338
Rockwell Collins, Inc.	135,398	3,717
Textron, Inc.	104,629	5,199
United Technologies Corp.	358,313	30,345
		<b>121,765</b>

**Security and Number of Shares**

Mkt. Value  
(\$ x 1,000)

**Air Transportation 1.3%**

Delta Air Lines, Inc.	94,113	1,225
FedEx Corp.	229,042	17,352
Sabre Holdings Corp.	106,153	2,326
Southwest Airlines Co.	597,218	11,586
United Parcel Service, Inc., Class B	860,669	62,416
		<b>94,905</b>

**Alcoholic Beverages 0.5%**

Adolph Coors Co., Class B	26,531	1,487
Anheuser-Busch Cos., Inc.	633,134	31,188
Brown-Forman Corp., Class B	45,734	3,859
		<b>36,534</b>

**Apparel 0.3%**

Jones Apparel Group, Inc.	96,343	3,324
Liz Claiborne, Inc.	83,728	3,089
Nike, Inc., Class B	203,117	12,978
Reebok International Ltd.	43,859	1,708
VF Corp.	84,078	3,569
		<b>24,668</b>

**Automotive Products / Motor Vehicles 1.1%**

Cooper Tire & Rubber Co.	52,866	1,039
Cummins, Inc.	33,451	1,586
Dana Corp.	110,209	1,794
Danaher Corp.	117,589	9,742
Delphi Corp.	420,900	3,746
Eaton Corp.	57,948	5,809
Ford Motor Co.	1,396,612	16,941
General Motors Corp.	428,528	18,285
Genuine Parts Co.	132,090	4,203
• Goodyear Tire & Rubber Co.	123,681	849
Harley-Davidson, Inc.	232,933	11,043
• Navistar International Corp.	50,800	2,054
Visteon Corp.	99,156	641
		<b>77,732</b>

**Banks 7.7%**

AmSouth Bancorp.	267,065	6,308
Bank of America Corp.	1,145,433	86,744

# Schwab S&P 500 Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)
The Bank of New York Co., Inc. 590,514	18,418
Bank One Corp. 863,815	36,669
BB&T Corp. 410,959	15,892
Comerica, Inc. 133,259	6,860
Fifth Third Bancorp 437,905	25,381
First Tennessee National Corp. 96,900	4,395
FleetBoston Financial Corp. 803,127	32,438
Huntington Bancshares, Inc. 171,950	3,724
J.P. Morgan Chase & Co. 1,559,224	55,976
KeyCorp, Inc. 321,765	9,090
Marshall & Ilsley Corp. 173,996	6,233
Mellon Financial Corp. 327,413	9,780
National City Corp. 470,473	15,366
North Fork Bancorp., Inc. 119,300	4,650
Northern Trust Corp. 167,112	7,762
PNC Financial Services Group, Inc. 215,427	11,540
Regions Financial Corp. 170,436	6,264
SouthTrust Corp. 260,207	8,288
State Street Corp. 256,511	13,431
SunTrust Banks, Inc. 215,349	14,444
Synovus Financial Corp. 228,432	6,305
U.S. Bancorp 1,471,491	40,054
Union Planters Corp. 149,052	4,959
Wachovia Corp. 1,017,821	46,687
Wells Fargo & Co. 1,284,657	72,352
Zions Bancorp. 70,147	4,299
	<b>574,309</b>

## Business Machines & Software 9.6%

Adobe Systems, Inc. 179,789	7,882
• Apple Computer, Inc. 278,276	6,370
Autodesk, Inc. 83,954	1,616
• BMC Software, Inc. 172,408	2,996
• Cisco Systems, Inc. 5,366,183	112,582
• Compuware Corp. 281,522	1,582
• Comverse Technology, Inc. 142,615	2,573
• Dell, Inc. 1,964,932	70,973
• EMC Corp. 1,678,655	23,233
• Gateway, Inc. 234,837	1,184
Hewlett-Packard Co. 2,332,278	52,033

Security and Number of Shares	Mkt. Value (\$ x 1,000)
⑨ International Business Machines Corp. 1,325,093	118,569
• Lexmark International, Inc., Class A 100,530	7,400
▲② Microsoft Corp. 8,270,090	216,263
• NCR Corp. 73,899	2,656
• Network Appliance, Inc. 261,047	6,443
• Novell, Inc. 278,565	1,635
• Oracle Corp. 4,004,749	47,897
Pitney Bowes, Inc. 179,015	7,357
• Siebel Systems, Inc. 370,966	4,670
• Sun Microsystems, Inc. 2,446,358	9,688
• Unisys Corp. 248,827	3,822
• Xerox Corp. 602,360	6,325
	<b>715,749</b>

## Business Services 3.9%

• Allied Waste Industries, Inc. 157,115	1,772
• Apollo Group, Inc., Class A 136,300	8,659
Automatic Data Processing, Inc. 455,682	17,197
• Cendant Corp. 771,954	15,771
Cintas Corp. 130,305	5,559
• Citrix Systems, Inc. 130,566	3,301
Computer Associates International, Inc. 443,166	10,423
• Computer Sciences Corp. 142,718	5,655
• Concord EFS, Inc. 378,471	4,046
• Convergys Corp. 110,751	1,779
Deluxe Corp. 42,466	1,714
• eBay, Inc. 493,070	27,582
Electronic Data Systems Corp. 363,921	7,806
Equifax, Inc. 107,607	2,630
First Data Corp. 567,264	20,251
• Fiserv, Inc. 146,264	5,166
H&R Block, Inc. 136,187	6,413
IMS Health, Inc. 183,907	4,327
• Interpublic Group of Cos., Inc. 298,357	4,440
• Intuit, Inc. 156,279	7,811
• Mercury Interactive Corp. 66,943	3,109
• Monster Worldwide, Inc. 83,965	2,139
Omnicom Group, Inc. 147,364	11,760

See financial notes. 27

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Parametric Technology Corp. 187,230	582	Newell Rubbermaid, Inc. 209,537	4,777
Paychex, Inc. 289,062	11,250	Whirlpool Corp. 53,431	3,765
• PeopleSoft, Inc. 271,701	5,641		<b>15,849</b>
• Robert Half International, Inc. 128,524	3,034		
• Sungard Data Systems, Inc. 218,305	6,124		
• Symantec Corp. 116,401	7,758		
Tyco International Ltd. 1,525,900	31,861		
• Veritas Software Corp. 324,242	11,721		
Waste Management, Inc. 451,805	11,711		
• Yahoo!, Inc. 494,829	21,624		
	<b>290,616</b>		
<b>Chemicals 1.4%</b>		<b>Containers 0.1%</b>	
Air Products & Chemicals, Inc. 175,301	7,960	Ball Corp. 44,056	2,476
Dow Chemical Co. 700,650	26,408	Bemis Co. 40,729	1,883
E.I. du Pont de Nemours & Co. 762,438	30,803	• Pactiv Corp. 122,064	2,691
Eastman Chemical Co. 59,183	1,921	• Sealed Air Corp. 63,771	3,395
Ecolab, Inc. 198,798	5,346		<b>10,445</b>
Great Lakes Chemical Corp. 35,237	758		
• Hercules, Inc. 82,003	857		
Monsanto Co. 197,498	4,947		
PPG Industries, Inc. 132,163	7,619		
Praxair, Inc. 127,294	8,857		
Rohm & Haas Co. 170,959	6,719		
Sigma-Aldrich Corp. 52,726	2,765		
	<b>104,960</b>		
<b>Construction 0.4%</b>		<b>Electronics 6.2%</b>	
Centex Corp. 48,868	4,765	• ADC Telecommunications, Inc. 603,138	1,538
Fluor Corp. 64,302	2,384	• Advanced Micro Devices, Inc. 259,913	3,951
KB Home 34,866	2,388	• Agilent Technologies, Inc. 360,875	8,993
Masco Corp. 357,473	9,831	• Altera Corp. 290,881	5,885
Pulte Homes, Inc. 46,575	4,029	American Power Conversion Corp. 153,555	3,106
The Sherwin-Williams Co. 114,364	3,836	• Analog Devices, Inc. 277,883	12,319
The Stanley Works 62,640	2,088	• Andrew Corp. 114,924	1,503
Vulcan Materials Co. 78,918	3,497	• Applied Materials, Inc. 1,264,942	29,562
	<b>32,818</b>	• Applied Micro Circuits Corp. 226,273	1,317
		• Broadcom Corp., Class A 224,933	7,187
		• CIENA Corp. 351,972	2,256
		⑦ Intel Corp. 4,981,205	164,629
		ITT Industries, Inc. 73,010	4,964
		• Jabil Circuit, Inc. 149,319	4,159
		• JDS Uniphase Corp. 1,081,585	3,840
		• KLA-Tencor Corp. 147,010	8,428
		Linear Technology Corp. 239,108	10,188
		• LSI Logic Corp. 285,590	2,639
		• Lucent Technologies, Inc. 3,170,104	10,144
		Maxim Integrated Products, Inc. 248,749	12,365
		• Micron Technology, Inc. 465,235	6,671
		Molex, Inc. 146,907	4,611
		Motorola, Inc. 1,779,352	24,075
		• National Semiconductor Corp. 138,754	5,638
		• Novellus Systems, Inc. 115,539	4,771
		• Nvidia Corp. 116,965	2,068
		PerkinElmer, Inc. 92,308	1,662
		• PMC - Sierra, Inc. 128,086	2,327
<b>Consumer Durables 0.2%</b>			
Black & Decker Corp. 58,086	2,777		
Leggett & Platt, Inc. 146,312	3,057		
Maytag Corp. 57,971	1,473		

## Schwab S&P 500 Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Power-One, Inc. 62,573	567	Hershey Foods Corp. 101,553	7,830
• QLogic Corp. 70,738	3,965	Kellogg Co. 310,527	10,288
Qualcomm, Inc. 605,918	28,781	McCormick & Co., Inc. 106,601	3,160
• Sanmina—SCI Corp. 398,529	4,204	The Pepsi Bottling Group, Inc. 210,342	4,689
Scientific — Atlanta, Inc. 112,699	3,336	PepsiCo, Inc. 1,322,394	63,237
• Soletron Corp. 623,609	3,455	Sara Lee Corp. 591,138	11,781
Symbol Technologies, Inc. 173,927	2,172	Supervalu, Inc. 102,901	2,595
Tektronix, Inc. 65,499	1,681	Sysco Corp. 496,710	16,719
• Tellabs, Inc. 312,653	2,354	Wm. Wrigley Jr. Co. 174,311	9,831
• Teradyne, Inc. 140,324	3,197		<b>271,670</b>
Texas Instruments, Inc. 1,322,847	38,257		
• Thermo Electron Corp. 123,063	2,705	<b>Gold 0.2%</b>	
• Thomas & Betts Corp. 44,556	793	Newmont Mining Corp. 310,851	<b>13,609</b>
• Waters Corp. 96,300	3,027	<b>Healthcare / Drugs &amp; Medicine 12.9%</b>	
• Xilinx, Inc. 259,666	8,231	Abbott Laboratories 1,193,733	50,877
	<b>457,521</b>	Allergan, Inc. 99,596	7,531
<b>Energy: Raw Materials 1.3%</b>		AmerisourceBergen Corp. 85,453	4,851
Anadarko Petroleum Corp. 191,717	8,363	• Amgen, Inc. 986,839	60,947
Apache Corp. 126,190	8,798	• Anthem, Inc. 105,740	7,236
Baker Hughes, Inc. 256,086	7,237	Applied Biosystems Group — Applera Corp. 157,833	3,643
• BJ Services Co. 119,400	3,917	Bausch & Lomb, Inc. 39,537	1,904
Burlington Resources, Inc. 154,522	7,516	Baxter International, Inc. 463,802	12,328
Devon Energy Corp. 178,337	8,649	Becton Dickinson & Co. 194,976	7,128
EOG Resources, Inc. 90,133	3,798	• Biogen, Inc. 113,407	4,590
Halliburton Co. 333,008	7,952	Biomet, Inc. 194,456	6,973
• Noble Corp. 103,457	3,552	• Boston Scientific Corp. 314,266	21,282
Occidental Petroleum Corp. 291,610	10,282	Bristol-Myers Squibb Co. 1,480,008	37,548
• Rowan Cos., Inc. 69,670	1,669	C.R. Bard, Inc. 41,129	3,292
Schlumberger Ltd. 445,787	20,939	Cardinal Health, Inc. 342,274	20,311
	<b>92,672</b>	• Chiron Corp. 142,078	7,762
<b>Food &amp; Agriculture 3.7%</b>		Eli Lilly & Co. 857,927	57,155
Archer-Daniels-Midland Co. 487,407	6,994	• Express Scripts, Inc. 60,000	3,295
Campbell Soup Co. 314,009	8,139	• Forest Laboratories, Inc. 280,240	14,015
The Coca-Cola Co. 1,881,619	87,307	• Genzyme Corp. — General Division 169,186	7,766
Coca-Cola Enterprises, Inc. 342,039	6,896	Guidant Corp. 235,874	12,032
ConAgra Foods, Inc. 410,504	9,786	HCA, Inc. 379,922	14,532
General Mills, Inc. 287,030	12,873	Health Management Associates, Inc., Class A 180,429	3,996
H.J. Heinz Co. 270,171	9,545		

See financial notes. 29

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Humana, Inc. 124,343	2,523	AON Corp. 238,426	5,221
⑩ Johnson & Johnson 2,272,356	114,368	Chubb Corp. 143,077	9,559
• King Pharmaceuticals, Inc. 187,724	2,515	CIGNA Corp. 108,571	6,194
Manor Care, Inc. 67,759	2,255	Cincinnati Financial Corp. 123,208	5,042
McKesson Corp. 220,583	6,677	Hartford Financial Services Group, Inc. 215,567	11,835
• Medco Health Solutions, Inc. 204,639	6,794	Jefferson-Pilot Corp. 110,614	5,281
• Medimmune, Inc. 193,581	5,161	John Hancock Financial Services, Inc. 222,007	7,848
Medtronic, Inc. 932,124	42,477	Lincoln National Corp. 137,597	5,494
Merck & Co., Inc. 1,713,842	75,838	Loews Corp. 142,787	6,140
④ Pfizer, Inc. 5,955,711	188,200	Marsh & McLennan Cos., Inc. 409,020	17,486
• Quest Diagnostics 81,055	5,483	MBIA, Inc. 110,393	6,580
Schering-Plough Corp. 1,121,384	17,124	Metlife, Inc. 582,118	18,278
• St. Jude Medical, Inc. 131,142	7,627	MGIC Investment Corp. 77,579	3,980
Stryker Corp. 153,897	12,483	Principal Financial Group, Inc. 246,724	7,735
• Tenet Healthcare Corp. 360,505	4,975	The Progressive Corp. 166,968	12,322
UnitedHealth Group, Inc. 455,766	23,189	Prudential Financial, Inc. 419,100	16,194
• Watson Pharmaceuticals, Inc. 83,237	3,269	Safeco Corp. 104,621	3,839
• WellPoint Health Networks, Inc. 111,422	9,905	St. Paul Cos., Inc. 174,394	6,650
Wyeth 1,020,382	45,040	Torchmark Corp. 86,710	3,805
• Zimmer Holdings, Inc. 176,192	11,243	Travelers Property Casualty Corp., Class B 765,599	12,533
	<b>958,140</b>	UnumProvident Corp. 225,526	3,692
		XL Capital Ltd., Class A 104,565	7,267
			<b>360,290</b>
<b>Household Products 2.3%</b>		<b>Media 3.8%</b>	
Alberto-Culver Co., Class B 43,951	2,786	Clear Channel Communications, Inc. 471,722	19,256
Avon Products, Inc. 181,527	12,337	• Comcast Corp., Class A 1,722,610	58,431
Clorox Co. 165,110	7,479	Dow Jones & Co., Inc. 64,009	3,327
Colgate-Palmolive Co. 412,739	21,954	Gannett Co., Inc. 205,769	17,307
The Gillette Co. 780,677	24,904	Knight-Ridder, Inc. 61,087	4,479
International Flavors & Fragrances, Inc. 69,728	2,308	The McGraw-Hill Cos., Inc. 148,062	9,913
Procter & Gamble Co. 992,513	97,554	Meredith Corp. 39,218	1,903
	<b>169,322</b>	New York Times Co., Class A 113,850	5,411
		R.R. Donnelley & Sons Co. 83,996	2,184
<b>Insurance 4.8%</b>		• Time Warner, Inc. 3,450,276	52,755
ACE Ltd. 212,000	7,632	Tribune Co. 239,639	11,754
Aetna, Inc. 117,847	6,766	• Univision Communications, Inc., Class A 245,184	8,324
AFLAC, Inc. 393,064	14,339		
The Allstate Corp. 537,300	21,223		
AMBAC Financial Group, Inc. 83,554	5,911		
⑧ American International Group, Inc. 1,996,450	121,444		



## Schwab S&P 500 Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Viacom, Inc., Class B 1,341,869	53,500	Technology 264,552	8,664
The Walt Disney Co. 1,564,105	35,411	Mattel, Inc. 335,693	6,499
	<b>283,955</b>	McDonald's Corp. 972,896	24,332
<b>Miscellaneous 0.6%</b>		• Starbucks Corp. 298,059	9,419
3M Co. 598,376	<b>47,194</b>	Tupperware Corp. 43,789	659
<b>Miscellaneous Finance 8.1%</b>		Wendy's International, Inc. 85,337	3,162
American Express Co. 983,481	46,155	• Yum! Brands, Inc. 222,998	7,613
The Bear Stearns Cos., Inc. 75,729	5,774		<b>85,408</b>
Capital One Financial Corp. 173,711	10,562	<b>Non-Ferrous Metals 0.4%</b>	
■ The Charles Schwab Corp. 1,031,750	13,991	Alcoa, Inc. 646,687	20,416
Charter One Financial, Inc. 173,453	5,544	Engelhard Corp. 95,939	2,742
⑤ Citigroup, Inc. 3,942,239	186,862	Freeport-McMoran Copper & Gold, Inc., Class B 126,715	4,910
Countrywide Financial Corp. 105,616	11,102	• Phelps Dodge Corp. 68,480	4,228
Fannie Mae 744,727	53,389		<b>32,296</b>
Federated Investors, Inc., Class B 81,300	2,248	<b>Oil: Domestic 0.9%</b>	
Franklin Resources, Inc. 193,688	9,185	Amerada Hess Corp. 70,261	3,627
Freddie Mac 533,902	29,968	Ashland, Inc. 53,145	1,979
Golden West Financial Corp. 116,305	11,680	ConocoPhillips 521,248	29,789
Goldman Sachs Group, Inc. 361,500	33,945	Kerr-McGee Corp. 75,470	3,132
Janus Capital Group, Inc. 178,307	2,521	Marathon Oil Corp. 236,579	6,996
Lehman Brothers Holdings, Inc. 186,004	13,392	• Nabors Industries Ltd. 111,107	4,200
MBNA Corp. 977,593	24,195	Sunoco, Inc. 57,302	2,508
Merrill Lynch & Co., Inc. 716,334	42,407	• Transocean, Inc. 240,599	4,617
Moody's Corp. 116,409	6,732	Unocal Corp. 197,422	6,254
Morgan Stanley 831,439	45,621		<b>63,102</b>
• Provident Financial Corp. 216,172	2,402	<b>Oil: International 3.3%</b>	
SLM Corp. 343,683	13,459	ChevronTexaco Corp. 818,957	60,848
T. Rowe Price Group, Inc. 95,307	3,922	⑥ Exxon Mobil Corp. 5,078,347	185,766
Washington Mutual, Inc. 706,221	30,897		<b>246,614</b>
	<b>605,953</b>	<b>Optical &amp; Photo 0.2%</b>	
<b>Non-Durables &amp; Entertainment 1.2%</b>		• Corning, Inc. 1,013,875	11,132
• American Greetings Corp., Class A 56,888	1,214	Eastman Kodak Co. 220,974	5,399
Darden Restaurants, Inc. 126,412	2,648		<b>16,531</b>
• Electronic Arts, Inc. 111,378	11,031	<b>Paper &amp; Forest Products 0.8%</b>	
Fortune Brands, Inc. 112,791	7,348	Boise Cascade Corp. 43,653	1,225
Hasbro, Inc. 129,312	2,819	Georgia-Pacific Corp. 193,318	5,080
International Game		International Paper Co. 364,813	14,355

See financial notes. 31

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Kimberly-Clark Corp. 388,900	20,538	ProLogis 138,400	4,088
• Louisiana-Pacific Corp. 79,408	1,510	Simon Property Group, Inc. 145,800	6,573
MeadWestvaco Corp. 151,777	3,934		<b>32,113</b>
Temple-Inland, Inc. 41,926	2,265		
Weyerhaeuser Co. 168,097	10,125		
	<b>59,032</b>		
<b>Producer Goods &amp; Manufacturing 4.8%</b>		<b>Retail 7.4%</b>	
• American Standard Cos., Inc. 55,900	5,350	Albertson's, Inc. 282,510	5,732
Avery Dennison Corp. 83,772	4,405	• Autonation, Inc. 214,100	4,004
Caterpillar, Inc. 263,101	19,280	• AutoZone, Inc. 68,977	6,629
Cooper Industries Ltd., Class A 72,442	3,832	• Bed, Bath & Beyond, Inc. 226,687	9,575
Deere & Co. 182,292	11,051	• Best Buy Co., Inc. 247,472	14,430
Dover Corp. 153,706	5,998	• Big Lots, Inc. 87,567	1,314
Emerson Electric Co. 322,181	18,284	Circuit City Stores, Inc. 158,574	1,513
▲ General Electric Co. 7,662,270	222,282	• Costco Wholesale Corp. 349,933	12,377
Honeywell International, Inc. 655,680	20,070	CVS Corp. 299,627	10,541
Illinois Tool Works, Inc. 238,165	17,517	Dillards, Inc., Class A 62,888	1,017
Ingersoll-Rand Co., Class A 132,964	8,031	Dollar General Corp. 253,824	5,704
Johnson Controls, Inc. 69,334	7,455	Family Dollar Stores, Inc. 132,990	5,800
• Millipore Corp. 37,784	1,657	Federated Department Stores, Inc. 143,646	6,830
Pall Corp. 92,974	2,176	The Gap, Inc. 682,936	13,030
Parker Hannifin Corp. 91,418	4,660	Home Depot, Inc. 1,756,211	65,103
Snap-On, Inc. 44,189	1,296	J.C. Penney Co., Inc. Holding Co. 208,006	4,919
W.W. Grainger, Inc. 68,199	3,122	• Kohl's Corp. 259,771	14,565
	<b>356,466</b>	• Kroger Co. 571,485	9,995
		Limited Brands, Inc. 397,498	6,996
		Lowe's Cos., Inc. 600,019	35,359
		The May Department Stores Co. 217,801	6,090
<b>Railroad &amp; Shipping 0.4%</b>		Nordstrom, Inc. 104,076	3,173
Burlington Northern Santa Fe Corp. 284,277	8,227	• Office Depot, Inc. 233,133	3,481
CSX Corp. 163,740	5,210	RadioShack Corp. 126,108	3,782
Norfolk Southern Corp. 294,282	5,930	• Safeway, Inc. 337,377	7,119
Union Pacific Corp. 197,337	12,353	Sears, Roebuck & Co. 218,510	11,500
	<b>31,720</b>	• Staples, Inc. 373,442	10,016
		Target Corp. 697,715	27,727
<b>Real Property 0.4%</b>		Tiffany & Co. 109,553	5,198
Apartment Investment & Management Co., Class A 72,500	2,965	TJX Cos., Inc. 392,966	8,248
Equity Office Properties Trust 306,006	8,571	• Toys 'R' Us, Inc. 160,316	2,084
Equity Residential 208,829	6,108	▲ Wal-Mart Stores, Inc. 3,343,641	197,108
Plum Creek Timber Co., Inc. 144,500	3,808	Walgreen Co. 782,744	27,255
		Winn-Dixie Stores, Inc. 105,395	853
			<b>549,067</b>

## Schwab S&P 500 Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Steel 0.1%</b>	
Allegheny Technologies, Inc. 60,584	463
Nucor Corp. 58,905	3,230
United States Steel Corp. 75,446	1,784
Worthington Industries, Inc. 69,657	1,016
	<b>6,493</b>

### Telephone 3.4%

Alltel Corp. 237,668	11,235
AT&T Corp. 602,440	11,199
• AT&T Wireless Services, Inc. 2,068,032	14,993
• Avaya, Inc. 316,675	4,098
BellSouth Corp. 1,410,708	37,116
CenturyTel, Inc. 109,133	3,902
• Citizens Communications Co. 211,157	2,629
• Nextel Communications, Inc., Class A 788,871	19,091
• Qwest Communications International, Inc. 1,282,142	4,526
SBC Communications, Inc. 2,540,633	60,924
Sprint Corp. (FON Group) 688,155	11,010
• Sprint Corp. (PCS Group) 788,062	3,428
Verizon Communications, Inc. 2,107,422	70,809
	<b>254,960</b>

### Tobacco 1.1%

Altria Group, Inc. 1,553,865	72,255
R.J. Reynolds Tobacco Holdings, Inc. 63,900	3,069
UST, Inc. 125,374	4,265
	<b>79,589</b>

### Travel & Recreation 0.5%

Brunswick Corp. 66,972	1,987
Carnival Corp. 480,912	16,789
Harrah's Entertainment, Inc. 86,097	3,745
Hilton Hotels Corp. 284,697	4,510
Marriott International, Inc., Class A 178,134	7,695
Starwood Hotels & Resorts Worldwide, Inc. 153,921	5,192
	<b>39,918</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Trucking &amp; Freight 0.1%</b>	
Paccar, Inc. 89,970	7,104
Ryder Systems, Inc. 50,813	1,524
	<b>8,628</b>

### Utilities: Electric & Gas 2.8%

• The AES Corp. 472,190	4,132
• Allegheny Energy, Inc. 93,242	987
Ameren Corp. 124,880	5,576
American Electric Power Co., Inc. 300,085	8,459
• Calpine Corp. 283,341	1,306
Centerpoint Energy, Inc. 226,615	2,223
Cinergy Corp. 136,058	4,940
• CMS Energy Corp. 109,346	888
Consolidated Edison, Inc. 171,470	6,939
Constellation Energy Group, Inc. 128,786	4,684
Dominion Resources, Inc. 246,282	15,171
DTE Energy Co. 130,383	4,809
Duke Energy Corp. 690,912	12,540
• Dynegy, Inc., Class A 276,351	1,108
• Edison International 247,077	4,870
El Paso Corp. 457,625	3,359
Entergy Corp. 174,608	9,411
Exelon Corp. 250,396	15,888
FirstEnergy Corp. 247,745	8,520
FPL Group, Inc. 139,198	8,873
KeySpan Corp. 122,365	4,279
Kinder Morgan, Inc. 93,339	4,998
Nicor, Inc. 31,789	1,090
NiSource, Inc. 200,255	4,147
Peoples Energy Corp. 27,820	1,125
• PG&E Corp. 315,720	7,719
Pinnacle West Capital Corp. 70,250	2,568
PPL Corp. 134,648	5,375
Progress Energy, Inc. 185,355	7,989
Public Service Enterprise Group, Inc. 174,439	7,129
Sempra Energy 170,781	4,748
The Southern Co. 555,055	16,541
TECO Energy, Inc. 142,669	1,873

See financial notes. 33

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
TXU Corp. 244,850	5,588
Williams Cos., Inc. 390,973	3,988
Xcel Energy, Inc. 301,175	4,939
	<b>208,779</b>

**Short-Term Investment**  
 0.1% of net assets

Provident Institutional TempFund 9,323,808	<b>9,324</b>
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Security Rate, maturity date	Face value (\$ x 1,000)
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**U.S. Treasury Obligations**  
 0.0% of net assets

▲ U.S. Treasury Bills 0.82%-0.93%, 12/18/03 840	<b>839</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

Security Rate, maturity date	Face value (\$ x 1,000)
---------------------------------	----------------------------

**Collateral Invested for Securities on Loan**  
 16.2% of net assets
**Commercial Paper & Other Corporate Obligations**

American Express Centurion Bank 1.11%, 12/12/03 21,686	21,686
1.11%, 01/27/04 24,508	24,508
American Express Credit Corp. 1.11%, 04/16/04 24,676	24,676
1.09%, 05/13/04 21,248	21,248
Canadian Imperial Bank Corp. 1.09%, 05/28/04 24,965	24,965
CC USA, Inc. 1.08%, 11/17/03 8,073	8,056

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Concord Minutemen Capital Corp.		
1.11%, 01/09/04	38,078	37,978
1.08%, 11/14/03	16,884	16,852
1.08%, 11/18/03	38,674	38,594
1.07%, 11/19/03	39,095	39,065
Crown Point Funding Corp.		
1.11%, 01/16/04	33,641	33,559
1.08%, 11/14/03	21,970	21,926
Depfa Bank PLC		
1.08%, 11/18/03	30,539	30,456
Fairway Finance Corp.		
1.10%, 01/12/04	61,443	61,267
General Electric Capital Corp.		
1.08%, 05/10/04	13,115	13,115
Lexington Parker		
1.07%, 11/06/03	25,960	25,936
Svenska Handelsbanken		
1.39%, 10/27/04	18,012	18,010
Tulip Funding Corp.		
1.07%, 11/10/03	24,004	23,981
Westdeutsche Landesbank AG		
1.09%, 09/23/04	25,550	25,545
1.09%, 09/29/04	25,840	25,834
1.08%, 10/12/04	5,080	5,080
		<b>542,337</b>

**Short-Term Investments**

Wells Fargo Bank, Time Deposit 1.06%, 11/03/03 80,842	<b>80,842</b>
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**Security and Number of Shares****Other Investment Companies**

Institutional Money Market Trust 584,942,519	<b>584,943</b>
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**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

## Schwab S&P 500 Fund

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$1,166,865 of securities on loan)	\$7,441,555
Collateral held for securities on loan	1,208,122
Receivables:	
Fund shares sold	8,247
Interest	9
Dividends	9,970
Investments sold	1,517
Due from broker for futures	11
Income from securities on loan	121
Prepaid expenses	+ 84
<b>Total assets</b>	<b>8,669,636</b>

#### Liabilities

Collateral held for securities on loan	1,208,122
Payables:	
Fund shares redeemed	13,002
Investments bought	358
Investment adviser and administrator fees	39
Transfer agent and shareholder service fees	40
Accrued expenses	+ 691
<b>Total liabilities</b>	<b>1,222,252</b>

#### Net Assets

<b>Total assets</b>	8,669,636
<b>Total liabilities</b>	- 1,222,252
<b>Net assets</b>	<b>\$7,447,384</b>

#### Net Assets by Source

Capital received from investors	7,837,028
Net investment income not yet distributed	80,919
Net realized capital losses	(631,612)
Net unrealized capital gains	161,049

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$3,510,048		214,555		\$16.36
Select Shares®	\$3,691,726		224,944		\$16.41
e.Shares®	\$245,610		15,007		\$16.37

Unless stated, all numbers x 1,000.

The fund paid \$7,280,890 for these securities. Not counting short-term obligations and government securities, the fund paid \$505,804 for securities during the report period and received \$214,532 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had forty-three open S&P 500 futures contracts due to expire on December 18, 2003, with an aggregate contract value of \$11,282 and net unrealized gains of \$384.

#### Federal Tax Data

<b>Portfolio Cost</b>	\$7,362,738
<b>Net unrealized gains and losses:</b>	
Gains	\$1,494,337
Losses	+ (1,415,520)
	<b>\$78,817</b>

#### Undistributed earnings:

Ordinary income	\$80,917
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2008	\$26,504
2009	50,224
2010	400,268
2011	+ 72,382
	<b>\$549,378</b>

See financial notes. 35

## Schwab S&P 500 Fund

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$115,956
Interest	86
Securities on loan	+ 1,082
<b>Total investment income</b>	<b>117,124</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	(60,537)
Net realized gains on futures contracts	+ 1,196
<b>Net realized losses</b>	<b>(59,341)</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	1,201,575
Net unrealized gains on futures contracts	+ 368
<b>Net unrealized gains</b>	<b>1,201,943</b>

#### Expenses

Investment adviser and administrator fees	11,122
Transfer agent and shareholder service fees:	
Investor Shares	7,554
Select Shares®	3,207
e.Shares®	226
Trustees' fees	43
Custodian fees	183
Portfolio accounting fees	976
Professional fees	64
Registration fees	132
Shareholder reports	636
Interest expense	10
Other expenses	+ 134
Total expenses	24,287
Expense reduction	- 6,555
<b>Net expenses</b>	<b>17,732</b>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	<b>117,124</b>
<b>Net expenses</b>	<b>- 17,732</b>
<b>Net investment income</b>	<b>99,392</b>
<b>Net realized losses</b>	<b>(59,341)</b>
<b>Net unrealized gains</b>	<b>+ 1,201,943</b>
<b>Increase in net assets from operations</b>	<b>\$1,241,994</b>

Unless stated, all numbers x 1,000.

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.

For the fund's independent trustees only.

Includes \$1,672 from the investment adviser (CSIM) and \$4,883 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 29, 2004, as follows:

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

Prior to March 1, 2003, the limit was 0.35% for the Investor Shares. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$1,142,602.

## Schwab S&P 500 Fund

Statements of

### Changes in net assets

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

#### Operations

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$99,392	\$91,487
Net realized losses	(59,341)	(350,232)
Net unrealized gains or losses	+ 1,201,943	(899,126)
<b>Increase or decrease in net assets from operations</b>	<b>1,241,994</b>	<b>(1,157,871)</b>

#### Distributions Paid

Dividends from net investment income		
Investor Shares	40,628	33,227
Select Shares®	49,532	44,304
e.Shares®	+ 3,378	3,401
<b>Total dividends from net investment income</b>	<b>\$93,538</b>	<b>\$80,932</b>

#### Transactions in Fund Shares

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	50,095	\$730,445	55,877	\$908,494
Select Shares	51,800	753,457	69,223	1,121,910
e.Shares	+ 4,668	67,061	5,190	83,737
<b>Total shares sold</b>	<b>106,563</b>	<b>\$1,550,963</b>	<b>130,290</b>	<b>\$2,114,141</b>
<b>Shares Reinvested</b>				
Investor Shares	2,857	\$39,062	1,850	\$31,991
Select Shares	3,300	45,211	2,314	40,073
e.Shares	+ 224	3,062	178	3,074
<b>Total shares reinvested</b>	<b>6,381</b>	<b>\$87,335</b>	<b>4,342</b>	<b>\$75,138</b>
<b>Shares Redeemed</b>				
Investor Shares	(38,573)	(\$558,964)	(44,191)	(\$692,759)
Select Shares	(49,150)	(705,422)	(68,436)	(1,061,022)
e.Shares	+ (5,869)	(84,347)	(7,834)	(123,864)
<b>Total shares redeemed</b>	<b>(93,592)</b>	<b>(\$1,348,733)</b>	<b>(120,461)</b>	<b>(\$1,877,645)</b>
<b>Net transactions in fund shares</b>	<b>19,352</b>	<b>\$289,565</b>	<b>14,171</b>	<b>\$311,634</b>

#### Shares Outstanding and Net Assets

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	435,154	\$6,009,363	420,983	\$6,936,532
Total increase or decrease	+ 19,352	1,438,021	14,171	(927,169)
<b>End of period</b>	<b>454,506</b>	<b>\$7,447,384</b>	<b>435,154</b>	<b>\$6,009,363</b>

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 tax-basis components of distributions paid are:

	Current period	Prior period
Ordinary Income	\$93,538	\$80,932
Long-term capital gains	\$–	\$–

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase.

	Current period	Prior period
Investor Shares	\$236	\$423
Select Shares	302	438
e.Shares	+ 22	+ 28
<b>Total</b>	<b>\$560</b>	<b>\$889</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$80,919 and \$75,065 for the current period and prior period, respectively.

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

#### Schwab MarketTrack Portfolios\*

All Equity Portfolio	2.6%
Growth Portfolio	1.9%
Balanced Portfolio	1.2%
Conservative Portfolio	0.6%

See financial notes. 37

# Schwab 1000 Fund®

## Financial Statements

### Financial Highlights

Investor Shares	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	25.25	29.57	39.95	37.12	29.90
Income or loss from investment operations:					
Net investment income	0.33	0.31	0.26	0.26	0.26
Net realized and unrealized gains or losses	4.99	(4.36)	(10.40)	2.83	7.21
Total income or loss from investment operations	5.32	(4.05)	(10.14)	3.09	7.47
Less distributions:					
Dividends from net investment income	(0.32)	(0.27)	(0.24)	(0.26)	(0.25)
Net asset value at end of period	30.25	25.25	29.57	39.95	37.12
Total return (%)	21.34	(13.87)	(25.50)	8.34	25.12
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.49	0.46	0.46	0.46 <sup>1</sup>	0.46
Gross operating expenses	0.51	0.52	0.51	0.51	0.51
Net investment income	1.27	1.04	0.78	0.63	0.78
Portfolio turnover rate	5	9	8	9	3
Net assets, end of period (\$ x 1,000,000)	3,974	3,223	3,852	5,083	4,925

<sup>1</sup> The ratio of net operating expenses would have been 0.47% if certain non-routine expenses (proxy fees) had been included.



Select Shares®	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	25.26	29.58	39.98	37.16	29.93
Income or loss from investment operations:					
Net investment income	0.37	0.35	0.31	0.29	0.30
Net realized and unrealized gains or losses	4.99	(4.36)	(10.41)	2.84	7.22
Total income or loss from investment operations	5.36	(4.01)	(10.10)	3.13	7.52
Less distributions:					
Dividends from net investment income	(0.35)	(0.31)	(0.30)	(0.31)	(0.29)
Net asset value at end of period	30.27	25.26	29.58	39.98	37.16
Total return (%)	21.52	(13.77)	(25.40)	8.46	25.29
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.35	0.35	0.35	0.35 <sup>1</sup>	0.35
Gross operating expenses	0.36	0.37	0.36	0.36	0.37
Net investment income	1.41	1.15	0.89	0.74	0.89
Portfolio turnover rate	5	9	8	9	3
Net assets, end of period (\$ x 1,000,000)	1,996	1,588	1,911	2,159	2,214

<sup>1</sup> The ratio of net operating expenses would have been 0.36% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts
- Issuer is affiliated with the fund's adviser

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>99.9% Common Stock</b>	<b>3,959,733</b>	<b>5,961,669</b>
<b>0.0% Short-Term Investment</b>	<b>467</b>	<b>467</b>
<b>0.0% U.S. Treasury Obligation</b>	<b>200</b>	<b>200</b>
<b>99.9% Total Investments</b>	<b>3,960,400</b>	<b>5,962,336</b>
<b>18.2% Collateral Invested for Securites on Loan</b>	<b>1,085,371</b>	<b>1,085,371</b>
<b>(18.1)% Other Assets and Liabilities, Net</b>		<b>(1,078,074)</b>
<b>100.0% Total Net Assets</b>		<b>5,969,633</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock 99.9% of net assets**

**Aerospace / Defense 1.5%**

The Boeing Co.	453,182	17,443
Crane Co.	31,050	873
General Dynamics Corp.	108,400	9,073
Goodrich Corp.	61,892	1,709
• L-3 Communications Holdings, Inc.	51,200	2,393
Lockheed Martin Corp.	243,584	11,293

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Northrop Grumman Corp.	98,597
Raytheon Co.	223,000
Rockwell Automation, Inc.	98,600
Rockwell Collins, Inc.	95,100
Textron, Inc.	73,400
United Technologies Corp.	254,427
	<b>88,370</b>

**Air Transportation 1.1%**

Delta Air Lines, Inc.	64,200	836
FedEx Corp.	161,160	12,210
Sabre Holdings Corp.	76,100	1,667
Southwest Airlines Co.	421,925	8,185
United Parcel Service, Inc., Class B	607,500	44,056
		<b>66,954</b>

**Alcoholic Beverages 0.5%**

Adolph Coors Co., Class B	18,800	1,054
Anheuser-Busch Cos., Inc.	448,800	22,108
Brown-Forman Corp., Class B	33,578	2,833
• Constellation Brands, Inc., Class A	55,700	1,747
		<b>27,742</b>

**Apparel 0.4%**

• Coach, Inc.	98,328	3,487
Jones Apparel Group, Inc.	69,100	2,384
Liz Claiborne, Inc.	58,000	2,140
Nike, Inc., Class B	141,900	9,067
Polo Ralph Lauren Corp.	26,500	806
Reebok International Ltd.	31,200	1,215
• Timberland Co., Class A	19,100	992
VF Corp.	58,600	2,487
		<b>22,578</b>

**Automotive Products / Motor Vehicles 1.3%**

• American Axle & Manufacturing Holdings, Inc.	27,900	965
ArvinMeritor, Inc.	35,400	594
BorgWarner, Inc.	14,000	1,114
Carlisle Cos., Inc.	16,000	918

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Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Cooper Tire & Rubber Co. 38,300	753	Compass Bancshares, Inc. 68,112	2,573
Cummins, Inc. 21,600	1,024	Cullen/Frost Bankers, Inc. 26,500	1,027
Dana Corp. 77,189	1,257	Fifth Third Bancorp 308,930	17,906
Danaher Corp. 83,200	6,893	First Citizens BancShares, Inc., Class A 6,000	684
Delphi Corp. 301,400	2,682	First Midwest Bancorp, Inc. Illinois 25,700	794
Donaldson Co., Inc. 22,900	1,310	First Tennessee National Corp. 68,200	3,094
Eaton Corp. 40,700	4,080	FirstMerit Corp. 44,000	1,134
Ford Motor Co. 988,970	11,996	FleetBoston Financial Corp. 568,615	22,966
General Motors Corp. 302,934	12,926	FNB Corp. 23,940	791
• General Motors Corp., Class H 595,294	9,781	Fulton Financial Corp. 59,187	1,222
Gentex Corp. 41,600	1,625	Hibernia Corp., Class A 82,000	1,852
Genuine Parts Co. 92,775	2,952	Hudson City Bancorp, Inc. 102,500	3,540
• Goodyear Tire & Rubber Co. 91,200	626	Hudson United Bancorp 23,500	853
Harley-Davidson, Inc. 163,300	7,742	Huntington Bancshares, Inc. 124,935	2,706
• Lear Corp. 36,200	2,103	J.P. Morgan Chase & Co. 1,099,990	39,490
• Navistar International Corp. 35,500	1,435	KeyCorp, Inc. 227,446	6,425
Oshkosh Truck Corp. 17,800	816	M&T Bank Corp. 65,801	6,179
Polaris Industries, Inc. 11,900	1,019	Marshall & Ilsley Corp. 123,470	4,423
Superior Industries International, Inc. 14,400	612	Mellon Financial Corp. 232,388	6,941
	<b>75,223</b>	Mercantile Bankshares Corp. 42,575	1,804
<b>Banks 7.8%</b>		National City Corp. 332,400	10,856
AmSouth Bancorp. 200,875	4,745	National Commerce Financial Corp. 108,850	2,990
Associated Banc-Corp. 38,825	1,598	North Fork Bancorp., Inc. 85,900	3,348
Bancorpsouth, Inc. 40,800	959	Northern Trust Corp. 120,850	5,613
Bank of America Corp. 808,322	61,214	Old National Bancorp. 32,962	732
Bank of Hawaii Corp. 33,750	1,330	Park National Corp. 7,100	830
The Bank of New York Co., Inc. 415,700	12,966	Peoples Bank-Bridgeport 32,000	1,048
Bank One Corp. 613,993	26,064	PNC Financial Services Group, Inc. 151,730	8,128
Banknorth Group, Inc. 85,800	2,687	Popular, Inc. 70,800	3,186
BB&T Corp. 298,681	11,550	Provident Financial Group, Inc. 25,400	748
Citizens Banking Corp. Michigan 23,000	673	Regions Financial Corp. 119,065	4,376
City National Corp. 26,000	1,565	Sky Financial Group, Inc. 48,530	1,182
The Colonial BancGroup, Inc. 64,400	1,010	SouthTrust Corp. 184,474	5,876
Comerica, Inc. 94,774	4,879	State Street Corp. 180,100	9,430
Commerce Bancorp, Inc. N.J. 39,900	1,929	SunTrust Banks, Inc. 151,456	10,158
Commerce Bancshares, Inc. 34,848	1,669	Synovus Financial Corp. 161,762	4,465
Community First Bankshares, Inc. 20,400	554	TCF Financial Corp. 38,600	2,014
		Trustmark Corp. 32,000	911
		U.S. Bancorp 1,040,053	28,310

See financial notes. 41

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Union Planters Corp. 107,000	3,560	Pitney Bowes, Inc. 125,100	5,142
UnionBanCal Corp. 80,200	4,344	• Sandisk Corp. 41,900	3,377
United Bankshares, Inc. 21,900	662	• Seagate Escrow Security 126,560	36
Valley National Bancorp 49,599	1,451	• Siebel Systems, Inc. 263,200	3,314
Wachovia Corp. 726,220	33,312	• Storage Technology Corp. 57,300	1,381
Wells Fargo & Co. 906,932	51,078	• Sun Microsystems, Inc. 1,732,800	6,862
Westamerica Bancorp. 17,400	871	• Sybase, Inc. 49,300	882
Whitney Holding Corp. 20,900	794	• Tech Data Corp. 29,400	968
Wilmington Trust Corp. 34,000	1,145	Total System Services, Inc. 104,400	2,879
Zions Bancorp. 49,300	3,022	• Unisys Corp. 177,450	2,726
	<b>466,236</b>	• Xerox Corp. 426,050	4,473
			<b>532,959</b>
<b>Business Machines &amp; Software 8.9%</b>		<b>Business Services 4.1%</b>	
• 3Com Corp. 191,150	1,376	• Affiliated Computer Services, Inc., Class A 70,700	3,459
Adobe Systems, Inc. 124,800	5,471	• Affymetrix, Inc. 30,400	779
• Apple Computer, Inc. 196,100	4,489	• Allied Waste Industries, Inc. 110,065	1,241
Autodesk, Inc. 58,700	1,130	• Apollo Group, Inc., Class A 94,750	6,019
• BEA Systems, Inc. 221,900	3,084	• Aramark Corp., Class B 50,400	1,347
• BMC Software, Inc. 122,400	2,127	Automatic Data Processing, Inc. 321,900	12,148
• Cisco Systems, Inc. 3,792,500	79,567	• BearingPoint, Inc. 98,600	927
• Compuware Corp. 196,600	1,105	• The BISYS Group, Inc. 62,600	895
• Comverse Technology, Inc. 101,200	1,826	• CACI International, Inc., Class A 14,800	733
• Dell, Inc. 1,387,200	50,106	• Career Education Corp. 56,000	2,999
Diebold, Inc. 39,418	2,249	CDW Corp. 45,700	2,744
• EMC Corp. 1,181,700	16,355	• Cendant Corp. 549,348	11,223
Fair Isaac Corp. 26,350	1,681	• Ceridian Corp. 80,000	1,680
• Gateway, Inc. 168,600	850	• Cerner Corp. 18,500	784
Hewlett-Packard Co. 1,648,340	36,774	Certegy, Inc. 34,600	1,165
IKON Office Solutions, Inc. 75,000	630	• Checkfree Corp. 41,000	1,129
⑨ International Business Machines Corp. 935,500	83,709	• ChoicePoint, Inc. 46,666	1,635
• Juniper Networks, Inc. 207,300	3,729	Cintas Corp. 92,900	3,963
• Lexmark International, Inc., Class A 69,400	5,109	• Citrix Systems, Inc. 94,900	2,399
• Maxtor Corp. 132,600	1,813	Computer Associates International, Inc. 310,779	7,309
Microchip Technology, Inc. 110,500	3,614	• Computer Sciences Corp. 100,696	3,990
▲② Microsoft Corp. 5,843,100	152,797	• Concord EFS, Inc. 271,524	2,903
• NCR Corp. 50,651	1,820	• Convergys Corp. 90,200	1,449
• Network Appliance, Inc. 184,600	4,556	• Copart, Inc. 48,000	599
• Novell, Inc. 200,300	1,176	• Corinthian Colleges, Inc. 24,600	1,523
• Oracle Corp. 2,824,114	33,776		

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Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Corporate Executive Board Co. 19,400	990
• D&B Corp. 40,700	1,895
Deluxe Corp. 32,200	1,300
• DeVry, Inc. 36,400	883
• DST Systems, Inc. 64,100	2,424
• eBay, Inc. 347,500	19,439
• Education Management Corp. 18,400	1,162
Electronic Data Systems Corp. 256,800	5,508
Equifax, Inc. 75,900	1,855
First Data Corp. 401,604	14,337
• Fiserv, Inc. 103,589	3,659
Global Payments, Inc. 19,200	800
GTECH Holdings Corp. 31,600	1,412
H&R Block, Inc. 99,900	4,704
• ICOS Corp. 34,300	1,602
IMS Health, Inc. 129,100	3,038
• Interpublic Group of Cos., Inc. 209,650	3,120
• Intuit, Inc. 110,800	5,538
• Invitrogen Corp. 26,900	1,711
• Iron Mountain, Inc. 46,200	1,767
• ITT Educational Services, Inc. 23,700	1,180
Jack Henry & Associates, Inc. 45,500	909
• Jacobs Engineering Group, Inc. 30,200	1,399
• Lamar Advertising Co. 46,300	1,403
Manpower, Inc. 41,800	1,939
• Mercury Interactive Corp. 46,000	2,136
• Monster Worldwide, Inc. 60,100	1,531
National Instruments Corp. 26,600	1,133
• Network Associates, Inc. 86,500	1,205
Omnicom Group, Inc. 101,900	8,132
Paychex, Inc. 203,842	7,933
• PeopleSoft, Inc. 216,306	4,490
• Peregrine Systems, Inc. 102,600	51
• Perot Systems Corp., Class A 56,400	599
• Pixar, Inc. 28,800	1,982
Republic Services, Inc. 88,800	2,065
The Reynolds & Reynolds Co., Class A 36,200	983
• Robert Half International, Inc. 90,200	2,130
The ServiceMaster Co. 156,800	1,798

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Stericycle, Inc. 21,700	1,002
• Sungard Data Systems, Inc. 153,800	4,314
• Symantec Corp. 84,000	5,599
• Synopsys, Inc. 82,600	2,620
• VeriSign, Inc. 126,635	2,010
• Veritas Software Corp. 229,079	8,281
Viad Corp. 45,900	1,147
• Waste Connections, Inc. 14,600	506
Waste Management, Inc. 318,475	8,255
• WebMD Corp. 160,500	1,250
• Yahoo!, Inc. 362,906	15,859

**246,027**

**Chemicals 1.4%**

Air Products & Chemicals, Inc. 122,200	5,549
Airgas, Inc. 37,300	714
Albemarle Corp. 21,700	582
Cabot Corp. 31,900	890
• Celgene Corp. 43,000	1,793
• Cytec Industries, Inc. 20,400	712
Dow Chemical Co. 496,552	18,715
E.I. du Pont de Nemours & Co. 538,689	21,763
Eastman Chemical Co. 40,125	1,303
Ecolab, Inc. 141,100	3,794
Great Lakes Chemical Corp. 26,200	563
IMC Global, Inc. 59,860	419
Lubrizol Corp. 26,800	812
Lyondell Chemical Co. 93,800	1,341
Monsanto Co. 140,648	3,523
PPG Industries, Inc. 92,100	5,310
Praxair, Inc. 88,000	6,123
Rohm & Haas Co. 119,114	4,681
RPM International, Inc. 59,800	864
Sigma-Aldrich Corp. 39,200	2,056
Valspar Corp. 26,100	1,245

**82,752**

**Construction 0.7%**

Centex Corp. 34,100	3,325
D.R. Horton, Inc. 83,822	3,336
Florida Rock Industries, Inc. 14,900	853

See financial notes. 43

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Fluor Corp. 43,800	1,624	• Adelphia Communications, Class A 75,707	26
KB Home 25,000	1,712	• Advanced Fibre Communications, Inc. 46,300	1,115
Lafarge North America, Inc. 37,800	1,365	• Advanced Micro Devices, Inc. 185,600	2,821
Lennar Corp., Class A 42,600	3,913	• Agere Systems, Inc., Class A 886,500	3,085
Martin Marietta Materials, Inc. 25,300	1,037	• Agilent Technologies, Inc. 252,700	6,297
Masco Corp. 267,800	7,364	• Alliant Techsystems, Inc. 19,900	1,030
MDC Holdings, Inc. 15,290	1,029	• Altera Corp. 205,400	4,155
• NVR, Inc. 4,700	2,300	American Power Conversion Corp. 113,900	2,304
Pulte Homes, Inc. 33,900	2,933	• Amphenol Corp., Class A 22,200	1,304
The Sherwin-Williams Co. 83,900	2,814	• Analog Devices, Inc. 202,100	8,959
The Stanley Works 46,000	1,534	• Applied Materials, Inc. 894,900	20,914
• Toll Brothers, Inc. 39,400	1,451	• Applied Micro Circuits Corp. 157,200	915
Vulcan Materials Co. 54,700	2,424	• Arrow Electronics, Inc. 52,000	1,110
• West Corp. 34,400	833	• Atmel Corp. 253,300	1,429
	<b>39,847</b>	• Avnet, Inc. 62,200	1,207
<b>Consumer Durables 0.3%</b>		AVX Corp. 90,600	1,332
Black & Decker Corp. 43,150	2,063	• Broadcom Corp., Class A 159,200	5,086
Ethan Allen Interiors, Inc. 19,700	725	• Cabot Microelectronics Corp. 12,700	724
Furniture Brands International, Inc. 29,300	711	• Cadence Design Systems, Inc. 146,250	2,251
Hillenbrand Industries, Inc. 34,000	2,024	• CIENA Corp. 250,600	1,606
La-Z-Boy, Inc. 29,400	594	• Cree, Inc. 37,900	673
Leggett & Platt, Inc. 103,400	2,160	• Cymer, Inc. 17,800	813
Maytag Corp. 40,650	1,032	• Emulex Corp. 42,700	1,209
• Mohawk Industries, Inc. 36,439	2,701	• Energizer Holdings, Inc. 47,200	1,737
Newell Rubbermaid, Inc. 147,109	3,354	• Fairchild Semiconductor International, Inc., Class A 60,900	1,376
Whirlpool Corp. 37,400	2,636	• Getty Images, Inc. 30,100	1,346
	<b>18,000</b>	Harman International Industries, Inc. 18,700	2,397
<b>Containers 0.2%</b>		Harris Corp. 34,600	1,288
Ball Corp. 31,600	1,776	• Hearst-Argyle Television, Inc. 48,100	1,165
Bemis Co. 27,600	1,276	• Integrated Circuit Systems, Inc. 37,300	1,252
• Crown Holdings, Inc. 88,900	702	⑦ Intel Corp. 3,517,600	116,257
• Owens-Illinois, Inc. 76,700	943	• Interactive Data Corp. 47,700	820
• Pactiv Corp. 84,350	1,860	• International Rectifier Corp. 35,300	1,685
• Sealed Air Corp. 50,699	2,699	Intersil Corp., Class A 73,100	1,885
Sonoco Products Co. 50,141	1,067	ITT Industries, Inc. 50,800	3,454
	<b>10,323</b>	• Jabil Circuit, Inc. 109,100	3,038
<b>Electronics 6.0%</b>		• JDS Uniphase Corp. 767,755	2,726
• Acxiom Corp. 46,400	738		
• ADC Telecommunications, Inc. 414,300	1,057		

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Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• KLA-Tencor Corp. 102,200	5,859	• Cooper Cameron Corp. 30,200	1,293
• Lam Research Corp. 67,100	1,929	Devon Energy Corp. 125,516	6,088
Linear Technology Corp. 168,200	7,167	ENSCO International, Inc. 79,400	2,092
• LSI Logic Corp. 201,200	1,859	EOG Resources, Inc. 66,500	2,802
• Lucent Technologies, Inc. 2,246,619	7,189	• FMC Technologies, Inc. 34,100	685
Maxim Integrated Products, Inc. 174,529	8,676	• Forest Oil Corp. 28,700	673
• Micron Technology, Inc. 329,100	4,719	• Grant Prideco, Inc. 63,000	714
Molex, Inc. 102,021	3,202	Halliburton Co. 234,360	5,596
Motorola, Inc. 1,253,186	16,956	Helmerich & Payne, Inc. 25,900	687
• National Semiconductor Corp. 98,400	3,998	• Key Energy Services, Inc. 66,800	583
• Novellus Systems, Inc. 81,600	3,369	Noble Energy, Inc. 29,700	1,180
• Nvidia Corp. 85,600	1,513	Occidental Petroleum Corp. 206,200	7,271
PerkinElmer, Inc. 65,800	1,185	Peabody Energy Corp. 29,300	977
• QLogic Corp. 50,700	2,842	• Rowan Cos., Inc. 48,600	1,164
Qualcomm, Inc. 429,100	20,382	• Smith International, Inc. 54,800	2,040
• RF Micro Devices, Inc. 95,000	1,113	Tidewater, Inc. 31,600	866
• Sanmina — SCI Corp. 271,652	2,866	Valero Energy Corp. 61,288	2,617
Scientific — Atlanta, Inc. 80,200	2,374	Western Gas Resources, Inc. 17,200	731
• Skyworks Solutions, Inc. 79,500	682		<b>63,939</b>
• Solectron Corp. 444,800	2,464		
Symbol Technologies, Inc. 119,970	1,498		
Tektronix, Inc. 45,200	1,160		
• Tellabs, Inc. 221,800	1,670		
• Teradyne, Inc. 102,000	2,324		
Texas Instruments, Inc. 935,455	27,053		
• Thermo Electron Corp. 86,984	1,912		
• Vishay Intertechnology, Inc. 83,150	1,559		
• Waters Corp. 75,100	2,360		
• Western Digital Corp. 110,500	1,486		
• Xilinx, Inc. 183,800	5,827		
• Zebra Technologies Corp., Class A 24,750	1,410		
	<b>361,189</b>		
<b>Energy: Raw Materials 1.1%</b>		<b>Food &amp; Agriculture 3.6%</b>	
Anadarko Petroleum Corp. 135,380	5,905	Archer-Daniels-Midland Co. 344,336	4,941
Apache Corp. 87,160	6,077	Campbell Soup Co. 221,700	5,746
Arch Coal, Inc. 27,300	669	The Coca-Cola Co. 1,327,300	61,587
Baker Hughes, Inc. 181,520	5,130	Coca-Cola Enterprises, Inc. 242,400	4,887
• BJ Services Co. 85,600	2,809	ConAgra Foods, Inc. 291,259	6,944
Burlington Resources, Inc. 108,767	5,290	Corn Products International, Inc. 18,600	630
		• Dean Foods Co. 83,150	2,515
		• Del Monte Foods Co. 108,295	1,030
		Dreyer's Grand Ice Cream Holdings, Inc. 18,200	1,409
		General Mills, Inc. 201,250	9,026
		H.J. Heinz Co. 193,500	6,836
		Hershey Foods Corp. 72,900	5,621
		Hormel Foods Corp. 74,800	1,847
		The J.M. Smuckers Co. 25,800	1,129
		Kellogg Co. 220,400	7,302
		Kraft Foods, Inc., Class A 149,700	4,356
		McCormick & Co., Inc. 74,700	2,214
		The Pepsi Bottling Group, Inc. 148,300	3,306
		PepsiAmericas, Inc. 78,100	1,170

See financial notes. 45

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
PepsiCo, Inc. 932,360	44,585	• Caremark Rx, Inc. 142,800	3,577
• Performance Food Group Co. 23,500	875	• Cephalon, Inc. 29,600	1,390
Sara Lee Corp. 418,200	8,335	• Charles River Laboratories International, Inc. 23,500	758
• The Scotts Co., Class A 17,500	1,011	• Chiron Corp. 99,912	5,458
Sensient Technologies Corp. 24,700	474	• Community Health Systems, Inc. 51,300	1,232
• Smithfield Foods, Inc. 56,800	1,208	• Covance, Inc. 31,200	812
Supervalu, Inc. 72,000	1,816	• Coventry Health Care, Inc. 33,200	1,818
Sysco Corp. 349,500	11,764	• Cytoc Corp. 60,200	778
Tootsie Roll Industries, Inc. 27,730	915	• DaVita, Inc. 35,700	1,253
Tyson Foods, Inc., Class A 188,382	2,688	Dentsply International, Inc. 42,650	1,885
Wm. Wrigley Jr. Co. 121,200	6,836	Diagnostic Products Corp. 14,900	608
	<b>213,003</b>	• Edwards Lifesciences Corp. 33,500	971
		Eli Lilly & Co. 606,868	40,430
<b>Gold 0.2%</b>		• Express Scripts, Inc. 43,100	2,367
Newmont Mining Corp. 219,538	<b>9,611</b>	• First Health Group Corp. 52,800	1,289
<b>Healthcare / Drugs &amp; Medicine 12.7%</b>		• Forest Laboratories, Inc. 196,600	9,832
Abbott Laboratories 843,700	35,958	• Genzyme Corp. — General Division 119,500	5,485
• Accredo Health, Inc. 24,700	789	• Gilead Sciences, Inc. 109,300	5,966
• AdvancePCS Corp. 48,700	2,507	Guidant Corp. 166,072	8,471
Allergan, Inc. 71,400	5,399	HCA, Inc. 275,472	10,537
AmerisourceBergen Corp. 59,795	3,395	Health Management Associates, Inc., Class A 129,428	2,867
• Amgen, Inc. 698,440	43,136	• Health Net, Inc. 66,300	2,094
• Amylin Pharmaceuticals, Inc. 50,100	1,369	• Henry Schein, Inc. 22,900	1,421
• Andrx Corp. 37,200	740	• Human Genome Sciences, Inc. 67,000	932
• Anthem, Inc. 75,600	5,173	• Humana, Inc. 87,400	1,773
• Apogent Technologies, Inc. 52,800	1,159	• Idec Pharmaceuticals Corp. 83,600	2,937
Applied Biosystems Group —		• IDEXX Laboratories, Inc. 17,900	847
Applera Corp. 111,300	2,569	• Igen International, Inc. 12,400	719
• Apria Healthcare Group, Inc. 28,600	829	Invacare Corp. 16,200	665
• Barr Laboratories, Inc. 35,350	2,714	• IVAX Corp. 107,125	2,063
Bausch & Lomb, Inc. 28,100	1,353	⑩ Johnson & Johnson 1,604,220	80,740
Baxter International, Inc. 327,600	8,708	• King Pharmaceuticals, Inc. 135,166	1,811
Beckman Coulter, Inc. 32,400	1,609	• Laboratory Corp. of America Holdings 78,900	2,797
Becton Dickinson & Co. 136,800	5,001	• LifePoint Hospitals, Inc. 20,600	530
• Biogen, Inc. 79,400	3,213	• Lincare Holdings, Inc. 55,000	2,142
Biomet, Inc. 139,000	4,985	Manor Care, Inc. 50,200	1,671
• Boston Scientific Corp. 222,142	15,043	McKesson Corp. 155,328	4,702
Bristol-Myers Squibb Co. 1,047,500	26,575		
C.R. Bard, Inc. 29,200	2,337		
Cardinal Health, Inc. 240,956	14,298		



Schwab 1000 Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Medco Health Solutions, Inc. 145,022	4,815	<b>Household Products 2.1%</b>	
Medicis Pharmaceutical Corp., Class A 14,100	893	Alberto-Culver Co., Class B 32,300	2,048
• Medimmune, Inc. 141,450	3,771	Avon Products, Inc. 128,400	8,726
Medtronic, Inc. 656,400	29,912	Church & Dwight Co., Inc. 20,800	775
Merck & Co., Inc. 1,209,208	53,507	Clorox Co. 116,400	5,273
• Mid Atlantic Medical Services, Inc. 26,900	1,571	Colgate-Palmolive Co. 289,900	15,420
• Millennium Pharmaceuticals, Inc. 159,520	2,540	The Dial Corp. 49,500	1,188
Mylan Laboratories, Inc. 149,212	3,603	The Estee Lauder Cos., Inc., Class A 67,000	2,505
• NBTY, Inc. 34,500	940	The Gillette Co. 550,910	17,574
• Neurocrine Biosciences, Inc. 19,000	890	International Flavors & Fragrances, Inc. 51,000	1,688
Omnicare, Inc. 53,300	2,044	Procter & Gamble Co. 700,300	68,833
• Oxford Health Plans, Inc. 45,500	1,843		<b>124,030</b>
• Patterson Dental Co. 37,400	2,393	<b>Insurance 4.5%</b>	
• Pediatrix Medical Group, Inc. 13,200	706	21st Century Insurance Group 44,500	628
④ Pfizer, Inc. 4,215,412	133,207	Aetna, Inc. 85,265	4,895
• Pharmaceutical Product Development, Inc. 28,800	866	AFLAC, Inc. 276,900	10,101
• Quest Diagnostics 56,300	3,809	• Alleghany Corp. 4,242	855
• Renal Care Group, Inc. 25,100	942	The Allstate Corp. 379,048	14,972
• Respironics, Inc. 17,400	725	AMBAC Financial Group, Inc. 61,200	4,329
Schering-Plough Corp. 792,800	12,106	American Financial Group, Inc. 36,000	802
• SICOR, Inc. 64,200	1,721	⑧ American International Group, Inc. 1,408,771	85,696
• St. Jude Medical, Inc. 96,600	5,618	American National Insurance Co. 13,700	1,138
• Steris Corp. 36,000	750	AmerUs Group Co. 20,200	763
Stryker Corp. 106,900	8,671	AON Corp. 169,112	3,704
• Techne Corp. 21,600	752	Arthur J. Gallagher & Co. 48,300	1,410
• Tenet Healthcare Corp. 252,409	3,483	Brown & Brown, Inc. 37,900	1,154
• Triad Hospitals, Inc. 38,900	1,195	Chubb Corp. 101,200	6,761
UnitedHealth Group, Inc. 321,400	16,353	CIGNA Corp. 76,400	4,359
• Universal Health Services, Class B 31,400	1,477	Cincinnati Financial Corp. 86,014	3,520
• Varian Medical Systems, Inc. 37,300	2,385	• CNA Financial Corp. 118,200	2,551
• Vertex Pharmaceuticals, Inc. 39,800	522	Commerce Group, Inc. 16,800	668
• Watson Pharmaceuticals, Inc. 57,500	2,258	Erie Indemnity Co., Class A 33,300	1,331
• WellPoint Health Networks, Inc. 79,350	7,054	Fidelity National Financial, Inc. 79,222	2,450
Wyeth 718,900	31,732	First American Corp. 40,900	1,172
• Zimmer Holdings, Inc. 123,600	7,887	Hartford Financial Services Group, Inc. 153,100	8,405
	<b>757,428</b>	HCC Insurance Holdings, Inc. 32,400	944

See financial notes. 47

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Hilb, Rogal & Hamilton Co. 18,400	552	•Comcast Corp., Class A 1,214,780	41,205
Jefferson-Pilot Corp. 76,587	3,656	•Cox Communications, Inc., Class A 318,586	10,854
John Hancock Financial Services, Inc. 155,900	5,511	Dow Jones & Co., Inc. 44,850	2,331
Lincoln National Corp. 96,000	3,833	The E.W. Scripps Co., Class A 43,475	4,039
Loews Corp. 100,400	4,317	•EchoStar Communications Corp., Class A 135,000	5,173
•Markel Corp. 5,200	1,312	•Emmis Communications Corp., Class A 27,700	614
Marsh & McLennan Cos., Inc. 287,700	12,299	•Entercom Communications Corp. 28,000	1,283
MBIA, Inc. 77,500	4,620	•Fox Entertainment Group, Inc., Class A 189,700	5,255
Mercury General Corp. 28,200	1,340	Gannett Co., Inc. 146,900	12,356
MGIC Investment Corp. 54,200	2,781	Harte-Hanks, Inc. 47,300	940
Mony Group, Inc. 24,300	778	Hollinger International, Inc. 57,400	771
Nationwide Financial Services, Inc., Class A 29,300	995	•InterActiveCorp 356,927	13,103
Odyssey Re Holdings Corp. 33,900	711	John Wiley & Sons, Class A 32,200	837
Old Republic International Corp. 71,775	2,580	Knight-Ridder, Inc. 44,800	3,285
The PMI Group, Inc. 50,700	1,938	Lee Enterprises, Inc. 23,100	974
Principal Financial Group, Inc. 175,200	5,493	McClatchy Co., Class A 25,900	1,676
The Progressive Corp. 117,200	8,649	The McGraw-Hill Cos., Inc. 102,750	6,879
Protective Life Corp. 35,800	1,162	Media General, Inc., Class A 12,100	799
Prudential Financial, Inc. 294,400	11,376	Meredith Corp. 27,700	1,344
Radian Group, Inc. 50,700	2,682	•Metro-Goldwyn-Mayer, Inc. 98,955	1,579
Reinsurance Group of America, Inc. 25,600	1,023	New York Times Co., Class A 80,726	3,837
Safeco Corp. 73,400	2,694	•PanAmSat Corp. 79,900	1,654
St. Paul Cos., Inc. 122,054	4,654	R.R. Donnelley & Sons Co. 61,300	1,594
Stancorp Financial Group, Inc. 15,200	958	•Radio One, Inc., Class A 54,400	872
Torchmark Corp. 63,000	2,764	The Reader's Digest Association, Inc., Class A 50,800	748
Transatlantic Holdings, Inc. 29,300	2,247	•Scholastic Corp. 20,400	631
Travelers Property Casualty Corp., Class B 540,999	8,856	•Time Warner, Inc. 2,438,430	37,283
Unitrin, Inc. 35,100	1,299	Tribune Co. 168,800	8,280
UnumProvident Corp. 159,371	2,609	•Univision Communications, Inc., Class A 172,910	5,870
W.R. Berkley Corp. 44,550	1,528	•Valassis Communications, Inc. 27,300	707
	<b>267,825</b>	Viacom, Inc., Class B 947,779	37,788
<b>Media 4.4%</b>		The Walt Disney Co. 1,102,421	24,959
Belo Corp., Class A 60,600	1,652	Washington Post, Class B 5,100	3,761
•Cablevision Systems Corp., NY Group, Class A 123,200	2,489	•Westwood One, Inc. 55,200	1,652
Clear Channel Communications, Inc. 331,629	13,537		<b>262,611</b>

Schwab 1000 Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Miscellaneous 0.6%</b>			
3M Co. 424,000	<b>33,441</b>	Legg Mason, Inc. 35,600	2,964
<b>Miscellaneous Finance 8.8%</b>		Lehman Brothers Holdings, Inc. 131,560	9,472
A.G. Edwards, Inc. 47,043	1,905	Leucadia National Corp. 32,700	1,373
• Affiliated Managers Group, Inc. 11,400	827	MBNA Corp. 688,880	17,050
Allied Capital Corp. 64,700	1,608	Merrill Lynch & Co., Inc. 505,500	29,926
American Express Co. 696,700	32,696	Moody's Corp. 80,500	4,655
• AmeriCredit Corp. 84,500	1,132	Morgan Stanley 587,110	32,215
• Ameritrade Holding Corp. 229,200	3,126	New York Community Bancorp., Inc. 76,400	2,766
Astoria Financial Corp. 45,300	1,569	Nueberger Berman, Inc. 38,200	1,656
The Bear Stearns Cos., Inc. 54,071	4,123	Nuveen Investments, Inc., Class A 48,500	1,358
• Berkshire Hathaway, Inc., Class A 621	48,320	• Provident Financial Corp. 155,900	1,732
• BOK Financial Corp. 29,686	1,122	Raymond James Financial, Inc. 25,200	1,028
Capital One Financial Corp. 123,550	7,512	Roslyn Bancorp., Inc. 43,050	1,160
■ The Charles Schwab Corp. 730,197	9,901	SEI Investments Co. 55,100	1,605
Charter One Financial, Inc. 121,704	3,890	SLM Corp. 245,250	9,604
Chicago Mercantile Exchange 18,600	1,264	Sovereign Bancorp., Inc. 156,500	3,257
⑤ Citigroup, Inc. 2,781,701	131,853	Staten Island Bancorp., Inc. 31,400	626
Commercial Federal Corp. 23,500	605	Student Loan Corp. 10,500	1,360
Countrywide Financial Corp. 74,885	7,872	T. Rowe Price Group, Inc. 65,600	2,699
Downey Financial Corp. 14,600	670	Waddell & Reed Financial, Inc., Class A 44,200	980
• E*TRADE Group, Inc. 195,300	2,012	Washington Federal, Inc. 36,181	953
Eaton Vance Corp. 36,000	1,256	Washington Mutual, Inc. 504,910	22,090
Fannie Mae 526,800	37,766	Webster Financial Corp. 24,000	1,073
Federated Investors, Inc., Class B 59,150	1,635	Wesco Financial Corp. 3,800	1,248
Franklin Resources, Inc. 135,700	6,435		<b>525,482</b>
Freddie Mac 376,400	21,127	<b>Non-Durables &amp; Entertainment 1.2%</b>	
Golden West Financial Corp. 81,900	8,225	• American Greetings Corp., Class A 37,600	802
Goldman Sachs Group, Inc. 257,100	24,142	Applebee's International, Inc. 28,650	1,075
GreenPoint Financial Corp. 77,700	2,420	• Brinker International, Inc. 52,600	1,674
Independence Community Bank Corp. 29,700	1,091	CBRL Group, Inc. 25,800	1,000
IndyMac Bancorp, Inc. 28,800	847	• The Cheesecake Factory 26,350	1,052
International Bancshares Corp. 20,500	941	Darden Restaurants, Inc. 88,950	1,863
• Investment Technology Group, Inc. 25,000	497	• Electronic Arts, Inc. 79,500	7,874
Investors Financial Services Corp. 33,500	1,184	Fortune Brands, Inc. 79,600	5,186
Janus Capital Group, Inc. 127,400	1,801	Hasbro, Inc. 93,187	2,031
Jefferies Group, Inc. 30,000	930	International Game Technology 185,900	6,088
LaBranche & Co., Inc. 31,000	328		

See financial notes. 49

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
International Speedway Corp., Class A 27,600	1,174	• Varco International, Inc. 50,400	886
• Krispy Kreme Doughnuts, Inc. 31,200	1,352	XTO Energy, Inc. 98,633	2,335
Lancaster Colony Corp. 18,900	751		<b>54,534</b>
Mattel, Inc. 235,720	4,564	<b>Oil: International 2.9%</b>	
McDonald's Corp. 685,700	17,149	ChevronTexaco Corp. 576,946	42,867
Outback Steakhouse, Inc. 40,375	1,696	• Exxon Mobil Corp. 3,591,830	131,389
• Panera Bread Co., Class A 15,200	611		<b>174,256</b>
Regis Corp. 22,600	859	<b>Optical &amp; Photo 0.2%</b>	
Ruby Tuesday, Inc. 33,300	911	• Corning, Inc. 716,141	7,863
• Starbucks Corp. 209,600	6,623	Eastman Kodak Co. 155,800	3,806
Wendy's International, Inc. 60,100	2,227	Imation Corp. 18,400	627
• Yum! Brands, Inc. 163,620	5,586	• Ingram Micro, Inc., Class A 78,400	1,160
	<b>72,148</b>		<b>13,456</b>
<b>Non-Ferrous Metals 0.4%</b>		<b>Paper &amp; Forest Products 0.8%</b>	
Alcoa, Inc. 456,195	14,402	Boise Cascade Corp. 30,400	853
Engelhard Corp. 66,387	1,897	Bowater, Inc. 28,800	1,176
Freeport-McMoran Copper & Gold, Inc., Class B 89,694	3,476	Georgia-Pacific Corp. 136,688	3,592
• Phelps Dodge Corp. 48,200	2,976	International Paper Co. 257,945	10,150
	<b>22,751</b>	Kimberly-Clark Corp. 273,960	14,468
<b>Oil: Domestic 0.9%</b>		MeadWestvaco Corp. 106,053	2,749
Amerada Hess Corp. 47,800	2,467	• Packaging Corp. of America 54,400	1,072
Ashland, Inc. 35,400	1,318	Rayonier, Inc. 21,750	914
Chesapeake Energy Corp. 112,500	1,342	• Smurfit-Stone Container Corp. 130,900	2,029
ConocoPhillips 368,078	21,036	Temple-Inland, Inc. 29,900	1,615
Diamond Offshore Drilling, Inc. 67,700	1,249	Weyerhaeuser Co. 117,800	7,095
Kerr-McGee Corp. 57,102	2,370		<b>45,713</b>
Marathon Oil Corp. 166,500	4,923	<b>Producer Goods &amp; Manufacturing 4.4%</b>	
Murphy Oil Corp. 49,740	2,934	• AGCO Corp. 39,100	704
• National-Oilwell, Inc. 44,200	843	• American Standard Cos., Inc. 39,200	3,752
• Newfield Exploration Co. 29,300	1,164	Ametek, Inc. 17,200	809
• Patterson-UTI Energy, Inc. 43,200	1,235	Aptargroup, Inc. 18,600	666
• Pioneer Natural Resources Co. 63,300	1,674	Avery Dennison Corp. 59,200	3,113
Pogo Producing Co. 33,800	1,413	Blyth, Inc. 24,100	674
• Pride International, Inc. 70,000	1,147	Caterpillar, Inc. 186,900	13,696
Sunoco, Inc. 41,700	1,825	Deere & Co. 130,500	7,911
Unocal Corp. 138,034	4,373	Dover Corp. 109,200	4,261
		Emerson Electric Co. 227,400	12,905

## Schwab 1000 Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Fastenal Co. 41,400	1,841	Archstone-Smith Trust 101,000	2,697
• Fisher Scientific International, Inc. 28,500	1,147	Arden Realty, Inc. 32,900	920
▲ General Electric Co. 5,413,500	157,046	AvalonBay Communities, Inc. 37,800	1,726
Graco, Inc. 24,800	945	Boston Properties, Inc. 51,600	2,283
Harsco Corp. 21,100	808	BRE Properties, Class A 26,600	861
Herman Miller, Inc. 39,000	896	Camden Property Trust 22,300	883
HON Industries, Inc. 30,700	1,259	CarrAmerica Realty Corp. 27,700	833
Honeywell International, Inc. 463,263	14,181	Catellus Development Corp. 48,100	1,071
Hubbell, Inc., Class B 30,838	1,321	CBL & Associates Properties, Inc. 15,500	826
IDEX Corp. 16,900	628	Centerpoint Properties Trust 12,000	815
Illinois Tool Works, Inc. 167,442	12,315	Chelsea Property Group, Inc. 23,600	1,161
Johnson Controls, Inc. 48,100	5,172	Cousins Properties, Inc. 25,400	730
Kennametal, Inc. 18,300	675	Crescent Real Estate Equity Co. 52,000	798
• Millipore Corp. 25,200	1,105	Developers Diversified Realty Corp. 46,400	1,341
Pall Corp. 66,933	1,566	Duke Realty Corp. 72,200	2,114
Parker Hannifin Corp. 63,475	3,235	Equity Office Properties Trust 218,200	6,112
Pentair, Inc. 25,700	1,054	Equity Residential 146,300	4,279
Precision Castparts Corp. 27,300	1,123	Federal Realty Investment Trust 26,600	1,010
Roper Industries, Inc. 18,300	904	First Industrial Realty Trust 20,100	649
Snap-On, Inc. 30,450	893	Forest City Enterprises, Inc., Class A 25,750	1,141
• SPX Corp. 43,800	2,108	General Growth Properties, Inc. 38,400	2,938
Teleflex, Inc. 20,500	943	Health Care Property Investors, Inc. 34,700	1,618
The Timken Co. 44,400	745	Health Care Real Estate Investment Trust, Inc. 22,800	756
W.W. Grainger, Inc. 49,600	2,271	Healthcare Realty Trust, Inc. 22,000	743
	<b>262,672</b>	Heritage Property Investment Trust 21,600	609
<b>Railroad &amp; Shipping 0.4%</b>		Highwoods Properties, Inc. 27,800	689
Alexander & Baldwin, Inc. 21,500	667	Hospitality Properties Trust 32,600	1,195
Burlington Northern Santa Fe Corp. 199,553	5,775	• Host Marriott Corp. 156,700	1,638
CSX Corp. 120,800	3,844	HRPT Properties Trust 76,200	713
GATX Corp. 25,500	573	iStar Financial, Inc. 53,000	2,017
Norfolk Southern Corp. 210,600	4,244	Kimco Realty Corp. 59,200	2,466
Union Pacific Corp. 137,661	8,617	Liberty Property Trust 42,100	1,532
	<b>23,720</b>	The Macerich Co. 28,100	1,130
<b>Real Property 1.4%</b>		Mack-Cali Realty Corp. 30,000	1,131
AMB Property Corp. 42,900	1,287	The Mills Corp. 24,400	996
Annaly Mortgage Management, Inc. 49,200	804	New Plan Excel Realty Trust 50,400	1,144
Apartment Investment & Management Co., Class A 50,800	2,078	Pan Pacific Retail Properties, Inc. 20,700	918

See financial notes. 51

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Plum Creek Timber Co., Inc. 98,100	2,585	Dollar General Corp. 179,369	4,030
Prentiss Properties Trust 22,300	674	• Dollar Tree Stores, Inc. 61,300	2,340
ProLogis 96,808	2,860	Family Dollar Stores, Inc. 91,900	4,008
Public Storage, Inc. 68,000	2,720	Federated Department Stores, Inc. 102,100	4,855
Realty Income Corp. 18,200	717	Foot Locker, Inc. 76,900	1,376
Reckson Associates Realty Corp. 26,000	578	The Gap, Inc. 481,700	9,191
Regency Centers Corp. 32,500	1,205	Home Depot, Inc. 1,242,097	46,045
The Rouse Co. 47,200	2,030	J.C. Penney Co., Inc. Holding Co. 146,300	3,460
Shurgard Storage Centers, Inc., Class A 24,200	876	• Kohl's Corp. 183,700	10,300
Simon Property Group, Inc. 103,600	4,670	• Kroger Co. 407,530	7,128
The St. Joe Co. 39,900	1,318	Limited Brands, Inc. 278,968	4,910
Thornburg Mortgage, Inc. 35,500	967	Lowe's Cos., Inc. 423,600	24,963
Trizec Properties, Inc. 78,100	1,043	The May Department Stores Co. 156,350	4,372
United Dominion Realty Trust, Inc. 64,700	1,129	Michaels Stores, Inc. 36,900	1,752
Vornado Realty Trust 60,400	3,053	• The Neiman Marcus Group, Inc., Class A 25,000	1,189
Weingarten Realty Investment 27,000	1,168	Nordstrom, Inc. 73,100	2,229
	<b>86,245</b>	• O'Reilly Automotive, Inc. 27,800	1,203
<b>Retail 7.3%</b>		• Office Depot, Inc. 163,548	2,442
• 99 Cents Only Stores 38,566	1,148	• Payless Shoesource, Inc. 35,400	468
• Abercrombie & Fitch Co., Class A 52,700	1,502	PETsMART, Inc. 76,500	1,959
• Advance Auto Parts, Inc. 20,600	1,611	Pier 1 Imports, Inc. 48,100	1,111
Albertson's, Inc. 203,542	4,130	RadioShack Corp. 96,532	2,895
• Amazon.com, Inc. 215,400	11,722	• Rent-A-Center, Inc. 53,750	1,680
Autonation, Inc. 162,600	3,041	• Rite Aid Corp. 278,300	1,595
• AutoZone, Inc. 47,900	4,603	Ross Stores, Inc. 40,500	2,025
• Barnes & Noble, Inc. 35,100	1,046	• Safeway, Inc. 236,880	4,998
• Bed, Bath & Beyond, Inc. 160,200	6,767	• Saks, Inc. 74,440	1,035
• Best Buy Co., Inc. 173,150	10,096	Sears, Roebuck & Co. 166,600	8,768
• Big Lots, Inc. 60,400	907	• Staples, Inc. 264,160	7,085
• BJ's Wholesale Club, Inc. 36,400	935	Talbots, Inc. 30,000	986
• Borders Group, Inc. 41,400	938	Target Corp. 490,800	19,504
• Carmax, Inc. 55,600	1,752	Tiffany & Co. 77,600	3,682
• Chico's FAS, Inc. 46,200	1,734	TJX Cos., Inc. 279,900	5,875
Circuit City Stores, Inc. 109,300	1,043	• Toys 'R' Us, Inc. 115,080	1,496
Claire's Stores, Inc. 25,400	983	▲ 3 Wal-Mart Stores, Inc. 2,361,500	139,210
• Costco Wholesale Corp. 246,208	8,708		
CVS Corp. 212,414	7,473		
Dillards, Inc., Class A 44,100	713		

## Schwab 1000 Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Walgreen Co. 552,300	19,231
• Whole Foods Market, Inc. 31,900	1,890
• Williams-Sonoma, Inc. 71,400	2,523
Winn-Dixie Stores, Inc. 73,300	593
• Zale Corp. 13,760	712
	<b>435,966</b>
<b>Steel 0.1%</b>	
Nucor Corp. 43,300	2,374
United States Steel Corp. 53,260	1,260
Worthington Industries, Inc. 51,600	752
	<b>4,386</b>
<b>Telephone 3.3%</b>	
Adtran, Inc. 21,400	1,456
Alltel Corp. 170,667	8,067
AT&T Corp. 425,017	7,901
• AT&T Wireless Services, Inc. 1,466,121	10,629
BellSouth Corp. 997,100	26,234
CenturyTel, Inc. 78,087	2,792
• Citizens Communications Co. 149,718	1,864
• Level 3 Communications, Inc. 351,400	1,894
• Liberty Media Corp., Class A 1,334,100	13,461
• Nextel Communications, Inc., Class A 557,600	13,494
• Nextel Partners, Inc., Class A 93,100	1,119
• Qwest Communications International, Inc. 904,647	3,193
SBC Communications, Inc. 1,793,428	43,006
Sprint Corp. (FON Group) 486,368	7,782
• Sprint Corp. (PCS Group) 549,121	2,389
Telephone & Data Systems, Inc. 30,600	1,916
• U.S. Cellular Corp. 46,700	1,581
Verizon Communications, Inc. 1,489,393	50,044
	<b>198,822</b>
<b>Tobacco 0.9%</b>	
Altria Group, Inc. 1,096,200	50,973
R.J. Reynolds Tobacco Holdings, Inc. 45,800	2,200
UST, Inc. 89,900	3,059
	<b>56,232</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Travel &amp; Recreation 0.4%</b>	
Brunswick Corp. 46,900	1,392
• Extended Stay America, Inc. 48,800	717
Harrah's Entertainment, Inc. 60,100	2,614
Hilton Hotels Corp. 202,567	3,209
Mandalay Resort Group 35,800	1,405
Marriott International, Inc., Class A 125,700	5,430
• MGM MIRAGE 82,200	2,918
• Park Place Entertainment Corp. 163,000	1,565
Speedway Motorsports, Inc. 22,000	636
Starwood Hotels & Resorts Worldwide, Inc. 107,700	3,633
Station Casinos, Inc. 30,100	895
	<b>24,414</b>
<b>Trucking &amp; Freight 0.2%</b>	
C.H. Robinson Worldwide, Inc. 46,000	1,802
CNF, Inc. 25,700	900
Expeditors International Washington, Inc. 56,200	2,110
Heartland Express, Inc. 26,100	648
• J.B. Hunt Transport Services, Inc. 41,000	1,041
Paccar, Inc. 62,280	4,918
Ryder Systems, Inc. 32,500	975
• Swift Transportation Co., Inc. 43,400	973
Werner Enterprises, Inc. 41,500	749
	<b>14,116</b>
<b>Utilities: Electric &amp; Gas 2.9%</b>	
• The AES Corp. 328,906	2,878
AGL Resources, Inc. 32,300	909
Alleite, Inc. 46,700	1,411
Alliant Energy Corp. 57,800	1,391
Ameren Corp. 87,430	3,904
American Electric Power Co., Inc. 211,820	5,971
Atmos Energy Corp. 26,400	647
• Calpine Corp. 196,500	906
Centerpoint Energy, Inc. 164,917	1,618
Cinergy Corp. 94,465	3,430

See financial notes. 53



## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• CMS Energy Corp. 75,000	609	Group, Inc. 121,200	4,953
Consolidated Edison, Inc. 121,800	4,929	Puget Energy, Inc. 48,300	1,098
Constellation Energy Group, Inc. 89,950	3,271	Questar Corp. 44,500	1,413
Dominion Resources, Inc. 174,016	10,719	SCANA Corp. 59,600	2,044
DPL, Inc. 65,692	1,197	Sempra Energy 120,638	3,354
DTE Energy Co. 91,183	3,363	The Southern Co. 392,100	11,685
Duke Energy Corp. 487,362	8,846	TECO Energy, Inc. 100,800	1,324
Duquesne Light Holdings, Inc. 38,700	622	TXU Corp. 173,012	3,948
• Edison International 182,400	3,595	UGI Corp. 21,600	665
El Paso Corp. 317,646	2,332	Vectren Corp. 40,000	944
Energy East Corp. 78,184	1,755	WGL Holdings, Inc. 25,300	700
Entergy Corp. 123,421	6,652	Williams Cos., Inc. 274,309	2,798
Equitable Resources, Inc. 32,600	1,343	Wisconsin Energy Corp. 62,200	2,037
Exelon Corp. 175,987	11,166	WPS Resources Corp. 16,600	736
FirstEnergy Corp. 175,098	6,022	Xcel Energy, Inc. 215,335	3,531
FPL Group, Inc. 99,000	6,310		<b>176,668</b>
Great Plains Energy, Inc. 37,600	1,199		
Hawaiian Electric Industries, Inc. 19,100	874		
KeySpan Corp. 85,434	2,988		
Kinder Morgan, Inc. 67,200	3,599		
MDU Resources Group, Inc. 59,700	1,351		
National Fuel Gas Co. 41,700	932		
Nicor, Inc. 22,800	781		
NiSource, Inc. 139,880	2,897		
Northeast Utilities, Inc. 70,500	1,328		
NSTAR 27,500	1,284		
OGE Energy Corp. 45,100	1,029		
Oneok, Inc. 37,800	752		
Peoples Energy Corp. 18,500	748		
Pepco Holdings, Inc. 91,525	1,611		
• PG&E Corp. 222,258	5,434		
Philadelphia Suburban Corp. 38,700	914		
Piedmont Natural Gas Co. 17,200	683		
Pinnacle West Capital Corp. 49,000	1,791		
PPL Corp. 95,120	3,797		
Progress Energy, Inc. 131,100	5,650		
Public Service Enterprise			

## Short-Term Investment

0.0% of net assets

Provident Institutional TempFund 466,624	<b>467</b>
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Security Rate, Maturity Date	Face value (\$ x 1,000)
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## U.S. Treasury Obligation

0.0% of net assets

▲ U.S. Treasury Bill 0.93%, 12/18/03	200	<b>200</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.



Security Rate, Maturity Date	Face value (\$ x 1,000)	Mkt. value (\$ x 1,000)
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**Collateral Invested for Securities on Loan**

18.2% of net assets

**Commercial Paper & Other Corporate Obligations**

American Express Centurion Bank		
1.11%, 12/12/03	16,589	16,589
1.11%, 01/27/04	10,890	10,890
American Express Credit Corp.		
1.11%, 04/16/04	45,006	45,006
1.09%, 05/13/04	10,308	10,308
Canadian Imperial Bank Corp.		
1.09%, 05/28/04	29,321	29,316
CC USA, Inc.		
1.08%, 11/17/03	15,856	15,824
Concord Minutemen Capital Corp.		
1.11%, 01/09/04	24,998	24,933
1.08%, 11/14/03	25,557	25,509
1.08%, 11/18/03	27,683	27,626
1.07%, 11/19/03	22,412	22,395
Crown Point Funding Corp.		
1.11%, 01/16/04	35,351	35,265
1.08%, 11/14/03	28,474	28,416
Depfa Bank PLC		
1.08%, 11/18/03	41,117	41,005
1.08%, 12/22/03	5,090	5,076
Fairway Finance Corp.		
1.10%, 01/12/04	10,198	10,169
General Electric Capital Corp.		
1.08%, 05/10/04	42,650	42,650
Lexington Parker		
1.07%, 11/06/03	16,286	16,271
Svenska Handelsbanken		
1.39%, 10/27/04	40,561	40,557
Tulip Funding Corp.		
1.07%, 11/10/03	15,580	15,565
Westdeutsche Landesbank AG		
1.09%, 09/23/04	23,350	22,345
1.09%, 09/29/04	12,558	12,555
1.08%, 10/12/04	2,114	2,114
		<b>500,384</b>

Security Rate, Maturity Date	Face value (\$ x 1,000)	Mkt. value (\$ x 1,000)
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**Short-Term Investments**

Wells Fargo Bank, Time Deposit		
1.06%, 11/03/03	69,773	<b>69,773</b>

**Security and Number of Shares****Other Investment Companies**

Institutional Money Market Trust	515,213,849	<b>515,214</b>
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**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$1,047,251 of securities on loan)	\$5,962,336
Collateral held for securities on loan	1,085,371
Receivables:	
Fund shares sold	3,844
Interest	2
Dividends	7,666
Investments sold	816
Due from broker for futures	3
Income from securities on loan	144
Prepaid expenses	+ 80
<b>Total assets</b>	<b>7,060,262</b>

**Liabilities**

Collateral held for securities on loan	1,085,371
Payables:	
Fund shares redeemed	3,806
Investments bought	746
Investment adviser and administrator fees	53
Transfer agent and shareholder service fees	66
Accrued expenses	+ 587
<b>Total liabilities</b>	<b>1,090,629</b>

**Net Assets**

<b>Total assets</b>	7,060,262
<b>Total liabilities</b>	- 1,090,629
<b>Net assets</b>	<b>\$5,969,633</b>

**Net Assets by Source**

Capital received from investors	4,460,996
Net investment income not yet distributed	55,633
Net realized capital losses	(549,038)
Net unrealized capital gains	2,002,042

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$ 3,974,081		131,357		\$30.25
Select Shares®	\$1,995,552		65,933		\$30.27

Unless stated, all numbers x 1,000.

The fund paid \$3,960,400 for these securities. Not counting short-term obligations and government securities, the fund paid \$450,859 for securities during the report period and received \$268,270 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had twelve open S&P 500 futures contracts due to expire on December 18, 2003, with an aggregate contract value of \$3,149 and net unrealized gains of \$106.

**Federal Tax Data**

<b>Portfolio cost</b>	\$3,981,035
<b>Net unrealized gains and losses:</b>	
Gains	\$2,461,677
Losses	+ (480,376)
	<b>\$1,981,301</b>

**As of October 31, 2003:****Net undistributed earnings:**

Ordinary income	\$55,588
Long-term capital gains	\$-

**Unused capital losses:**

Expires 10/31 of:	Loss amount
2004	\$844
2005	2,606
2006	650
2007	11,853
2009	97,811
2010	250,410
2011	+ 164,078
	<b>\$528,252</b>

**Reclassifications:**

Net realized capital losses	\$415
Reclassified as:	
Capital received from investors	(\$415)

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$90,420
Interest	58
Securities on loan	+ 1,168
<b>Total investment income</b>	<b>91,646</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(169,559)
Net realized gains on futures contracts	+ 730
<b>Net realized losses</b>	<b>(168,829)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	1,141,108
Net unrealized gains on futures contracts	+ 40
<b>Net unrealized gains</b>	<b>1,141,148</b>

**Expenses**

Investment adviser and administrator fees	11,814
Transfer agent and shareholder service fees:	
Investor Shares	8,646
Select Shares®	1,730
Trustees' fees	33
Custodian fees	168
Portfolio accounting fees	776
Professional fees	56
Registration fees	116
Shareholder reports	598
Interest expense	5
Other expenses	+ 59
Total expenses	24,001
Expense reduction	- 831
<b>Net expenses</b>	<b>23,170</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>91,646</b>
<b>Net expenses</b>	<b>- 23,170</b>
<b>Net investment income</b>	<b>68,476</b>
<b>Net realized losses</b>	<b>(168,829)</b>
<b>Net unrealized gains</b>	<b>+ 1,141,148</b>
<b>Increase in net assets from operations</b>	<b>\$1,040,795</b>

Unless stated, all numbers x 1,000.

An additional \$5 was withheld for foreign taxes.

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

For the fund's independent trustees only.

Includes \$407 from the investment adviser (CSIM) and \$424 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 29, 2004, as follows:

Share Class	% of Average Daily Net Assets
Investor Shares	0.51
Select Shares	0.36

Prior to March 1, 2003, the limits were 0.46% and 0.35% for the Investor Shares and Select Shares, respectively. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$972,319.

See financial notes. 57

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$68,476	\$61,586
Net realized losses	(168,829)	(250,220)
Net unrealized gains or losses	+ 1,141,148	(624,054)
<b>Increase or decrease in net assets from operations</b>	<b>1,040,795</b>	<b>(812,688)</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	40,944	35,185
Select Shares®	+ 22,368	19,589
<b>Total dividends from net investment income</b>	<b>\$63,312</b>	<b>\$54,774</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	23,357	\$623,574	23,138	\$680,418
Select Shares	+ 14,563	384,508	13,770	407,100
<b>Total shares sold</b>	<b>37,920</b>	<b>\$1,008,082</b>	<b>36,908</b>	<b>\$1,087,518</b>
<b>Shares Reinvested</b>				
Investor Shares	1,516	\$38,050	1,048	\$32,699
Select Shares	+ 766	19,200	539	16,793
<b>Total shares reinvested</b>	<b>2,282</b>	<b>\$57,250</b>	<b>1,587</b>	<b>\$49,492</b>
<b>Shares Redeemed</b>				
Investor Shares	(21,127)	(\$560,404)	(26,817)	(\$764,754)
Select Shares	+ (12,277)	(323,765)	(16,042)	(456,881)
<b>Total shares redeemed</b>	<b>(33,404)</b>	<b>(\$884,169)</b>	<b>(42,859)</b>	<b>(\$1,221,635)</b>
<b>Net transactions in fund shares</b>	<b>6,798</b>	<b>\$181,163</b>	<b>(4,364)</b>	<b>(\$84,625)</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	190,492	\$4,810,987	194,856	\$5,763,074
Total increase or decrease	+ 6,798	1,158,646	(4,364)	(952,087)
<b>End of period</b>	<b>197,290</b>	<b>\$5,969,633</b>	<b>190,492</b>	<b>\$4,810,987</b>

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 tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$63,312
Long-term capital gains	\$–

**Prior period:**

Ordinary Income	\$54,774
Long-term capital gains	\$–

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase.

**Current period:**

Investor Shares	\$222
Select Shares	+ 163
<b>Total</b>	<b>\$385</b>

**Prior period:**

Investor Shares	\$323
Select Shares	+ 190
<b>Total</b>	<b>\$513</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$55,633 and \$50,469 for the current period and for prior period, respectively.

# Schwab Small-Cap Index Fund®

## Financial Statements

### Financial Highlights

Investor Shares	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	13.27	15.98	21.06	17.41	15.39
Income or loss from investment operations:					
Net investment income	0.11	0.13	0.07	0.07	0.06
Net realized and unrealized gains or losses	4.98	(2.17)	(2.76)	3.62	2.89
Total income or loss from investment operations	5.09	(2.04)	(2.69)	3.69	2.95
Less distributions:					
Dividends from net investment income	(0.14)	(0.09)	(0.08)	(0.04)	(0.06)
Distributions from net realized gains	—	(0.58)	(2.31)	—	(0.87)
Total distributions	(0.14)	(0.67)	(2.39)	(0.04)	(0.93)
Net asset value at end of period	18.22	13.27	15.98	21.06	17.41
Total return (%)	38.72	(13.66)	(13.66)	21.22	19.96
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.56	0.49	0.49	0.49 <sup>1</sup>	0.49
Gross operating expenses	0.60	0.60	0.61	0.66	0.79
Net investment income	0.74	0.77	0.49	0.44	0.33
Portfolio turnover rate	34	44	49	54	41
Net assets, end of period (\$ x 1,000,000)	886	722	804	803	452

<sup>1</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had been included.

## Financial Highlights

Select Shares®	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	13.28	16.00	21.09	17.44	15.41
Income or loss from investment operations:					
Net investment income	0.14	0.14	0.11	0.11	0.07
Net realized and unrealized gains or losses	4.99	(2.18)	(2.78)	3.61	2.90
Total income or loss from investment operations	5.13	(2.04)	(2.67)	3.72	2.97
Less distributions:					
Dividends from net investment income	(0.16)	(0.10)	(0.11)	(0.07)	(0.07)
Distributions from net realized gains	—	(0.58)	(2.31)	—	(0.87)
Total distributions	(0.16)	(0.68)	(2.42)	(0.07)	(0.94)
Net asset value at end of period	18.25	13.28	16.00	21.09	17.44
Total return (%)	39.02	(13.62)	(13.56)	21.37	20.14
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.41	0.38	0.38	0.38 <sup>1</sup>	0.38
Gross operating expenses	0.45	0.45	0.46	0.51	0.65
Net investment income	0.89	0.88	0.60	0.55	0.44
Portfolio turnover rate	34	44	49	54	41
Net assets, end of period (\$ x 1,000,000)	759	638	727	757	447

<sup>1</sup> The ratio of net operating expenses would have been 0.39% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Market Value</b> (\$x1,000)
<b>99.8% Common Stock</b>	<b>1,334,511</b>	<b>1,642,535</b>
<b>0.0% U.S. Treasury Obligations</b>	<b>150</b>	<b>150</b>
<b>99.8% Total Investments</b>	<b>1,334,661</b>	<b>1,642,685</b>
<b>7.5% Collateral Invested for Securities on Loan</b>	<b>122,374</b>	<b>122,374</b>
<b>(7.3)% Other Assets and Liabilities, Net</b>		<b>(119,767)</b>
<b>100.0% Total Net Assets</b>		<b>1,645,292</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock 99.8% of net assets****Aerospace / Defense 0.9%**

• Armor Holdings, Inc.	63,700	1,242
• DRS Technologies, Inc.	52,000	1,251
• EDO Corp.	45,300	1,010
• Engineered Support Systems, Inc.	36,900	2,495
• ESCO Technologies, Inc.	29,900	1,300
• Esterline Technologies Corp.	48,000	1,063
• GenCorp, Inc.	100,300	950
• Teledyne Technologies, Inc.	73,000	1,204
• Trimble Navigation Ltd.	72,700	2,010
• Veeco Instruments, Inc.	66,270	1,680
		<b>14,205</b>

**Security and Number of Shares**

Mkt. Value  
(\$ x 1,000)

**Air Transportation 1.0%**

• AirTran Holdings, Inc.	165,900	2,689
• Alaska Air Group, Inc.	60,700	1,748
• Atlantic Coast Airlines Holdings, Inc.	104,800	1,160
• Continental Airlines, Inc., Class B	149,300	2,852
• EGL, Inc.	107,400	1,752
• ExpressJet Holdings, Inc.	123,100	1,883
• Northwest Airlines Corp., Class A	195,100	2,671
• SkyWest, Inc.	132,400	2,448
		<b>17,203</b>

**Alcoholic Beverages 0.0%**

• The Robert Mondavi Corp., Class A	21,500	<b>754</b>
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**Apparel 1.3%**

• Aeropostale, Inc.	82,500	2,545
• Brown Shoe Co., Inc.	41,400	1,432
• The Buckle, Inc.	49,650	1,113
• The J. Jill Group, Inc.	43,500	529
• K-Swiss, Inc., Class A	40,100	1,762
• Kellwood Co.	60,900	2,275
• Kenneth Cole Productions, Inc., Class A	44,350	1,313
• Oshkosh B'Gosh, Inc., Class A	26,600	574
• Phillips-Van Heusen Corp.	69,600	1,193
• Quiksilver, Inc.	124,900	2,145
• Russell Corp.	74,200	1,356
• Stage Stores, Inc.	42,700	1,229
• Stride Rite Corp.	89,400	1,077
• Unifi, Inc.	124,100	619
• Wolverine World Wide, Inc.	91,600	1,850
		<b>21,012</b>

**Automotive Products / Motor Vehicles 1.6%**

• A.O. Smith Corp., Class B	67,100	2,124
• Aftermarket Technology Corp.	53,300	632
• Arctic Cat, Inc.	49,500	1,115
• Bandag, Inc.	45,000	1,647
• CSK Auto Corp.	99,600	1,708

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Fleetwood Enterprises, Inc. 80,300	809	• FirstFed Financial Corp. 39,600	1,782
• Group 1 Automotive, Inc. 50,700	1,796	Frontier Financial Corp. 42,900	1,345
Modine Manufacturing Co. 77,500	1,983	Gold Banc Corp., Inc. 92,000	1,189
• Monaco Coach Corp. 65,900	1,588	Greater Bay Bancorp 118,000	3,181
Myers Industries, Inc. 71,100	867	Hancock Holding Co. 34,917	1,998
Sonic Automotive, Inc. 67,400	1,530	Harbor Florida Bancshares, Inc. 54,700	1,472
• TBC Corp. 51,000	1,387	Harleysville National Corp. 54,693	1,652
Thor Industries, Inc. 63,600	4,078	Independent Bank Corp. 33,400	976
• United Auto Group, Inc. 91,700	2,381	Integra Bank Corp. 39,570	827
Winnebago Industries, Inc. 41,800	2,437	Irwin Financial Corp. 59,200	1,659
	<b>26,082</b>	MAF Bancorp., Inc. 60,225	2,525
		Main Street Banks, Inc. 40,000	1,043
<b>Banks 7.3%</b>		Mid-State Bancshares 53,700	1,306
Alabama National Bancorp 29,400	1,548	Midwest Banc Holdings, Inc. 41,300	973
Allegiant Bancorp, Inc. 39,200	862	• Movie Gallery, Inc. 72,000	1,489
Anchor Bancorp Wisconsin, Inc. 53,300	1,327	National Penn Bancshares, Inc. 55,710	1,660
BancFirst Corp. 16,700	901	NBT Bancorp., Inc. 75,600	1,588
BankAtlantic Bancorp, Inc., Class A 119,900	2,013	Net.B@nk, Inc. 108,600	1,489
Boston Private Financial Holdings, Inc. 48,600	1,238	OceanFirst Financial Corp. 32,200	842
Capital City Bank Group, Inc. 31,250	1,208	Old Second Bancorp, Inc. 15,400	708
Capitol Bancorp Ltd. 28,300	750	Omega Financial Corp. 17,700	640
Chemical Financial Corp. 54,187	1,883	Oriental Financial Group 40,650	1,041
Chittenden Corp. 84,025	2,704	PFF Bancorp, Inc. 37,800	1,410
City Holding Co. 38,400	1,299	Prosperity Bancshares, Inc. 43,600	1,007
Community Bank System, Inc. 29,900	1,458	Provident Bankshares Corp. 56,194	1,744
Community Trust Bancorp, Inc. 28,000	903	Republic Bancorp, Inc. 130,420	1,894
Connecticut Bancshares, Inc. 24,300	1,256	Riggs National Corp. 64,800	1,070
Corus Bankshares, Inc. 30,700	1,805	S&T Bancorp, Inc. 60,600	1,832
Dime Community Bancshares, Inc. 58,850	1,641	• S1 Corp. 159,000	1,285
Financial Institutions, Inc. 27,000	675	Sandy Spring Bancorp, Inc. 33,700	1,216
First Busey Corp., Class A 30,800	831	Seacoast Banking Corp. of Florida 31,700	561
First Charter Corp. 69,400	1,423	Second Bancorp., Inc. 22,300	618
First Commonwealth Financial Corp. 134,100	1,851	• Silicon Valley Bancshares 78,700	2,762
First Essex Bancorp, Inc. 17,000	925	▲ The South Financial Group, Inc. 114,200	2,984
First Federal Capital Corp. 46,500	1,022	▲ Southwest Bancorp of Texas, Inc. 78,000	2,801
First Financial Bancorp 101,830	1,690	Sterling Bancorp 34,000	993
First Financial Bancshares, Inc. 35,731	1,502	Sterling Bancshares, Inc. 98,950	1,138
First Merchants Corp. 40,530	1,083	Suffolk Bancorp 26,100	914
First Republic Bank 34,100	1,221	Susquehanna Bancshares, Inc. 91,075	2,281
		▲ Texas Regional Bancshares, Inc., Class A 67,219	2,437
		Tompkins Trustco, Inc. 16,800	816



# Schwab Small-Cap Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Troy Financial Corp. 21,700	765	<b>Business Services 13.1%</b>	
The Trust Co. of New Jersey 43,100	1,354	•4Kids Entertainment, Inc. 31,000	758
Trustco Bank Corp. 168,420	2,198	ABM Industries, Inc. 112,200	1,746
UCBH Holdings, Inc. 103,100	3,682	•Advent Software, Inc. 73,400	1,344
UMB Financial Corp. 50,293	2,516	•The Advisory Board Co. 34,700	1,263
Umpqua Holdings Corp. 66,700	1,364	Advo, Inc. 45,100	2,022
United Community Financial Corp. 80,600	893	•Agile Software Corp. 111,500	1,223
United National Bancorp. 43,300	1,522	•Altiris, Inc. 53,700	1,846
Unizan Financial Corp. 50,300	1,027	•American Management Systems, Inc. 97,200	1,439
USB Holding Co., Inc. 46,200	864	•AMN Healthcare Services, Inc. 64,633	977
WesBanco, Inc. 47,000	1,253	•Ansys, Inc. 33,800	1,205
WestCorp., Inc. 103,300	3,907	•Anteon International Corp. 77,200	2,636
Wintrust Financial Corp. 43,300	1,877	•Ariba, Inc. 627,700	2,040
WSFS Financial Corp. 16,500	704	▲ Barra, Inc. 44,700	1,699
	<b>120,093</b>	Bowne & Co., Inc. 76,600	1,149
<b>Business Machines &amp; Software 2.6%</b>		•Bright Horizons Family Solutions, Inc. 28,600	1,229
•Adaptec, Inc. 247,200	2,104	The Brink's Co. 124,400	2,494
•Advanced Digital Information Corp. 142,400	2,314	▲ Brocade Communications Systems, Inc. 591,400	3,874
Analogic Corp. 29,600	1,292	•Catalina Marketing Corp. 121,300	2,141
▲ Arbritron, Inc. 68,700	2,714	CDI Corp. 45,500	1,490
•Ascential Software Corp. 129,375	2,871	•Cell Genesys, Inc. 81,400	1,045
▲ Avocent Corp. 104,786	3,961	•Ciber, Inc. 139,900	1,290
Black Box Corp. 41,300	1,778	•Clarent Corp. 105,200	4
•Borland Software Corp. 170,500	1,514	•Cognizant Technology Solutions Corp. 139,900	6,350
•Cray, Inc. 152,600	1,987	•Connetics Corp. 74,500	1,334
•Enterasys Networks, Inc. 469,600	1,831	•CoStar Group, Inc. 36,800	1,386
•Hanger Orthopedic Group, Inc. 49,800	849	•Cross Country Healthcare, Inc. 73,200	1,017
•Imagistics International, Inc. 38,500	1,238	•CSG Systems International, Inc. 120,300	1,382
•Intergraph Corp. 106,100	2,765	•Dendrite International, Inc. 88,850	1,342
•Invision Technologies, Inc. 39,600	1,076	•Digital Insight Corp. 74,900	1,571
•Iomega Corp. 118,660	654	•Digital River, Inc. 69,700	1,908
Landamerica Financial Group, Inc. 42,700	2,135	•Diversa Corp. 97,800	824
•LTX Corp. 111,100	1,587	•Documentum, Inc. 114,500	3,406
•Micromuse, Inc. 179,400	1,444	•DoubleClick, Inc. 313,200	2,609
•MICROS Systems, Inc. 38,700	1,567	•E.piphany, Inc. 168,100	1,167
•PalmOne, Inc. 72,000	1,032	•Echelon Corp. 90,200	1,171
•PalmSource, Inc. 22,320	852	•eFunds Corp. 106,600	1,707
•Scansource, Inc. 27,000	1,161	•Exelixis, Inc. 146,400	1,088
•The Titan Corp. 176,800	3,734		
	<b>42,460</b>		

See financial notes. 63

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Exult, Inc. 244,800	1,941	NDCHealth Corp. 79,200	2,090
• F5 Networks, Inc. 61,100	1,528	• NetIQ Corp. 128,700	1,562
Factset Research Systems, Inc. 77,100	3,365	New England Business Service, Inc. 30,200	879
• FileNet Corp. 83,100	2,220	Newcastle Investment Corp. 65,700	1,537
• Forrester Research, Inc. 53,100	905	• Openwave Systems, Inc. 140,500	1,834
• Freemarkets, Inc. 97,100	608	• Parametric Technology Corp. 612,100	1,904
• FTI Consulting, Inc. 95,100	1,892	• Paxar Corp. 88,435	1,059
G&K Services, Inc., Class A 46,850	1,546	• Per-Se Technologies, Inc. 69,500	945
• Gartner, Inc., Class B 288,500	3,517	▲• Polycom, Inc. 225,500	4,517
• Genesis Health Ventures, Inc. 89,700	2,413	• Pre-Paid Legal Services, Inc. 39,900	1,084
• Global Imaging Systems, Inc. 49,500	1,438	• PRG-Schultz International, Inc. 142,800	678
Grey Global Group, Inc. 3,100	2,077	• Progress Software Corp. 77,200	1,704
• Heidrick & Struggles International, Inc. 41,700	824	• ProQuest Co. 63,800	1,895
• Hyperion Solutions Corp. 89,645	3,002	▲• R.H. Donnelley Corp. 69,400	2,977
• Identix, Inc. 195,032	1,121	• Radiant Systems, Inc. 67,500	450
• IDT Corp. 57,900	1,074	• RealNetworks, Inc. 362,500	2,411
• IDX Systems Corp. 66,900	1,753	• 5 Red Hat, Inc. 390,500	5,873
• Informatica Corp. 183,300	1,998	• Renaissance Learning, Inc. 69,900	1,759
• Infospace, Inc. 70,950	1,850	• Resources Connection, Inc. 50,300	1,244
• Intercept, Inc. 49,000	481	• Right Management Consultants, Inc. 52,100	940
▲• Internet Security Systems 113,100	1,856	Roto-Rooter, Inc. 23,100	815
• Interwoven, Inc. 242,200	918	• RSA Security, Inc. 132,300	1,716
• JDA Software Group, Inc. 65,100	1,394	• Serena Software, Inc. 93,900	1,620
John H. Harland Co. 64,000	1,743	• SourceCorp 36,900	865
• Keane, Inc. 144,900	1,904	Spartech Corp. 65,900	1,528
• Korn/Ferry International 85,600	748	• Spherion Corp. 139,800	1,216
• Kroll, Inc. 89,900	2,091	• SRA International, Inc., Class A 37,200	1,620
• Kronos, Inc. 44,925	2,695	The Standard Register Co. 64,100	1,128
• Labor Ready, Inc. 89,000	967	Startek, Inc. 32,900	1,093
• Macrovision Corp. 112,600	2,474	Strayer Education, Inc. 23,000	2,252
• Magma Design Automation, Inc. 70,800	1,715	• Sycamore Networks, Inc. 624,500	3,123
• Mantech International Corp., Class A 37,900	927	• Sylvan Learning Systems, Inc. 94,100	2,663
• MAXIMUS, Inc. 48,100	1,679	• Symyx Technologies, Inc. 71,500	1,512
• Maxygen, Inc. 80,100	761	• Systems & Computer Technology Corp. 77,200	1,135
• Mentor Graphics Corp. 156,300	2,618	• TeleTech Holdings, Inc. 169,000	1,112
• MPS Group, Inc. 235,100	2,245	• Telik, Inc. 77,700	1,579
• MRO Software, Inc. 55,600	703	• Tetra Tech, Inc. 123,218	2,770
Nautilus Group, Inc. 76,949	1,201	• Tetra Technologies, Inc. 50,100	1,133
• NCO Group, Inc. 59,000	1,404	• Tier Technologies, Inc., Class B 37,200	381

## Schwab Small-Cap Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Trizetto Group, Inc. 112,600	766	Products, Inc. 41,200	2,221
• Tularik, Inc. 125,400	1,576	• Dycom Industries, Inc. 109,200	2,360
• United Online, Inc. 96,800	2,787	ElkCorp 45,850	1,165
• UNOVA, Inc. 135,300	2,937	• EMCOR Group, Inc. 34,200	1,289
• URS Corp. 72,600	1,589	Granite Construction, Inc. 96,225	1,924
• Verity, Inc. 83,700	1,176	• 8 Hovnanian Enterprises, Inc., Class A 67,300	5,470
• Vignette Corp. 576,900	1,448	• Insituform Technologies, Inc., Class A 60,000	858
• Watson Wyatt & Co. Holdings 76,200	1,833	M/I Schottenstein Homes, Inc. 33,200	1,382
• WebEx Communications, Inc. 94,500	2,088	• NCI Building Systems, Inc. 43,100	937
• webMethods, Inc. 113,600	986	• Palm Harbor Homes, Inc. 54,300	1,007
• Websense, Inc. 50,700	1,186	The Ryland Group, Inc. 55,600	4,943
• Wind River Systems, Inc. 177,600	1,190	• Simpson Manufacturing Co., Inc. 56,400	2,524
	<b>214,937</b>	Standard-Pacific Corp. 72,400	3,464
<b>Chemicals 2.0%</b>		• Surebeam Corp., Class A 132,000	39
A. Schulman, Inc. 66,900	1,270	Texas Industries, Inc. 47,700	1,296
Arch Chemicals, Inc. 53,100	1,178	• USG Corp. 98,000	1,641
• Bio-Rad Laboratories, Inc., Class A 57,800	3,020	Walter Industries, Inc. 95,000	1,129
Brady Corp., Class A 52,800	1,864		<b>37,574</b>
▲ Crompton Corp. 252,700	1,354	<b>Consumer Durables 1.0%</b>	
• Entegris, Inc. 162,400	2,137	• Genlyte Group, Inc. 31,400	1,481
▲ Ferro Corp. 93,100	1,911	• Griffon Corp. 67,400	1,304
Georgia Gulf Corp. 74,400	2,001	Haverty Furniture Cos., Inc. 48,500	1,006
H.B. Fuller Co. 65,400	1,621	• Helen of Troy Ltd. 64,800	1,454
▲ • Hercules, Inc. 253,200	2,646	Kimball International, Inc., Class B 87,700	1,359
MacDermid, Inc. 70,300	2,101	• Select Comfort Corp. 73,000	2,285
Millennium Chemicals, Inc. 142,800	1,431	Sturm Ruger & Co., Inc. 65,000	738
Olin Corp. 133,900	2,331	Thomas Industries, Inc. 40,000	1,208
• PolyOne Corp. 209,300	1,011	Toro Co. 56,000	2,783
• Rogers Corp. 36,900	1,475	• United Rentals, Inc. 174,700	3,043
Rollins, Inc. 104,450	2,122		<b>16,661</b>
Solutia, Inc. 240,100	641	<b>Containers 0.2%</b>	
Tredegar Corp. 87,400	1,362	Greif, Inc., Class A 50,700	1,649
WD-40 Co. 38,600	1,253	• Silgan Holdings, Inc. 42,800	1,369
Wellman, Inc. 78,300	646		<b>3,018</b>
	<b>33,375</b>	<b>Electronics 11.3%</b>	
<b>Construction 2.3%</b>		• Actel Corp. 57,300	1,546
American Woodmark Corp. 18,600	913	Acuity Brands, Inc. 94,200	2,025
• Beazer Homes USA, Inc. 30,269	3,012		
Centex Construction			

See financial notes. 65

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Agilysys, Inc. 72,900	749	• Exar Corp. 90,700	1,459
• ① Amkor Technology, Inc. 378,000	7,125	• FEI Co. 74,100	1,760
• Andrew Corp. 346,945	4,538	• Flir Systems, Inc. 75,200	2,351
• Anixter International, Inc. 82,000	1,958	• FuelCell Energy, Inc. 84,300	1,286
• Arris Group, Inc. 177,200	1,063	• GlobespanVirata, Inc. 304,300	1,875
• Artisan Components, Inc. 49,800	1,021	• Hollywood Entertainment Corp. 140,200	2,131
• Asyst Technologies, Inc. 88,700	1,654	• Hutchinson Technology, Inc. 58,300	1,954
• ATMI, Inc. 69,800	1,605	• Intermagnetics General Corp. 37,714	888
• Avid Technology, Inc. 67,300	3,482	• Itron, Inc. 47,400	971
• Axcelis Technologies, Inc. 227,000	2,402	• Kemet Corp. 196,600	2,605
Belden, Inc. 57,300	1,074	• Kopin Corp. 159,400	1,168
• Benchmark Electronics, Inc. 56,700	2,762	• Kulicke & Soffa Industries, Inc. 109,200	1,603
• Brooks Automation, Inc. 83,524	2,084	▲• Lattice Semiconductor Corp. 258,600	2,017
C&D Technologies, Inc. 59,900	1,194	• Littelfuse, Inc. 49,700	1,322
• Cable Design Technologies Corp. 102,075	984	▲• Macromedia, Inc. 140,200	2,679
• CCC Information Services Group, Inc. 62,000	1,042	• Mercury Computer Systems, Inc. 50,000	1,076
• Celera Genomics Group – Applera Corp. 162,900	2,178	• Methode Electronics, Class A 84,400	1,005
• Checkpoint Systems, Inc. 76,500	1,441	• MKS Instruments, Inc. 118,000	3,068
• ChipPAC, Inc., Class A 216,400	1,805	• Monolithic System Technology, Inc. 65,300	532
• CMGI, Inc. 894,500	1,682	• Mykrolis Corp. 92,700	1,367
• Coherent, Inc. 67,200	1,546	• New Focus, Inc. 152,500	792
Cohu, Inc. 48,400	971	• Newport Corp. 89,000	1,403
▲• CommScope, Inc. 136,400	2,113	• Omnivision Technologies, Inc. 61,300	3,482
• Conexant Systems, Inc. 615,100	3,586	Park Electrochemical Corp. 45,350	1,111
• Corvis Corp. 924,000	1,321	• Photon Dynamics, Inc. 37,500	1,418
• Cox Radio, Inc., Class A 95,900	2,121	• Pinnacle Systems, Inc. 146,300	1,017
• Credence Systems Corp. 136,100	2,220	• Planar Systems, Inc. 33,400	773
CTS Corp. 78,400	868	• Plantronics, Inc. 100,900	2,806
Cubic Corp. 61,300	1,741	• Plexus Corp. 96,500	1,669
• Cyberonics 51,700	1,414	• Power Integrations, Inc. 67,300	2,343
• ⑥ Cypress Semiconductor Corp. 268,800	5,768	• Power-One, Inc. 191,400	1,734
• Dionex Corp. 47,200	2,008	• Powerwave Technologies, Inc. 143,300	933
• DSP Group, Inc. 62,500	1,493	• Quantum Corp. 396,000	1,232
• Dupont Photomasks, Inc. 42,600	987	▲• ⑩ Rambus, Inc. 219,700	5,440
• Electro Rent Corp. 53,722	787	• Rayovac Corp. 72,900	1,199
• Electro Scientific Industries, Inc. 63,200	1,552	• Rudolph Technologies, Inc. 34,100	892
▲• Electronics for Imaging 118,700	3,217	• ScanSoft, Inc. 222,500	1,286
• ESS Technology, Inc. 88,700	1,231	• Semtech Corp. 166,700	3,701
		• Silicon Image, Inc. 157,900	1,110
		▲• ③ Silicon Laboratories, Inc. 111,000	5,992

## Schwab Small-Cap Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Silicon Storage Technology, Inc. 218,300	2,441	• Range Resources Corp. 122,100	934
• Standard Microsystems Corp. 38,400	1,152	• Seacor Smit, Inc. 42,650	1,635
• Technitrol, Inc. 91,100	1,986	• Southwestern Energy Co. 77,800	1,509
• Tekelec 138,900	2,235	• Swift Energy Co. 63,600	884
▲• Thomas & Betts Corp. 132,600	2,360	TC Pipelines L.P. 36,900	1,164
• THQ, Inc. 86,150	1,528	▲• Tom Brown, Inc. 103,700	2,802
• Triquint Semiconductor, Inc. 306,700	2,199	• Unit Corp. 94,700	1,836
• Varian Semiconductor Equipment Associates, Inc. 77,900	3,766	• USEC, Inc. 188,600	1,405
▲• Varian, Inc. 77,300	2,768	• W-H Energy Services, Inc. 61,300	961
• Viasat, Inc. 59,400	1,166		<b>40,284</b>
• Vicor Corp. 97,000	984		
• Vitesse Semiconductor Corp. 468,100	3,295		
• Western Wireless Corp., Class A 165,900	3,218		
• Wilson Greatbatch Technologies, Inc. 47,600	1,795		
• Zoran Corp. 89,300	1,488		
	<b>186,189</b>		
<b>Energy: Raw Materials 2.5%</b>		<b>Food &amp; Agriculture 1.5%</b>	
• Atwood Oceanics, Inc. 32,100	831	• 7-Eleven, Inc. 238,040	3,797
Berry Petroleum Co., Class A 47,600	866	• American Italian Pasta Co., Class A 39,700	1,518
Cabot Oil & Gas Corp. 73,900	1,888	• Chiquita Brands International, Inc. 90,400	1,672
CARBO Ceramics, Inc. 35,900	1,508	Coca-Cola Bottling Co. Consolidated 15,100	763
• Dril-Quip, Inc. 39,600	594	Delta & Pine Land Co. 87,300	1,996
• Evergreen Resources, Inc. 89,400	2,452	• Fisher Communications, Inc. 18,900	903
• Grey Wolf, Inc. 420,900	1,351	Flowers Foods, Inc. 104,400	2,477
• Hanover Compressor Co. 165,600	1,756	• Hain Celestial Group, Inc. 77,200	1,629
• Headwaters, Inc. 65,200	1,222	• International Multifoods Corp. 45,000	1,004
• Hydril Co. 53,400	1,252	▲ Interstate Bakeries 101,600	1,491
• Joy Global, Inc. 111,500	2,125	• J & J Snack Foods Corp. 19,900	710
• Kirby Corp. 54,900	1,613	Lance, Inc. 66,100	856
Massey Energy Co. 171,100	2,378	• Ralcorp Holdings, Inc. 66,566	1,831
• McDermott International, Inc. 144,700	1,071	• Tejon Ranch Co. 33,400	1,313
• Newpark Resources, Inc. 179,400	721	• United Natural Foods, Inc. 45,000	1,741
NL Industries, Inc. 109,900	1,933	• Wild Oats Markets, Inc. 68,100	707
• Offshore Logistics, Inc. 53,300	1,162		<b>24,408</b>
Penn Virginia Corp. 19,700	894		
• Plains Resources, Inc. 54,700	725		
• Prima Energy Corp. 29,200	812		
		<b>Gold 0.1%</b>	
		Royal Gold, Inc. 46,900	<b>972</b>
		<b>Healthcare / Drugs &amp; Medicine 10.6%</b>	
		• aaiPharma, Inc. 63,350	1,146
		• Abgenix, Inc. 202,600	2,482
		• Advanced Medical Optics, Inc. 65,900	1,329
		• Advanced Neuromodulation Systems, Inc. 43,500	1,783

See financial notes. 67

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Albany Molecular Research, Inc. 71,600	1,052	• InterMune, Inc. 73,800	1,476
• Alexion Pharmaceuticals, Inc. 45,000	832	• Isis Pharmaceuticals, Inc. 125,500	835
• Alkermes, Inc. 197,200	2,558	• Kindred Healthcare, Inc. 40,800	1,683
Alpharma, Inc., Class A 119,800	2,180	• KV Pharmaceutical Co., Class A 110,175	2,644
• American Healthways, Inc. 33,900	1,405	• La Jolla Pharmaceutical Co. 94,300	322
• American Medical Systems Holdings, Inc. 75,000	1,500	Landauer, Inc. 19,300	755
• AMERIGROUP Corp. 53,800	2,250	• Ligand Pharmaceuticals, Inc., Class B 156,900	2,162
• Amsurg Corp. 46,000	1,656	• Martek Biosciences Corp. 60,200	2,914
• Antigenics, Inc. 91,200	998	• Medarex, Inc. 163,800	1,171
Arrow International, Inc. 99,000	2,612	• Medicines Co. 105,100	2,801
• Atrix Labs, Inc. 42,800	860	Mentor Corp. 106,400	2,155
• Beverly Enterprises, Inc. 247,100	1,500	• Merit Medical Systems, Inc. 43,466	1,138
• BioMarin Pharmaceuticals, Inc. 147,900	1,035	Mine Safety Appliances Co. 27,400	1,551
• Biosite, Inc. 34,000	877	• Myriad Genetics, Inc. 58,700	743
Cambrex Corp. 59,200	1,399	• Nektar Therapeutics 126,300	1,660
• Centene Corp. 42,550	1,302	• NPS Pharmaceuticals, Inc. 85,000	2,238
• Cerus Corp. 39,000	175	Oakley, Inc. 156,300	1,696
• Chattem, Inc. 46,800	687	• Ocular Sciences, Inc. 53,800	1,503
• Cima Labs, Inc. 32,300	1,014	• Odyssey HealthCare, Inc. 82,650	2,293
• Conmed Corp. 65,800	1,339	• Orthodontic Centers of America, Inc. 114,200	1,009
Cooper Cos., Inc. 70,800	3,076	• OSI Pharmaceuticals, Inc. 84,500	2,366
• Corixa Corp. 115,700	691	Owens & Minor, Inc. 78,400	1,595
• Corvel Corp. 24,400	881	• Pacificare Health Systems, Inc. 84,000	4,998
• CV Therapeutics, Inc. 64,700	1,141	• Parexel International Corp. 59,800	1,000
Datascope Corp. 34,900	1,162	Perrigo Co. 162,100	2,180
▲• Endo Pharmaceutical Holdings, Inc. 300,400	4,915	▲•⑦ Pharmaceutical Resources, Inc. 76,500	5,529
• Enzo Biochem, Inc. 68,061	1,259	PolyMedica Corp. 55,600	1,640
• Enzon Pharmaceuticals, Inc. 101,700	1,135	• Priority Healthcare Corp., Class B 100,300	2,169
• First Horizon Pharmaceutical Corp. 79,600	563	• Protein Design Labs, Inc. 207,200	2,793
• Gen-Probe, Inc. 107,000	2,864	• Province Healthcare Co. 112,300	1,442
• Genta, Inc. 167,300	1,790	• PSS World Medical, Inc. 154,500	1,440
• Haemonetics Corp. 55,200	1,273	• Regeneron Pharmaceuticals, Inc. 115,800	1,603
ICN Pharmaceuticals, Inc. 188,300	3,636	• RehabCare Group, Inc. 38,900	608
• ICU Medical, Inc. 30,700	1,037	▲• Resmed, Inc. 75,700	3,162
•④ ImClone Systems, Inc. 169,800	5,901	▲• Sepracor, Inc. 192,300	5,121
• Inamed Corp. 52,400	4,526	• Serologicals Corp. 56,200	899
• Incyte Corp. 167,000	882	• Sierra Health Services, Inc. 63,400	1,477
• Integra LifeSciences Holdings Corp. 59,500	2,007	• Sola International, Inc. 56,900	976

**Schwab Small-Cap Index Fund\***

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Sunrise Senior Living, Inc. 48,100	1,390	Harleysville Group, Inc. 68,500	1,525
• SurModics, Inc. 40,300	847	Hooper Holmes, Inc. 146,200	762
• Sybron Dental Specialties, Inc. 86,500	1,989	Horace Mann Educators Corp. 94,900	1,257
• Tanox, Inc. 100,500	1,804	Kansas City Life Insurance Co. 27,900	1,310
• Thoratec Corp. 126,200	1,942	Liberty Corp. 44,300	1,974
• Transkaryotic Therapies, Inc. 75,700	992	• Ohio Casualty Corp. 139,200	2,130
• Trimeris, Inc. 49,000	1,254	• Philadelphia Consolidated Holding Co. 49,000	2,310
• United Surgical Partners International, Inc. 62,400	1,882	The Phoenix Cos., Inc. 213,600	2,350
• United Therapeutics Corp. 49,500	996	PMA Capital Corp., Class A 70,900	932
• US Oncology, Inc. 195,472	2,138	Presidential Life Corp. 67,000	1,029
• Vaxgen, Inc. 45,700	431	• ProAssurance Corp. 66,496	2,001
• Ventana Medical Systems, Inc. 37,900	1,586	RLI Corp. 56,650	1,903
• Viasys Healthcare, Inc. 67,900	1,226	Selective Insurance Group, Inc. 59,900	1,839
• Vicuron Pharmaceuticals, Inc. 122,600	2,250	State Auto Financial Corp. 89,200	2,391
• Visx, Inc. 110,300	2,676	Sterling Financial Corp. 38,600	1,095
West Pharmaceutical Services, Inc. 33,400	1,104	• Stewart Information Services Corp. 41,500	1,293
• Wright Medical Group, Inc. 73,900	2,169	• Triad Guaranty, Inc. 32,700	1,613
• XOMA Ltd. 171,300	1,283	• UICI 105,400	1,577
• Zoll Medical Corp. 19,500	663	United Fire & Casualty Co. 22,400	893
	<b>175,079</b>	Zenith National Insurance Corp. 44,100	1,354
			<b>47,954</b>
<b>Household Products 0.2%</b>		<b>Media 2.6%</b>	
• Elizabeth Arden, Inc. 42,900	858	• Adolor Corp. 71,800	1,312
Nu Skin Enterprises, Inc., Class A 82,600	1,311	Advanced Marketing Services, Inc. 46,600	534
• Playtex Products, Inc. 127,400	765	• AMC Entertainment, Inc. 84,200	1,145
	<b>2,934</b>	• American Tower Corp., Class A 470,800	5,461
<b>Insurance 2.9%</b>		Banta Corp. 58,200	2,227
▲ Alfa Corp. 181,100	2,334	Blockbuster, Inc., Class A 82,200	1,584
• Allmerica Financial Corp. 121,100	3,225	• Charter Communications, Inc., Class A 672,200	2,870
• Argonaut Group, Inc. 48,900	785	• CNET Networks, Inc. 322,300	2,624
• Clark, Inc. 41,400	623	• Consolidated Graphics, Inc. 30,400	841
• CNA Surety Corp. 97,500	1,064	• Cumulus Media, Inc., Class A 112,380	2,105
Delphi Financial Group, Inc., Class A 46,571	2,346	• Entravision Communications Corp., Class A 167,500	1,603
FBL Financial Group, Inc., Class A 62,100	1,621	• Gaylord Entertainment Co. 76,700	2,067
Fremont General Corp. 172,400	2,867	Gray Television, Inc. 93,100	1,184
Great American Financial Resources, Inc. 99,750	1,551		

See financial notes. 69



## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Information Holdings, Inc. 49,400	1,108	Fidelity Bankshares, Inc. 34,800	943
• Insight Communications Co. 118,300	1,146	• Financial Federal Corp. 41,700	1,399
• Journal Register Co. 94,400	1,891	First Community Bancorp 36,500	1,278
• Lin TV Corp., Class A 62,200	1,403	First Financial Corp. 29,200	862
• Mediacom Communications Corp. 208,200	1,457	First Financial Holdings, Inc. 30,100	908
• Primedia, Inc. 589,600	1,586	First Indiana Corp. 37,800	690
• Pulitzer, Inc. 21,200	1,103	First Sentinel Bancorp., Inc. 63,591	1,186
• Regent Communications, Inc. 111,100	664	Flagstar Bancorp., Inc. 135,900	3,031
• Saga Communications, Inc., Class A 41,900	796	Glacier Bancorp, Inc. 44,330	1,364
• Salem Communications Corp., Class A 42,100	979	Hudson River Bancorp 35,400	1,182
• Sinclair Broadcast Group, Inc., Class A 102,400	1,192	Independent Bank Corp. Michigan 44,420	1,285
• Spanish Broadcasting System, Class A 84,000	756	• Knight Trading Group, Inc. 254,000	3,515
• Tivo, Inc. 143,800	1,153	• La Quinta Corp. 346,900	2,140
• Valuevision Media, Inc., Class A 80,700	1,311	• Local Financial Corp. 40,100	778
	<b>42,102</b>	MB Financial, Inc. 39,600	1,873
<b>Miscellaneous 0.1%</b>		MCG Capital Corp. 86,000	1,512
• Coinstar, Inc. 52,100	<b>763</b>	McGrath RentCorp 27,100	772
<b>Miscellaneous Finance 4.4%</b>		• Meritage Corp. 30,400	1,797
1st Source Corp. 49,100	982	The Midland Co. 40,600	936
Amcore Financial, Inc. 56,550	1,527	• National Western Life Insurance Co., Class A 8,000	1,151
American Capital Strategies Ltd. 124,700	3,367	New Century Financial Corp. 78,600	2,914
• Bankunited Financial Corp., Class A 66,500	1,470	Northwest Bancorp, Inc. 108,649	2,263
• Bay View Capital Corp. 144,600	879	▲ Pacific Capital Bancorp. 77,399	2,636
Blackrock, Inc. 41,500	2,131	Pacific Northwest Bancorp 39,000	1,515
• Boca Resorts, Inc., Class A 89,800	1,212	• Saxon Capital, Inc. 67,200	1,267
Cathay Bancorp., Inc. 51,900	2,511	Seacoast Financial Services Corp. 57,600	1,475
Central Pacific Financial Co. 36,700	960	United Community Banks, Inc. 51,000	1,619
Charter Municipal Mortgage Acceptance Co. 94,600	1,815	Value Line, Inc. 22,100	1,094
• CompuCredit Corp. 107,100	2,117	Waypoint Financial Corp. 76,400	1,591
• Corrections Corp. of America 81,000	1,989		<b>72,455</b>
CVB Financial Corp. 100,340	2,002	<b>Non-Durables &amp; Entertainment 3.8%</b>	
East-West Bancorp, Inc. 54,500	2,675	Action Performance Cos., Inc. 41,800	856
• eSpeed, Inc., Class A 67,600	1,842	▲ Activision, Inc. 201,100	3,035
		• AFC Enterprises, Inc. 67,900	1,137
		Bob Evans Farms, Inc. 78,400	2,317
		• California Pizza Kitchen, Inc. 44,100	820
		• CEC Entertainment, Inc. 58,500	2,861
		Churchill Downs, Inc. 29,300	1,126



# Schwab Small-Cap Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Electronics Boutique Holdings Corp. 57,600	1,639	<b>Oil: Domestic 2.0%</b>	
• Fossil, Inc. 105,850	2,858	• CAL Dive International, Inc. 86,700	1,797
Handleman Co. 56,400	1,001	• Comstock Resources, Inc. 70,900	1,059
IHOP Corp. 49,700	1,844	• Encore Acquisition Co. 69,300	1,594
• Isle of Capri Casinos, Inc. 66,700	1,391	Frontier Oil Corp. 62,200	995
• Jack in the Box, Inc. 82,700	1,504	• Global Industries Ltd. 231,300	1,069
• Jakks Pacific, Inc. 48,200	627	• Gulfmark Offshore, Inc. 47,000	656
Landry's Restaurants, Inc. 62,200	1,557	Holly Corp. 35,200	877
Lone Star Steakhouse & Saloon, Inc. 47,000	1,028	▲ Houston Exploration Co. 71,400	2,499
• Marvel Enterprises, Inc. 169,300	4,986	• Magnum Hunter Resources, Inc. 156,800	1,356
• O'Charleys, Inc. 46,200	778	Patina Oil & Gas Corp. 76,406	3,223
• P.F. Chang's China Bistro, Inc. 57,300	2,793	• Quicksilver Resource, Inc. 49,400	1,270
• Papa John's International, Inc. 38,900	1,023	• Remington Oil & Gas Corp. 62,400	1,114
• Penn National Gaming, Inc. 90,400	2,142	• Spinnaker Exploration Co. 76,500	1,958
• Rare Hospitality International Inc. 75,950	1,884	St. Mary Land & Exploration Co. 65,400	1,707
Russ Berrie & Co., Inc. 46,300	1,660	• Stone Energy Corp. 60,640	2,191
• Ryan's Family Steak Houses, Inc. 95,950	1,337	• Superior Energy Services, Inc. 170,400	1,523
• SCP Pool Corp. 79,725	2,790	• Tesoro Petroleum Corp. 146,500	1,670
▲ Service Corp. International 687,000	3,332	• Ultra Petroleum Corp. 170,700	3,124
• Sonic Corp. 89,200	2,481	• Universal Compression Holdings, Inc. 70,800	1,557
• Sotheby's Holdings, Inc., Class A 136,100	1,449	Vintage Petroleum, Inc. 147,700	1,706
• The Steak N Shake Co. 63,700	1,102	<b>32,945</b>	
• Stewart Enterprises, Inc., Class A 236,700	966	<b>Optical &amp; Photo 0.3%</b>	
• Take-Two Interactive Software, Inc. 94,300	3,730	• Lexar Media, Inc. 172,000	3,941
The Topps Co., Inc. 92,300	943	• Photonics, Inc. 70,900	1,527
Triarc Cos., Class B 96,000	1,023	<b>5,468</b>	
Triarc Cos., Inc. 48,000	500	<b>Paper &amp; Forest Products 0.7%</b>	
Tupperware Corp. 132,300	1,991	• Carastar Industries, Inc. 66,500	639
<b>62,511</b>		Chesapeake Corp. 34,800	849
<b>Non-Ferrous Metals 0.6%</b>		Deltic Timber Corp. 28,000	802
Commercial Metals Co. 64,766	1,599	Glatfelter 100,200	1,278
• Hecla Mining Co. 231,600	1,367	Longview Fibre Co. 120,100	1,291
Minerals Technologies, Inc. 45,500	2,493	Potlatch Corp. 66,000	2,063
▲ Mueller Industries, Inc. 79,100	2,496	Rock-Tennessee Co., Class A 79,200	1,275
Reliance Steel & Aluminum Co. 73,175	2,100	Universal Forest Products, Inc. 40,500	1,199
<b>10,055</b>		Wausau-Mosinee Paper Corp. 119,125	1,472
		<b>10,868</b>	

See financial notes. 71

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Producer Goods &amp; Manufacturing 5.6%</b>			
• Actuant Corp., Class A 53,200	1,715	• Possis Medical, Inc. 33,500	545
• Advanced Energy Industries, Inc. 72,800	1,662	Regal Beloit 56,700	1,154
• Aeroflex, Inc. 149,600	1,388	Robbins & Myers, Inc. 32,900	694
Albany International Corp., Class A 74,083	2,289	Sauer-Danfoss, Inc. 109,300	1,550
Applied Industrial Technologies, Inc. 44,900	1,013	• Sequa Corp., Class A 23,700	1,130
Baldor Electric Co. 76,120	1,621	• The Shaw Group, Inc. 115,300	1,574
Barnes Group, Inc. 51,200	1,494	• SPS Technologies, Inc. 29,800	1,470
▲ Briggs & Stratton Corp. 49,200	3,199	Standex International Corp. 27,700	705
Clarcor, Inc. 57,250	2,327	Steelcase, Inc., Class A 97,200	1,142
Cognex Corp. 98,500	2,645	Stewart & Stevenson Services, Inc. 64,800	1,083
• Cuno, Inc. 37,200	1,484	Tecumseh Products Co., Class A 41,400	1,697
Curtiss-Wright Corp. 23,200	1,717	Tennant Co. 20,100	795
Federal Signal Corp. 109,200	1,615	• Terex Corp. 109,600	2,473
▲ • Flowserve Corp. 127,334	2,605	Trinity Industries, Inc. 103,050	2,623
▲ • FMC Corp. 81,800	2,291	• Triumph Group, Inc. 37,000	1,208
Franklin Electric Co., Inc. 25,100	1,531	Valmont Industries, Inc. 53,900	1,121
• Gardner Denver, Inc. 36,400	752	Watsco, Inc. 60,900	1,304
• GrafTech International Ltd. 152,200	1,581	Watts Water Technologies, Inc., Class A 64,500	1,146
Helix Technology Corp. 59,100	1,061	Woodward Governor Co. 25,800	1,194
Hughes Supply, Inc. 54,450	2,105	▲ York International Corp. 90,500	3,596
• Ionics, Inc. 37,700	1,074		<b>91,619</b>
• Jarden Corp. 31,700	1,309	<b>Railroad &amp; Shipping 0.5%</b>	
JLG Industries, Inc. 97,600	1,165	Florida East Coast Industries, Class A 83,800	2,491
Kaydon Corp. 63,900	1,519	• Genessee & Wyoming, Inc., Class A 31,900	775
Lennox International, Inc. 134,200	2,220	• Kansas City Southern Railway 137,800	1,823
Libbey, Inc. 30,091	800	Overseas Shipholding Group 77,000	2,099
▲ Lincoln Electric Holdings, Inc. 93,800	2,288	Wabtec Corp. 100,121	1,532
• Lone Star Technologies, Inc. 65,000	905		<b>8,720</b>
Manitowoc Co., Inc. 59,862	1,299	<b>Real Property 5.7%</b>	
Matthews International Corp., Class A 72,600	1,959	Alexandria Real Estate Equities, Inc. 43,600	2,224
• Maverick Tube Corp. 94,200	1,591	AMLI Residential Properties 40,200	1,023
• Micrel, Inc. 207,500	3,424	Anthracite Capital, Inc. 114,200	1,164
• Moog, Inc., Class A 30,100	1,276	Anworth Mortgage Asset Corp. 71,000	997
MSC Industrial Direct Co., Class A 79,500	1,880	Bedford Property Investors, Inc. 39,200	1,029
NACCO Industries, Inc., Class A 15,150	1,194		
Nordson Corp. 76,800	2,128		
• Oceaneering International, Inc. 55,900	1,289		

# Schwab Small-Cap Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
▲ Brandywine Realty Trust 81,600	2,068	Novastar Financial, Inc. 25,700	1,895
Capital Automotive Real Estate Investment Trust 70,300	2,187	Parkway Properties, Inc. 23,100	1,018
Capstead Mortgage Corp. 34,200	457	Pennsylvania Real Estate Investment Trust 51,000	1,703
Colonial Properties Trust 59,500	2,201	Post Properties, Inc. 84,800	2,239
Commercial Net Lease Realty 105,500	1,815	PS Business Parks, Inc. 49,000	1,847
Cornerstone Realty Income Trust, Inc. 118,800	982	RAIT Investment Trust 48,600	1,135
Corporate Office Properties Trust SBI 66,900	1,294	Redwood Trust, Inc. 39,100	1,939
Crown American Realty Trust 71,200	853	Saul Centers, Inc. 36,000	979
EastGroup Properties, Inc. 41,800	1,218	Senior Housing Properties Trust 135,100	2,012
Entertainment Properties Trust 45,800	1,474	SL Green Realty Corp. 76,100	2,751
Equity One, Inc. 150,400	2,519	Sovran Self Storage, Inc. 30,300	1,026
Essex Property Trust, Inc. 51,500	3,084	Summit Properties, Inc. 66,300	1,482
FelCor Lodging Trust, Inc. 131,000	1,335	Sun Communities, Inc. 42,500	1,549
Gables Residential Trust 60,800	1,957	Tanger Factory Outlet Centers 22,200	896
Getty Realty Corp. 50,600	1,252	Taubman Centers, Inc. 112,300	2,264
Glenborough Realty Trust, Inc. 63,000	1,228	The Town & Country Trust 38,000	883
Glimcher Realty Trust 78,300	1,658	• Trammell Crow Co. 83,600	1,138
Great Lakes Real Estate Investment Trust 36,700	588	Universal Health Realty Income 27,900	781
Home Properties of NY, Inc. 64,800	2,495	US Restaurant Properties, Inc. 45,700	731
IMPAC Mortgage Holdings, Inc. 112,100	1,687	Ventas, Inc. 180,000	3,366
Innkeepers USA Trust 83,100	723	▲ Washington Real Estate Investment Trust 90,200	2,670
Investors Real Estate Trust 78,000	775		<b>94,043</b>
• Jones Lang LaSalle, Inc. 73,700	1,404		
Keystone Property Trust 48,600	972	<b>Retail 4.2%</b>	
Kilroy Realty Corp. 63,600	1,838	• Alloy, Inc. 88,100	395
Koger Equity, Inc. 48,800	945	• American Eagle Outfitters, Inc. 160,400	2,565
Kramont Realty Trust 53,800	924	• AnnTaylor Stores Corp. 99,999	3,580
LaSalle Hotel Properties 42,900	723	• Blue Rhino Corp. 38,400	445
Lexington Corp. Properties Trust 79,900	1,532	Burlington Coat Factory Warehouse Corp. 103,340	2,217
LNR Property Corp. 45,600	1,865	Casey's General Stores, Inc. 113,500	1,759
Manufactured Home Communities, Inc. 50,200	1,908	The Cato Corp., Class A 46,500	981
• Meristar Hospitality Corp. 137,900	942	• Central Garden & Pet Co. 39,900	1,104
MFA Mortgage Investments, Inc. 131,100	1,255	• Charming Shoppes, Inc. 260,500	1,706
Mid-America Apartment Communities, Inc. 44,800	1,407	• The Children's Place Retail Stores, Inc. 59,400	1,788
National Health Investors, Inc. 60,700	1,290	Christopher & Banks Corp. 82,950	2,422
Nationwide Health Properties, Inc. 133,700	2,447	• Cost Plus, Inc. 48,900	2,243
		• The Dress Barn, Inc. 69,500	973
		• Duane Reade, Inc. 50,900	700

See financial notes. 73

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Fred's, Inc. 87,525	3,298	Inter-Tel, Inc. 58,600	1,476
• Genesco, Inc. 51,700	871	• Interdigital Communications Corp. 127,100	2,159
• Great Atlantic & Pacific Tea Co. 86,600	541	• Price Communications Corp. 124,100	1,560
• Guitar Center, Inc. 53,600	1,745	SureWest Communications 32,800	1,308
• The Gymboree Corp. 69,200	1,142		<b>15,109</b>
Hancock Fabrics, Inc. 42,500	634		
• HOT Topic, Inc. 108,373	3,111	<b>Tobacco 0.3%</b>	
• Insight Enterprises, Inc. 104,850	1,764	DIMON, Inc. 101,600	731
• Jo-Ann Stores, Inc., Class A 45,400	1,362	Schweitzer-Mauduit International, Inc. 34,200	910
▲ Linens 'N Things, Inc. 101,400	2,993	▲ Universal Corp. 57,100	2,488
Longs Drug Stores Corp. 86,300	1,933	Vector Group Ltd. 87,976	1,386
• The Men's Wearhouse, Inc. 90,650	2,671		<b>5,515</b>
• OfficeMax, Inc. 285,900	2,739	<b>Travel &amp; Recreation 1.4%</b>	
• Pacific Sunwear of California 177,280	4,093	• Alliance Gaming Corp. 111,900	2,714
Pep Boys-Manny, Moe & Jack 123,600	2,377	• American Classic Voyages Co. 52,800	—
Ruddick Corp. 104,700	1,671	• Argosy Gaming Co. 65,100	1,549
• School Specialty, Inc. 43,200	1,204	• Aztar Corp. 79,900	1,668
• ShopKo Stores, Inc. 66,800	1,034	Callaway Golf Co. 171,500	2,787
• Too, Inc. 76,700	1,266	Central Parking Corp. 75,400	910
• Tractor Supply Co. 85,400	3,579	• Choice Hotels International, Inc. 81,200	2,681
• Urban Outfitters, Inc. 87,200	2,909	• Dollar Thrifty Automotive Group, Inc. 56,100	1,469
Weis Markets, Inc. 62,800	2,295	The Marcus Corp. 70,225	1,050
• West Marine, Inc. 42,300	937	• Multimedia Games, Inc. 28,500	1,072
• The Wet Seal, Inc., Class A 59,825	658	• Prime Hospitality Corp. 101,500	924
	<b>69,705</b>	• Scientific Games Corp., Class A 137,500	1,829
<b>Steel 0.4%</b>		• Shuffle Master, Inc. 37,600	1,145
Allegheny Technologies, Inc. 188,100	1,439	• Six Flags, Inc. 214,200	1,268
Carpenter Technology Corp. 51,500	1,331	• Vail Resorts, Inc. 65,100	872
Gibraltar Steel Corp. 38,100	915	• WMS Industries, Inc. 65,200	1,508
Quanex Corp. 35,000	1,402		<b>23,446</b>
• Steel Dynamics, Inc. 109,800	2,046	<b>Trucking &amp; Freight 0.9%</b>	
	<b>7,133</b>	Arkansas Best Corp. 56,900	1,884
<b>Telephone 0.9%</b>		• Forward Air Corp. 48,600	1,413
• Cincinnati Bell, Inc. 555,300	2,838	• Knight Transportation, Inc. 85,000	2,139
• Commonwealth Telephone Enterprises, Inc. 54,100	2,205	• Landstar Systems, Inc. 34,400	2,513
• Extreme Networks, Inc. 266,100	2,288	• PAM Transportation Services, Inc. 24,700	467
• General Communication, Inc., Class A 129,300	1,275		

## Schwab Small-Cap Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Roadway Corp. 45,600	2,337
USF Corp. 62,200	1,985
• Yellow Corp. 66,200	2,175
	<b>14,913</b>

### Utilities: Electric & Gas 3.0%

• Allegheny Energy, Inc. 288,600	3,053
American States Water Co. 35,250	864
• Aquila, Inc. 436,100	1,723
Avista Corp. 111,100	1,889
Black Hills Corp. 71,600	2,303
California Water Service Group 34,300	938
CH Energy Group, Inc. 35,700	1,564
Cleco Corp. 108,000	1,809
• Dynegy, Inc., Class A 848,700	3,403
• El Paso Electric Co. 109,400	1,328
The Empire District Electric Co. 53,400	1,132
▲ Energen Corp. 81,100	2,990
Idacorp, Inc. 86,600	2,351
The Laclede Group, Inc. 44,400	1,259
MGE Energy, Inc. 40,900	1,297
New Jersey Resources Corp. 62,100	2,350
Northwest Natural Gas Co. 58,800	1,705
NUI Corp. 38,800	662
Otter Tail Corp. 58,500	1,561
PNM Resources, Inc. 89,700	2,537
• Sierra Pacific Resources 269,600	1,610
South Jersey Industries 27,900	1,058
• Southern Union Co. 159,673	2,812
Southwest Gas Corp. 77,100	1,741
UIL Holdings Corp. 33,600	1,262
Unisource Energy Corp. 77,380	1,493
▲ Westar Energy, Inc. 164,000	3,277
	<b>49,971</b>

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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### U.S. Treasury Obligations 0.0% of net assets

▲ U.S. Treasury Bills 0.85%-0.93%, 12/18/03	150	<b>150</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

### Security and Number of Shares

### Collateral Invested for Securities on Loan 7.5% of net assets

### Other Investment Companies

Securities Lending Investment Fund 122,374,453	<b>122,374</b>
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**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

## Schwab Small-Cap Index Fund\*

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$116,026 of securities of loan)	\$1,642,685
Collateral held for securities on loan	122,374
Receivables:	
Fund shares sold	1,708
Dividends	881
Investments sold	4,112
Income from securities on loan	58
Prepaid expenses	+ 36
<b>Total assets</b>	<b>1,771,854</b>

#### Liabilities

Collateral held for securities on loan	122,374
Cash overdraft	785
Payables:	
Fund shares redeemed	2,299
Interest expenses	1
Investments bought	846
Due to broker for futures	10
Investment adviser and administrator fees	24
Transfer agent and shareholder service fees	4
Accrued expenses	+ 219
<b>Total liabilities</b>	<b>126,562</b>

#### Net Assets

<b>Total assets</b>	1,771,854
<b>Total liabilities</b>	- 126,562
<b>Net assets</b>	<b>\$1,645,292</b>

#### Net Assets by Source

Capital received from investors	1,617,099
Net investment income not yet distributed	7,747
Net realized capital losses	(287,631)
Net unrealized capital gains	308,077

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$886,035		48,632		\$18.22
Select Shares®	\$759,257		41,603		\$18.25

Unless stated, all numbers x 1,000.

The fund paid \$1,334,661 for these securities. Not counting short-term obligations and government securities, the fund paid \$469,511 for securities during the report period and received \$646,990 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had seven open Russell 2000 futures contracts due to expire on December 21, 2003, with an aggregate contract value of \$1,849 and net unrealized gains of \$53.

#### Federal Tax Data

<b>Portfolio cost</b>	\$1,338,069
<b>Net unrealized gains and losses:</b>	
Gains	\$441,758
Losses	+ (137,142)
	<b>\$304,616</b>

#### Net undistributed earnings:

Ordinary income	\$7,747
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2010	\$86,072
2011	+ 198,098
	<b>\$284,170</b>

#### Reclassifications:

Net realized capital losses	\$39
Reclassified as:	
Net investment income not yet distributed	(\$39)

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$17,535
Interest	9
Securities on loan	+ 682
<b>Total investment income</b>	<b>18,226</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(194,040)
Net realized gains on futures contracts	+ 61
<b>Net realized losses</b>	<b>(193,979)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	656,430
Net unrealized gains on futures contracts	+ 37
<b>Net unrealized gains</b>	<b>656,467</b>

**Expenses**

Investment adviser and administrator fees	4,169
Transfer agent and shareholder service fees:	
Investor Shares	1,869
Select Shares®	652
Trustees' fees	10
Custodian fees	161
Portfolio accounting fees	220
Professional fees	44
Registration fees	52
Shareholder reports	166
Interest expense	15
Other expenses	+ 17
Total expenses	7,375
Expense reduction	- 523
<b>Net expenses</b>	<b>6,852</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>18,226</b>
<b>Net expenses</b>	<b>- 6,852</b>
<b>Net investment income</b>	<b>11,374</b>
<b>Net realized losses</b>	<b>(193,979)</b>
<b>Net unrealized gains</b>	<b>+ 656,467</b>
<b>Increase in net assets from operations</b>	<b>\$473,862</b>

Unless stated, all numbers x 1,000.

An additional \$3 was withheld for foreign taxes.

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

For the fund's independent trustees only.

Includes \$337 from the investment adviser (CSIM) and \$186 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 29, 2004, as follows:

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

Prior to March 1, 2003, these limits were 0.49% and 0.38% for the Investor Shares and Select Shares, respectively. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$462,488.

See financial notes. 77

## Schwab Small-Cap Index Fund\*

Statements of

### Changes in Net Assets

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

#### Operations

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$11,374	\$13,371
Net realized losses	(193,979)	(78,341)
Net unrealized gains or losses	+ 656,467	(171,545)
<b>Increase or decrease in net assets from operations</b>	<b>473,862</b>	<b>(236,515)</b>

#### Distributions Paid

##### Dividends from Net Investment Income

Investor Shares	7,507	4,403
Select Shares®	+ 7,345	4,635
<b>Total dividends from net investment income</b>	<b>14,852</b>	<b>9,038</b>

##### Distributions from Net Realized Gains

Investor Shares	—	29,754
Select Shares	+ —	26,290
<b>Total distributions from net realized gains</b>	<b>—</b>	<b>56,044</b>

<b>Total distributions</b>	<b>\$14,852</b>	<b>\$65,082</b>
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#### Transactions in Fund Shares

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	6,678	\$101,578	14,769	\$243,412
Select Shares	+ 6,760	99,820	14,560	231,836
<b>Total shares sold</b>	<b>13,438</b>	<b>\$201,398</b>	<b>29,329</b>	<b>\$475,248</b>

##### Shares Reinvested

Investor Shares	522	\$7,085	1,919	\$32,335
Select Shares	+ 503	6,844	1,710	28,842
<b>Total shares reinvested</b>	<b>1,025</b>	<b>\$13,929</b>	<b>3,629</b>	<b>\$61,177</b>

##### Shares Redeemed

Investor Shares	(12,997)	(\$188,682)	(12,547)	(\$192,562)
Select Shares	+ (13,679)	(200,308)	(13,662)	(212,752)
<b>Total shares redeemed</b>	<b>(26,676)</b>	<b>(\$388,990)</b>	<b>(26,209)</b>	<b>(\$405,314)</b>

<b>Net transactions in fund shares</b>	<b>(12,213)</b>	<b>(\$173,663)</b>	<b>6,749</b>	<b>\$131,111</b>
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#### Shares Outstanding and Net Assets

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	102,448	\$1,359,945	95,699	\$1,530,431
Total increase or decrease	+ (12,213)	285,347	6,749	(170,486)
<b>End of period</b>	<b>90,235</b>	<b>\$1,645,292</b>	<b>102,448</b>	<b>\$1,359,945</b>

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 tax-basis components of distributions paid are:

	Current period	Prior period
Ordinary Income	\$14,852	\$9,038
Long-term capital gains	\$—	\$56,044

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase.

	Current period	Prior period
Investor Shares	\$70	\$128
Select Shares	+ 39	+ 65
<b>Total</b>	<b>\$109</b>	<b>\$193</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$7,747 and \$11,264 for the current period and prior period, respectively.

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

<b>Schwab MarketTrack Portfolios®</b>	
All Equity Portfolio	6.5%
Growth Portfolio	7.1%
Balanced Portfolio	4.8%
Conservative Portfolio	1.8%
<b>Schwab Annuity Portfolios</b>	
Growth Portfolio II	0.3%



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

## Financial Statements

### Financial Highlights

Investor Shares	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	6/1/99 <sup>1</sup> – 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	14.35	16.62	22.49	20.87	20.00
Income or loss from investment operations:					
Net investment income	0.16	0.16	0.15	0.16	0.07
Net realized and unrealized gains or losses	3.14	(2.27)	(5.87)	1.56	0.80
Total income or loss from investment operations	3.30	(2.11)	(5.72)	1.72	0.87
Less distributions:					
Dividends from net investment income	(0.17)	(0.16)	(0.15)	(0.10)	—
Net asset value at end of period	17.48	14.35	16.62	22.49	20.87
Total return (%)	23.24	(12.86)	(25.55)	8.23	4.35 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.53	0.40	0.40	0.40 <sup>3</sup>	0.40 <sup>4</sup>
Gross operating expenses	0.59	0.62	0.65	0.67	0.91 <sup>4</sup>
Net investment income	1.18	1.11	0.94	0.76	0.92 <sup>4</sup>
Portfolio turnover rate	3	2	2	2	1 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	469	263	224	218	136

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

<sup>2</sup> Not annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.41% if certain non-routine expenses (proxy fees) had been included.

<sup>4</sup> Annualized.

## Financial Highlights

Select Shares®	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	6/1/99¹– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	14.37	16.65	22.52	20.89	20.00
Income or loss from investment operations:					
Net investment income	0.20	0.19	0.18	0.17	0.07
Net realized and unrealized gains or losses	3.14	(2.29)	(5.87)	1.56	0.82
Total income or loss from investment operations	3.34	(2.10)	(5.69)	1.73	0.89
Less distributions:					
Dividends from net investment income	(0.19)	(0.18)	(0.18)	(0.10)	—
Net asset value at end of period	17.52	14.37	16.65	22.52	20.89
Total return (%)	23.50	(12.81)	(25.40)	8.30	4.45²
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.36	0.27	0.27	0.27³	0.27⁴
Gross operating expenses	0.44	0.47	0.50	0.52	0.74⁴
Net investment income	1.35	1.24	1.07	0.89	1.05⁴
Portfolio turnover rate	3	2	2	2	1²
Net assets, end of period (\$ x 1,000,000)	429	264	257	262	149

¹ Commencement of operations.

² Not annualized.

³ The ratio of net operating expenses would have been 0.28% if certain non-routine expenses (proxy fees) had been included.

⁴ Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ◆ American Depositary Receipt
- ▲ Collateral for open futures contracts
- Issuer is affiliated with the fund's adviser
- ▷ Security is valued at fair value (see Accounting Policies)

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>99.2% Common Stock</b>	<b>918,872</b>	<b>891,598</b>
<b>0.1% U.S. Treasury Obligations</b>	<b>310</b>	<b>310</b>
<b>0.0% Rights</b>	<b>120</b>	<b>7</b>
<b>0.0% Preferred Stock</b>	<b>3</b>	<b>4</b>
<b>0.0% Warrants</b>	<b>55</b>	<b>—</b>
<b>99.3% Total Investments</b>	<b>919,360</b>	<b>891,919</b>
<b>10.9% Collateral Invested for Securities on Loan</b>	<b>98,169</b>	<b>98,169</b>
<b>(10.2)% Other Assets and Liabilities, Net</b>		<b>(91,500)</b>
<b>100.0% Total Net Assets</b>		<b>898,588</b>

Security and Number of Shares

**Common Stock 99.2% of net assets**

**Aerospace/Defense 1.4%**

• Aerosonic Corp.	1,000	7
The Boeing Co.	59,300	2,282
Crane Co.	5,000	141
• DRS Technologies, Inc.	1,200	29
EDO Corp.	900	20
Engineered Support Systems, Inc.	1,650	112
• EnPro Industries, Inc.	920	9
• ESCO Technologies, Inc.	1,400	61
• Esterline Technologies Corp.	2,900	64

Security and Number of Shares		Mkt. Value (\$ x 1,000)
GenCorp, Inc.	2,500	24
General Dynamics Corp.	13,200	1,105
Goodrich Corp.	8,404	232
Heico Corp., Class A	2,260	27
• Integrated Defense Technologies, Inc.	900	15
Kaman Corp., Class A	1,300	16
• KVH Industries, Inc.	1,300	36
• L-3 Communications Holdings, Inc.	6,600	309
Lockheed Martin Corp.	31,552	1,463
Northrop Grumman Corp.	12,516	1,119
Raytheon Co.	29,900	792
Rockwell Automation, Inc.	13,200	410
Rockwell Collins, Inc.	13,100	360
• SatCon Technology Corp.	900	3
• Teledyne Technologies, Inc.	12,157	200
Textron, Inc.	9,300	462
• Timco Aviation Services, Inc.	80	—
• Transtechnology Corp.	500	3
• Trimble Navigation Ltd.	3,800	105
United Technologies Corp.	35,534	3,009
• Veeco Instruments, Inc.	1,000	25
		<b>12,440</b>

**Air Transportation 1.1%**

• AirTran Holdings, Inc.	2,000	32
• Alaska Air Group, Inc.	1,900	55
• AMR Corp.	2,500	33
• ATA Holdings Corp.	1,200	12
• Atlantic Coast Airlines Holdings, Inc.	1,600	18
• Continental Airlines, Inc., Class B	5,000	95
Delta Air Lines, Inc.	8,500	111
• EGL, Inc.	4,150	68
• ExpressJet Holdings, Inc.	3,000	46
FedEx Corp.	28,263	2,141
• Hawk Corp., Class A	1,800	7
• JetBlue Airways Corp.	3,650	210
• Kellstrom Industries, Inc.	600	—
• MAIR Holdings, Inc.	1,100	8
• Mesa Air Group, Inc.	1,300	14
• Northwest Airlines Corp., Class A	3,500	48
Sabre Holdings Corp.	9,901	217

See financial notes. 81

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
SkyWest, Inc. 4,000	74	Superior Uniform Group, Inc. 1,600	25
Southwest Airlines Co. 54,225	1,052	Tandy Brands Accessories, Inc. 1,000	15
United Parcel Service, Inc., Class B 80,480	5,836	• Tarrant Apparel Group 1,700	7
	<b>10,077</b>	• Timberland Co., Class A 1,400	73
<b>Alcoholic Beverages 0.4%</b>		• Unifi, Inc. 1,900	9
Adolph Coors Co., Class B 2,500	140	VF Corp. 15,000	637
Anheuser-Busch Cos., Inc. 59,000	2,906	Wolverine World Wide, Inc. 5,200	105
Brown-Forman Corp., Class B 3,706	313		<b>4,942</b>
• Constellation Brands, Inc., Class A 8,800	276	<b>Automotive Products / Motor Vehicles 1.3%</b>	
• National Beverage Corp. 3,700	56	A.O. Smith Corp., Class B 1,300	41
	<b>3,691</b>	• Aftermarket Technology Corp. 4,300	51
<b>Apparel 0.5%</b>		• American Axle & Manufacturing Holdings, Inc. 5,300	183
Brown Shoe Co., Inc. 3,300	114	ArvinMeritor, Inc. 4,900	82
The Buckle, Inc. 1,000	22	Bandag, Inc. 3,200	117
• Casual Male Corp. 1,100	—	BorgWarner, Inc. 2,700	215
• Coach, Inc. 8,004	284	Carlisle Cos., Inc. 3,600	206
• Columbia Sportswear Co. 1,850	108	Cascade Corp. 4,400	105
• Finlay Enterprises, Inc. 1,000	15	• Collins & Aikman Corp. 1,400	4
• Guess?, Inc. 2,700	32	Cooper Tire & Rubber Co. 6,400	126
Haggar Corp. 1,200	19	Cummins, Inc. 1,400	66
• Hampshire Group Ltd. 1,000	35	Dana Corp. 40,800	664
Jones Apparel Group, Inc. 12,156	419	Danaher Corp. 9,500	787
K-Swiss, Inc., Class A 1,200	53	Delphi Corp. 26,600	237
Kellwood Co. 2,900	108	Donaldson Co., Inc. 1,900	109
Kenneth Cole Productions, Inc., Class A 3,100	92	• Dura Automotive Systems, Inc., Class A 12,100	117
Liz Claiborne, Inc. 18,600	686	Eaton Corp. 6,300	632
• Maxwell Shoe Co., Inc., Class A 1,000	16	Federal Screw Works 250	8
Nike, Inc., Class B 20,700	1,323	Ford Motor Co. 131,736	1,598
Oshkosh B'Gosh, Inc., Class A 1,200	26	General Motors Corp. 39,386	1,681
Phillips-Van Heusen Corp. 1,800	31	• General Motors Corp., Class H 80,182	1,317
Polo Ralph Lauren Corp. 3,500	106	Gentex Corp. 2,300	90
• Quiksilver, Inc. 2,000	34	Genuine Parts Co. 8,000	255
Reebok International Ltd. 8,000	312	• Goodyear Tire & Rubber Co. 6,500	45
Russell Corp. 2,600	48	• Group 1 Automotive, Inc. 1,400	50
Saucony, Inc., Class B 1,900	31	Harley-Davidson, Inc. 22,500	1,067
• Skechers USA, Inc., Class A 6,500	49	• Keystone Automotive Industries, Inc. 1,800	45
• Stage Stores, Inc. 1,200	34	• Lear Corp. 5,800	337
• Steven Madden Ltd. 1,800	39	Lithia Motors, Inc., Class A 700	17
Stride Rite Corp. 2,900	35	Magna International, Inc., Class A 459	37
		• MarineMax, Inc. 800	15
		• Midas, Inc. 1,300	17

# Schwab Total Stock Market Index Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Modine Manufacturing Co. 3,700	95	Berkshire Bancorp, Inc. 1,200	55
• Monaco Coach Corp. 1,200	29	Boston Private Financial Holdings, Inc. 2,129	54
• Monro Muffler Brake, Inc. 700	23	Brookline Bancorp, Inc. 2,405	36
Myers Industries, Inc. 2,346	29	Bryn Mawr Bank Corp. 1,400	33
• Navistar International Corp. 1,900	77	BSB Bancorp, Inc. 900	28
Oshkosh Truck Corp. 4,500	206	Camden National Corp. 700	21
Polaris Industries, Inc. 1,600	137	Capital City Bank Group, Inc. 1,500	58
• Rush Enterprises, Inc., Class A 500	4	• Capital Crossing Bank 1,000	38
• Rush Enterprises, Inc., Class B 500	5	Capitol Bancorp Ltd. 1,500	40
Sonic Automotive, Inc. 1,400	32	Capitol Federal Financial 4,420	164
Standard Motor Products, Inc. 2,000	22	Cascade Bancorp 2,124	40
• Stoneridge, Inc. 1,700	23	Cavalry Bancorp, Inc. 500	9
Superior Industries International, Inc. 800	34	CCBT Financial Cos., Inc. 200	5
• TBC Corp. 1,100	30	• Central Coast Bancorp 1,331	23
Thor Industries, Inc. 1,000	64	Century Bancorp, Inc., Class A 800	28
Titan International, Inc. 800	1	Chemical Financial Corp. 1,318	46
• Tower Automotive, Inc. 2,300	9	Chittenden Corp. 1,818	59
• United Auto Group, Inc. 1,000	26	Citizens Banking Corp. Michigan 2,090	61
• United Defense Industries, Inc. 900	29	Citizens South Banking Corp. 1,000	15
• UQM Technologies, Inc. 1,500	5	City Holding Co. 1,800	61
Visteon Corp. 5,451	35	City National Corp. 3,100	187
Winnebago Industries, Inc. 1,300	76	The Colonial BancGroup, Inc. 4,600	72
	<b>11,312</b>	Columbia Bancorp 700	19
<b>Banks 7.7%</b>		Columbia Banking Systems, Inc. 1,859	36
ABC Bancorp 1,500	25	Comerica, Inc. 13,496	695
Abigail Adams National Bancorp 500	9	Commerce Bancorp, Inc. N.J. 3,060	148
Alabama National Bancorp 1,600	84	Commerce Bancshares, Inc. 11,518	552
AmSouth Bancorp. 25,903	612	Community Bank System, Inc. 700	34
Anchor Bancorp Wisconsin, Inc. 3,100	77	Community First Bankshares, Inc. 2,000	54
Arrow Financial Corp. 963	26	Community Trust Bancorp, Inc. 2,056	66
Associated Banc-Corp. 5,146	212	Compass Bancshares, Inc. 11,400	431
BancFirst Corp. 500	27	Connecticut Bancshares, Inc. 700	36
Bancorpsouth, Inc. 4,612	108	Corus Bankshares, Inc. 500	29
Bank Mutual Corp. 3,669	43	Cullen/Frost Bankers, Inc. 3,300	128
Bank of America Corp. 109,200	8,270	Dime Community Bancshares, Inc. 2,250	63
Bank of Hawaii Corp. 3,500	138	Doral Financial Corp. 4,600	232
The Bank of New York Co., Inc. 54,500	1,700	Exchange National Bancshares, Inc. 750	27
Bank One Corp. 80,700	3,426	Fifth Third Bancorp 40,588	2,353
BankAtlantic Bancorp, Inc., Class A 2,200	37	First Bancorp Puerto Rico 2,100	70
Banknorth Group, Inc. 6,974	218	First Busey Corp., Class A 1,000	27
BB&T Corp. 38,386	1,484	First Charter Corp. 3,500	72

See financial notes. 83

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
First Citizens BancShares, Inc., Class A 300	34	Irwin Financial Corp. 3,700	104
First Commonwealth Financial Corp. 2,100	29	J.P. Morgan Chase & Co. 145,580	5,226
First Essex Bancorp, Inc. 700	38	KeyCorp, Inc. 29,300	828
First Federal Capital Corp. 2,500	55	Lakeland Financial Corp. 1,100	40
First Financial Bancorp 1,839	31	M&T Bank Corp. 8,962	842
First Financial Bancshares, Inc. 1,500	63	MAF Bancorp., Inc. 700	29
First M & F Corp. 1,000	37	Main Street Banks, Inc. 1,000	26
First Merchants Corp. 1,041	28	MainSource Financial Group, Inc. 1,000	28
First Midwest Bancorp, Inc. Illinois 3,125	97	Marshall & Ilsley Corp. 16,150	579
First Niagra Financial Group, Inc. 3,104	44	MASSBANK Corp. 1,500	61
First Oak Brook Bancshares, Inc. 1,500	43	Mellon Financial Corp. 30,300	905
First of Long Island Corp. 2,000	83	Mercantile Bankshares Corp. 5,574	236
First Republic Bank 1,300	47	Merchants Bancshares, Inc. 750	21
First Tennessee National Corp. 10,800	490	Mid-State Bancshares 3,500	85
Firstfed America Bancorp, Inc. 2,000	51	Midwest Banc Holdings, Inc. 1,300	31
• FirstFed Financial Corp. 2,900	131	• Movie Gallery, Inc. 1,525	32
FirstMerit Corp. 4,800	124	Nara Bancorp, Inc. 2,000	45
FleetBoston Financial Corp. 76,277	3,081	National City Corp. 44,100	1,440
FNB Corp. 2,639	87	National Commerce Financial Corp. 11,650	320
Franklin Financial Corp. Tennessee 700	22	National Penn Bancshares, Inc. 906	27
Frontier Financial Corp. 700	22	NBT Bancorp., Inc. 1,400	29
Fulton Financial Corp. 5,150	106	Net.B@nk, Inc. 3,300	45
GA Financial, Inc. 1,100	31	NewMil Bancorp, Inc. 1,000	26
Gold Banc Corp., Inc. 1,400	18	North Fork Bancorp., Inc. 7,300	285
Great Southern Bancorp, Inc. 700	28	North Valley Bancorp 1,500	24
Greater Bay Bancorp 2,906	78	Northern Trust Corp. 15,500	720
Hancock Holding Co. 1,050	60	OceanFirst Financial Corp. 1,050	27
Harbor Florida Bancshares, Inc. 1,100	30	Old National Bancorp. 3,283	73
Harleysville National Corp. 1,102	33	Omega Financial Corp. 1,000	36
Hibernia Corp., Class A 16,900	382	Oriental Financial Group 1,375	35
Home Federal Bancorp 800	22	Pacific Crest Capital, Inc. 1,000	26
Horizon Financial Corp. 2,156	38	Park National Corp. 805	94
◆ HSBC Holdings PLC 13,000	976	Patriot Bank Corp. 550	12
Hudson City Bancorp, Inc. 19,100	660	Pennfed Finance Services, Inc. 2,000	63
Hudson United Bancorp 5,740	208	Peoples Bank-Bridgeport 2,500	82
Huntington Bancshares, Inc. 13,290	288	Peoples Financial Corp. 3,000	49
Independent Bank Corp. 1,000	29	PFF Bancorp, Inc. 1,120	42
Integra Bank Corp. 1,225	26	PNC Financial Services Group, Inc. 19,700	1,055
Interchange Financial Services Corp. 1,050	26	Popular, Inc. 13,400	603
• Internet Capital Group, Inc. 7,000	3	Progress Financial Corp. 1,365	42
		Prosperity Bancshares, Inc. 2,400	55

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Provident Bankshares Corp. 2,382	74	UCBH Holdings, Inc. 2,200	79
Provident Financial Group, Inc. 2,100	62	UMB Financial Corp. 1,787	89
• Quaker City Bancorp, Inc. 1,250	53	Umpqua Holdings Corp. 343	7
Regions Financial Corp. 16,900	621	Union Bankshares Corp. 700	22
Republic Bancorp, Inc. 5,154	75	Union Planters Corp. 15,950	531
Republic Bancorp, Inc., Class A 1,500	30	UnionBanCal Corp. 22,600	1,224
Riggs National Corp. 2,000	33	United Bankshares, Inc. 1,900	58
S&T Bancorp, Inc. 1,400	42	United Community Financial Corp. 1,900	21
• S1 Corp. 12,930	105	United National Bancorp. 1,230	43
Sandy Spring Bancorp, Inc. 2,900	105	Unizan Financial Corp. 1,371	28
Seacoast Banking Corp. of Florida 1,980	35	USB Holding Co., Inc. 1,777	33
Second Bancorp., Inc. 900	25	Valley National Bancorp 6,435	188
Shore Bancshares, Inc. 500	19	Wachovia Corp. 95,036	4,359
• Silicon Valley Bancshares 2,200	77	Washington Trust Bancorp, Inc. 1,000	28
Simmons First National Corp., Class A 1,000	26	Wells Fargo & Co. 120,381	6,780
Sky Financial Group, Inc. 4,376	107	WesBanco, Inc. 3,200	85
The South Financial Group, Inc. 3,000	78	West Coast Bancorp 1,200	25
SouthTrust Corp. 23,554	750	Westamerica Bancorp. 1,700	85
Southwest Bancorp of Texas, Inc. 1,500	54	WestCorp., Inc. 2,207	83
Southwest Bancorp, Inc. 3,300	52	Whitney Holding Corp. 1,950	74
St. Francis Capital Corp. 1,200	40	Wilmington Trust Corp. 3,200	108
State Bancorp, Inc. 840	17	Wintrust Financial Corp. 1,800	78
State Street Corp. 23,000	1,204	WSFS Financial Corp. 1,000	43
Sterling Bancorp 1,523	45	Zions Bancorp. 5,200	319
Sterling Bancshares, Inc. 2,100	24		<b>69,349</b>
• Sterling Financial Corp. 847	27		
Suffolk Bancorp 2,400	84		
• Sun Bancorp, Inc. N.J. 3,150	74		
SunTrust Banks, Inc. 20,200	1,355		
Susquehanna Bancshares, Inc. 2,700	68		
SY Bancorp, Inc. 1,400	28		
Synovus Financial Corp. 18,700	516		
TCF Financial Corp. 4,300	224		
Texas Regional Bancshares, Inc., Class A 1,551	56		
Timberland Bancorp, Inc. 1,000	24		
Tompkins Trustco, Inc. 770	37		
TriCo Bancshares 200	6		
The Trust Co. of New Jersey 3,000	94		
Trustco Bank Corp. 2,857	37		
Trustmark Corp. 4,300	122		
U.S. Bancorp 137,631	3,746		

**Business Machines & Software 8.3%**

• 3Com Corp. 17,900	129
• 3D Systems Corp. 1,400	13
• Adaptec, Inc. 5,700	49
Adobe Systems, Inc. 17,500	767
• Advanced Digital Information Corp. 2,600	42
Analogic Corp. 5,200	227
• Andersen Group, Inc. 1,400	7
• Apple Computer, Inc. 18,700	428
• Arbitron, Inc. 2,120	84
• Artesyn Technologies, Inc. 1,100	9
• Ascential Software Corp. 2,912	65
Autodesk, Inc. 8,400	162
• Avici Systems, Inc. 375	2
• Avocent Corp. 13,963	528

See financial notes. 85

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• BEA Systems, Inc. 27,900	388	• Maxtor Corp. 14,748	202
• Black Box Corp. 5,200	224	• McData Corp., Class A 2,617	27
• BMC Software, Inc. 19,000	330	• Microchip Technology, Inc. 13,975	457
• Borland Software Corp. 3,000	27	• Micromuse, Inc. 2,900	23
• Cisco Systems, Inc. 511,969	10,741	• MICROS Systems, Inc. 5,500	223
• Cognitronics Corp. 2,600	7	▲ ② Microsoft Corp. 786,660	20,571
• Compuware Corp. 19,900	112	• MIPS Technology, Inc., Class A 1,100	5
• Converse Technology, Inc. 13,400	242	• MSC Software Corp. 1,800	19
• Concerto Software, Inc. 1,100	13	• NCR Corp. 11,900	428
• Concurrent Computer Corp. 3,000	14	• Network Appliance, Inc. 13,500	333
• CoSine Communications, Inc. 730	5	• Novell, Inc. 25,600	150
• Dell, Inc. 186,800	6,747	• Oracle Corp. 381,900	4,568
• Diebold, Inc. 5,300	302	• PalmOne, Inc. 1,569	22
• Digital Lightwave, Inc. 1,300	1	• PalmSource, Inc. —	—
• EMC Corp. 164,834	2,281	• Pitney Bowes, Inc. 17,000	699
• Enterasys Networks, Inc. 8,500	33	• Precis, Inc. 1,200	5
• Fair Isaac Corp. 5,163	329	• Printronix, Inc. 2,400	34
• Flow International Corp. 900	3	• Rainbow Technologies, Inc. 5,000	62
• Foundry Networks, Inc. 4,300	100	• Read-Rite Corp. 1,180	—
• Gadzoox Networks, Inc. 600	—	• Roxio, Inc. 724	7
• Gateway, Inc. 11,800	59	• Sandisk Corp. 5,500	443
• General Binding Corp. 500	7	• Scansource, Inc. 600	26
• Hanger Orthopedic Group, Inc. 5,400	92	• Seagate Escrow Security 7,500	2
• Hewlett-Packard Co. 218,916	4,884	• Siebel Systems, Inc. 18,100	228
• IKON Office Solutions, Inc. 8,500	71	• Silicon Graphics, Inc. 4,800	5
• Imagistics International, Inc. 2,840	91	• SoftBrands, Inc. 671	1
• Immersion Corp. 800	5	• Storage Technology Corp. 14,400	347
• Input/Output, Inc. 3,400	14	• StorageNetworks, Inc. 2,100	4
• Integrated Device Technology, Inc. 4,200	66	• Sun Microsystems, Inc. 226,230	896
• Intergraph Corp. 9,700	253	• Sybase, Inc. 19,036	341
• Interland, Inc. 510	4	• Tech Data Corp. 2,800	92
⑨ International Business Machines Corp. 125,850	11,261	• The Titan Corp. 6,381	135
• InterVoice, Inc. 1,678	17	• Total System Services, Inc. 13,800	381
• Invision Technologies, Inc. 1,500	41	• Ultimate Electronics, Inc. 400	4
• Iomega Corp. 12,400	68	• Unisys Corp. 23,100	355
• Juniper Networks, Inc. 13,600	245	• Vitria Technology, Inc. 925	5
• Landamerica Financial Group, Inc. 5,800	290	• Xerox Corp. 57,200	601
• Lantronix, Inc. 1,900	2		<b>74,411</b>
• Lexmark International, Inc., Class A 10,900	802		
• LTX Corp. 1,900	27		
		<b>Business Services 5.1%</b>	
		• 4Kids Entertainment, Inc. 1,000	24
		• Aaron Rents, Inc., Class A 1,650	34
		• ABM Industries, Inc. 2,400	37



**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Actuate Corp. 2,300	8	• Blue Coat Systems, Inc. 340	6
• Administaff, Inc. 2,800	32	• Blue Martini Software, Inc. 285	1
• Advent Software, Inc. 1,600	29	• Bottomline Technologies, Inc. 500	4
• The Advisory Board Co. 1,000	36	• Bowne & Co., Inc. 1,700	26
• Advo, Inc. 2,700	121	• Braun Consulting, Inc. 1,300	3
• Aether Systems, Inc. 1,100	5	• Bright Horizons Family Solutions, Inc. 1,300	56
• Affiliated Computer Services, Inc., Class A 9,500	465	• The Brink's Co. 5,600	112
• Affymetrix, Inc. 2,300	59	• BroadVision, Inc. 1,090	5
• Agile Software Corp. 1,900	21	• Brocade Communications Systems, Inc. 9,500	62
• Akamai Technologies, Inc. 4,038	32	• BSQUARE Corp. 1,600	3
• The Allied Defense Group, Inc. 500	10	• CACI International, Inc., Class A 4,100	203
• Allied Waste Industries, Inc. 14,300	161	• Career Education Corp. 8,614	461
• Ambassadors International, Inc. 1,700	22	• Carreker Corp. 1,200	12
• America Online Latin America, Inc., Class A 2,500	6	• Casella Waste Systems, Inc., Class A 2,500	31
• American Locker Group, Inc. 500	6	• Catalina Marketing Corp. 2,900	51
• American Management Systems, Inc. 4,200	62	• Catapult Communications Corp. 1,600	22
• American Superconductor Corp. 700	7	• CDI Corp. 1,200	39
• AMN Healthcare Services, Inc. 1,610	24	• CDW Corp. 6,800	408
• Analysts International Corp. 2,400	7	• Cell Genesys, Inc. 1,500	19
• Angelica Corp. 1,000	21	• Candiant Corp. 74,220	1,516
• Ansoft Corp. 2,300	27	• Centra Software, Inc. 2,400	7
• answerthink, Inc. 1,700	9	• Ceridian Corp. 19,500	410
• Ansys, Inc. 1,700	61	• Cerner Corp. 1,700	72
• Anteon International Corp. 2,000	68	• Certegy, Inc. 4,150	140
• Apollo Group, Inc., Class A 12,050	766	• Charles River Associates, Inc. 2,500	77
• Applied Molecular Evolution, Inc. 2,100	26	• Checkfree Corp. 5,400	149
• Aramark Corp., Class B 6,800	182	• Chindex International, Inc. 1,100	25
• Arena Pharmaceuticals, Inc. 800	6	• ChoicePoint, Inc. 3,400	119
• Ariba, Inc. 9,200	30	• Chordiant Software, Inc. 1,100	5
• Art Technology Group, Inc. 2,200	4	• Ciber, Inc. 1,900	18
• Artistdirect, Inc. 1,000	—	• Cintas Corp. 12,850	548
• Ask Jeeves, Inc. 1,900	36	• Citrix Systems, Inc. 20,000	506
• Aspen Technology, Inc. 1,000	8	• Clarent Corp. 1,545	—
• At Road, Inc. 4,400	57	• Clarus Corp. 1,200	9
• Atari, Inc. 1,600	6	• Click Commerce, Inc. 320	2
• Automatic Data Processing, Inc. 42,600	1,608	• Closure Medical Corp. 3,400	105
• Barra, Inc. 3,250	124	• Cognizant Technology Solutions Corp. 5,300	241
• BearingPoint, Inc. 7,100	67	• Com21, Inc. 1,400	—
• BindView Development Corp. 1,700	4	• Comarco, Inc. 500	4
• The BISYS Group, Inc. 6,000	86		

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**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Commerce One, Inc. 730	1	• Dyax Corp. 2,000	10
Computer Associates International, Inc. 42,226	993	• E.piphany, Inc. 2,100	15
• Computer Sciences Corp. 13,238	524	• Earthlink, Inc. 7,350	67
• Concord Communications, Inc. 1,600	29	• eBay, Inc. 45,424	2,541
• Concord EFS, Inc. 34,300	367	• Echelon Corp. 1,200	16
• Connetics Corp. 3,400	61	• Eclipsys Corp. 1,800	21
• Convergys Corp. 10,500	169	• Edgewater Technology, Inc. 767	4
• Copart, Inc. 6,550	82	• Edison Schools, Inc. 1,900	3
• Corillian Corp. 2,000	13	• Education Management Corp. 1,700	107
• Corinthian Colleges, Inc. 4,600	285	• eFunds Corp. 2,502	40
• Corio, Inc. 1,400	4	Electronic Data Systems Corp. 34,100	731
• Cornell Cos., Inc. 2,100	30	• eLoyalty Corp. 190	1
• Corporate Executive Board Co. 2,700	138	• Embarcadero Technologies, Inc. 2,900	37
• Correctional Services Corp. 2,000	5	• Encysive Pharmaceuticals, Inc. 2,600	16
• CoStar Group, Inc. 800	30	• Engage, Inc. 4,900	—
Courier Corp. 2,800	153	Ennis Business Forms, Inc. 4,500	65
• Covansys Corp. 2,500	24	• Entrust, Inc. 2,800	13
• Credit Acceptance Corp. 2,400	28	• EPIQ Systems, Inc. 1,550	26
• Cross Country Healthcare, Inc. 1,600	22	• ePresence, Inc. 2,700	11
• Cross Media Marketing Corp. 1,391	—	Equifax, Inc. 9,300	227
• CSG Systems International, Inc. 2,900	33	• EXE Technologies, Inc. 371	3
• CuraGen Corp. 2,100	13	• Exelixis, Inc. 1,800	13
• CycleLogic, Inc. 2	—	• Exponent, Inc. 3,000	63
• Cysive, Inc. 1,000	3	• Exult, Inc. 4,100	33
• D&B Corp. 16,000	745	• Ezenia, Inc. 1,000	—
• Daleen Technologies, Inc. 800	—	• F5 Networks, Inc. 3,300	83
• Datastream Systems, Inc. 1,300	10	Factset Research Systems, Inc. 2,500	109
Deluxe Corp. 3,800	153	• Falcon Products, Inc. 1,500	9
• Dendrite International, Inc. 1,100	17	• FalconStor Software, Inc. 1,200	9
• DeVry, Inc. 4,800	116	• Fargo Electronics, Inc. 2,000	28
• Digex, Inc. 1,800	2	• FileNet Corp. 3,800	102
• Digimarc Corp. 1,000	17	• First Consulting Group, Inc. 1,800	10
• Digital Insight Corp. 2,300	48	First Data Corp. 53,500	1,910
• Digital River, Inc. 2,100	57	• Firstwave Technologies, Inc. 1,000	6
• Digitalthink, Inc. 1,300	3	• Fiserv, Inc. 12,800	452
• Digitas, Inc. 1,500	13	• Five Star Quality Care, Inc. 135	—
• Diversa Corp. 1,100	9	• Forrester Research, Inc. 1,600	27
• Divine, Inc., Class A 161	—	• Freemarkets, Inc. 3,300	21
• Docent, Inc. 633	3	Friedman Billings Ramsey Group, Inc., Class A 8,180	163
• Documentum, Inc. 4,300	128	• FTI Consulting, Inc. 2,700	54
• DoubleClick, Inc. 8,237	69	G&K Services, Inc., Class A 1,200	40
• DST Systems, Inc. 8,100	306	• Gartner, Inc., Class B 8,051	98

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
•Genaissance Pharmaceuticals, Inc. 1,800	5	•Intrado, Inc. 1,100	20
•Genencor International, Inc. 14,000	214	•Intuit, Inc. 14,215	710
•Genesis Health Ventures, Inc. 12,500	336	•Invitrogen Corp. 3,629	231
•GenesisIntermedia, Inc. 1,200	—	•Iron Mountain, Inc. 6,525	250
•Gentiva Health Services, Inc. 750	9	•The IT Group, Inc. 1,900	—
•Genuity, Inc., Class A 280	—	•ITT Educational Services, Inc. 6,000	299
•Geoworks Corp. 800	—	Jack Henry & Associates, Inc. 6,300	126
•Global Imaging Systems, Inc. 2,100	61	•Jacobs Engineering Group, Inc. 3,800	176
Global Payments, Inc. 8,520	355	•JDA Software Group, Inc. 2,000	43
•GP Strategies Corp. 1,500	11	John H. Harland Co. 3,500	95
Grey Global Group, Inc. 200	134	•Kana Software, Inc. 528	2
GTECH Holdings Corp. 4,700	210	•Keane, Inc. 3,960	52
H&R Block, Inc. 21,300	1,003	•Keith Cos., Inc. 3,000	37
•HA-LO Industries, Inc. 2,100	—	Kelly Services, Inc., Class A 3,200	78
•Hall, Kinion & Associates, Inc. 900	4	•Kinder Morgan Management LLC 3,102	118
•Heidrick & Struggles International, Inc. 3,100	61	•Korn/Ferry International 1,100	10
•Hewitt Associates, Inc., Class A 7,000	180	•Kroll, Inc. 1,900	44
•Hudson Highland Group, Inc. 360	8	•Kronos, Inc. 1,250	75
•Hyperion Solutions Corp. 2,850	95	•Lamar Advertising Co. 3,200	97
•I-Many, Inc. 1,300	1	•Learning Tree International, Inc. 1,400	25
•iBEAM Broadcasting Corp. 290	—	•Liberate Technologies 5,900	20
•ICOS Corp. 2,700	126	•Lightbridge, Inc. 2,200	21
•ICT Group, Inc. 500	7	•LookSmart Ltd. 2,400	4
•Identix, Inc. 1,600	9	•Luminex Corp. 800	7
•IDT Corp. 1,700	32	•Macrovision Corp. 3,100	68
•IDX Systems Corp. 1,500	39	•Magma Design Automation, Inc. 1,700	41
•iGate Corp. 1,300	7	•Management Network Group, Inc. 2,400	7
IMS Health, Inc. 16,300	384	•Manhattan Associates, Inc. 1,300	36
•InFocus Corp. 1,600	11	Manpower, Inc. 5,200	241
•Infonet Services Corp., Class B 11,200	27	•Manugistics Group, Inc. 2,300	17
•Informatica Corp. 6,700	73	•MAPICS, Inc. 1,000	11
•Information Resources, Inc. 2,500	12	•Mapinfo Corp. 525	5
•Inforte Corp. 3,700	35	•Marimba, Inc. 2,000	10
•Infospace, Inc. 3,872	101	•Matria Healthcare, Inc. 1,200	20
•infoUSA, Inc. 2,300	19	•Matrixone, Inc. 1,700	9
•Innodata Corp. 2,400	7	•MAXIMUS, Inc. 1,700	59
•Interactive Intelligence, Inc. 1,000	3	•Maxygen, Inc. 1,500	14
•Intercept, Inc. 1,500	15	•MCSI, Inc. 1,248	—
•Internap Network Services Corp. 4,600	5	•Mechanical Technology, Inc. 1,800	12
•Internet Security Systems 4,600	75	•Media Arts Group, Inc. 2,000	5
•Interpublic Group of Cos., Inc. 16,644	248	•Medical Staffing Network Holdings, Inc. 1,300	10
•Interwoven, Inc. 3,700	14	•MemberWorks, Inc. 4,500	130

See financial notes. 89

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
•Mentor Graphics Corp. 5,700	95	•On Assignment, Inc. 1,700	9
•Mercury Interactive Corp. 3,300	153	•OneSource Information Services, Inc. 3,800	38
•Meta Group, Inc. 1,100	7	•Onyx Software Corp. 350	2
•MetaSolv, Inc. 2,800	6	•Openwave Systems, Inc. 2,771	36
•Metricom, Inc. 1,400	—	•Opnet Technologies, Inc. 1,100	15
•Metro One Telecommunications 4,400	12	•Opsware, Inc. 800	7
•Michael Baker Corp. 500	5	•Option Care, Inc. 1,500	15
•MicroStrategy, Inc., Class A 856	47	•Orbital Sciences Corp. 2,600	24
•Microvision, Inc. 900	6	•Orchid BioSciences, Inc. 1,400	2
•Millenium Cell, Inc. 2,200	7	•Pac-West Telecomm, Inc. 1,900	5
•Mindspeed Technologies, Inc. 3,598	18	•Packeteer, Inc. 1,100	19
•Moldflow Corp. 300	3	•Paradigm Genetics, Inc. 400	—
•Monster Worldwide, Inc. 4,800	122	•Parametric Technology Corp. 9,700	30
•MPS Group, Inc. 8,100	77	•Paxar Corp. 2,300	28
•MRO Software, Inc. 3,900	49	Paychex, Inc. 27,400	1,066
•Multi-Color Corp. 500	12	•PC-Tel, Inc. 1,400	14
•Napro Biotherapeutics, Inc. 1,200	2	•PDI, Inc. 400	9
•Nassda Corp. 500	4	•Pec Solutions, Inc. 1,000	15
National Instruments Corp. 2,050	87	•Pegasus Solutions, Inc. 3,900	43
•National Processing, Inc. 3,200	71	•PeopleSoft, Inc. 18,593	386
Nautilus Group, Inc. 1,625	25	•Per-Se Technologies, Inc. 10,000	136
•Navigant Consulting, Inc. 2,500	41	•Peregrine Systems, Inc. 7,015	3
•NCO Group, Inc. 1,761	42	•Perot Systems Corp., Class A 4,600	49
NDCHealth Corp. 1,900	50	•Phoenix Technologies Ltd. 1,300	9
•Neoforma, Inc. 1,500	24	•Pixar, Inc. 2,600	179
•Neon Systems, Inc. 2,400	12	•PLATO Learning, Inc. 1,433	15
•NeoRx Corp. 400	2	•Polycom, Inc. 6,700	134
•Netcentives, Inc. 2,000	—	•Pomeroy IT Solutions, Inc. 2,100	30
•Netegrity, Inc. 1,500	18	•Portal Software, Inc. 1,220	20
•NetIQ Corp. 7,704	94	•Pre-Paid Legal Services, Inc. 1,100	30
•Netratings, Inc. 3,000	31	•PRG-Schultz International, Inc. 2,500	12
•Netscout Systems, Inc. 1,800	10	•Priceline.com, Inc. 1,483	42
•NetScreen Technologies, Inc. 1,400	37	•Progress Software Corp. 4,200	93
•Netsolve, Inc. 1,600	13	•ProQuest Co. 1,700	50
•Network Associates, Inc. 11,945	166	•ProsoftTraining 900	—
•Network Commerce, Inc. 140	—	•Pumatech, Inc. 1,500	10
New England Business Service, Inc. 2,300	67	•QRS Corp. 1,450	15
Newcastle Investment Corp. 2,200	51	•Quality Systems, Inc. 900	43
•NMS Communications Corp. 1,500	6	•Quest Software, Inc. 5,000	75
•Nuance Communications, Inc. 1,000	7	•Quintus Corp. 1,500	—
•NYFIX, Inc. 750	6	Quixote Corp. 1,300	31
Omnicom Group, Inc. 14,300	1,141	•Quovadx, Inc. 2,600	14

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• R.H. Donnelley Corp. 2,000	86	• SportsLine.com, Inc. 2,300	3
• Radiant Systems, Inc. 1,300	9	• SPSS, Inc. 700	13
• RealNetworks, Inc. 6,000	40	• SS&C Technologies, Inc. 7,400	163
• Red Hat, Inc. 7,100	107	• The Standard Register Co. 4,100	72
• Redback Networks, Inc. 5,600	2	• Startek, Inc. 1,400	46
• Register.com 1,296	6	• Stericycle, Inc. 2,200	102
• RemedyTemp, Inc., Class A 1,200	14	• Stratasys, Inc. 900	43
• Renaissance Learning, Inc. 2,100	53	• Strayer Education, Inc. 700	69
• Republic Services, Inc. 17,700	412	• Sungard Data Systems, Inc. 20,900	586
• Resources Connection, Inc. 600	15	• SupportSoft, Inc. 2,300	28
• Retek, Inc. 3,843	39	• Sycamore Networks, Inc. 18,200	91
• The Reynolds & Reynolds Co., Class A 5,000	136	• Sylvan Learning Systems, Inc. 2,200	62
• Right Management Consultants, Inc. 4,625	83	• Symantec Corp. 14,200	946
• Robert Half International, Inc. 7,500	177	• Symyx Technologies, Inc. 1,300	27
• Ross Systems, Inc. 1,000	19	• Synopsys, Inc. 10,684	339
• Roto-Rooter, Inc. 1,200	42	• Synplicity, Inc. 1,200	8
• RPC, Inc. 900	9	• Syntel, Inc. 2,500	62
• RSA Security, Inc. 5,000	65	• Systems & Computer Technology Corp. 3,400	50
• Rural Cellular Corp., Class A 1,200	12	• Talx Corp. 1,700	37
• Saba Software, Inc. 500	2	• Telecommunication Systems, Inc., Class A 1,300	7
• SafeNet, Inc. 900	30	• TeleTech Holdings, Inc. 5,000	33
• Sagent Technology, Inc. 1,500	—	• Tetra Tech, Inc. 12,031	270
• Sanchez Computer Associates, Inc. 1,800	7	• Tetra Technologies, Inc. 1,200	27
• Sapient Corp. 3,600	20	• TIBCO Software, Inc. 8,500	55
• Seachange International, Inc. 850	13	• Tier Technologies, Inc., Class B 500	5
• Secure Computing Corp. 3,200	46	• Transaction Systems Architects, Inc., Class A 5,200	104
• Seebeyond Technology Corp. 3,100	11	• TransAxis, Inc. 17	—
• Selectica, Inc. 1,900	8	• TRC Cos., Inc. 1,350	24
• Sequenom, Inc. 1,600	5	• Trizetto Group, Inc. 3,400	23
• Serena Software, Inc. 2,100	36	• Tularik, Inc. 2,100	26
• The ServiceMaster Co. 20,400	234	• Tumbleweed Communications Corp. 2,000	13
• SFBC International, Inc. 1,000	29	• Unify Corp. 1,200	1
• Sirius Satellite Radio, Inc. 1,200	3	• United Online, Inc. 4,100	118
• Sitel Corp. 2,800	5	• Universal Access Global Holdings, Inc. 145	1
◆ Skillsoft PLC 4,971	40	• Universal Electronics, Inc. 2,200	29
• Sonic Foundry, Inc. 600	1	• UNOVA, Inc. 3,100	67
• SONICblue, Inc. 2,600	—	• URS Corp. 1,700	37
• SonicWALL, Inc. 4,900	40	• Usinternetworking, Inc. 1,100	—
• SourceCorp 1,100	26	• VA Software Corp. 1,427	7
• Spartech Corp. 1,700	39		
• Spherion Corp. 1,830	16		

See financial notes. 91

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
•Vastera, Inc. 2,000	7	•AEP Industries, Inc. 400	3
•Ventiv Health, Inc. 2,233	19	Air Products & Chemicals, Inc. 15,200	690
•VeriSign, Inc. 18,375	292	Airgas, Inc. 5,000	96
•Verisity Ltd. 1,000	12	Albemarle Corp. 2,000	54
•Veritas Software Corp. 30,024	1,085	Arch Chemicals, Inc. 2,700	60
•Verity, Inc. 1,600	22	•Bio-Rad Laboratories, Inc., Class A 1,000	52
•Verso Technologies, Inc. 1,363	5	Brady Corp., Class A 700	25
•Vertel Corp. 900	—	Cabot Corp. 2,700	75
Viad Corp. 14,500	362	Calgon Carbon Corp. 2,300	15
•The viaLink Co. 700	—	•Celgene Corp. 3,000	125
•Viewlocity, Inc. 60	—	Crompton Corp. 4,424	24
•Viewpoint Corp. 2,000	2	•Cytec Industries, Inc. 7,400	258
•Vignette Corp. 8,948	22	Dow Chemical Co. 65,266	2,460
•Vixel Corp. 600	6	E.I. du Pont de Nemours & Co. 72,695	2,937
•Volt Information Sciences, Inc. 2,100	37	Eastman Chemical Co. 3,100	101
•Wackenhut Corrections Corp. 3,800	79	Ecolab, Inc. 19,000	511
•Waste Connections, Inc. 1,000	35	•Entegris, Inc. 3,000	39
•Waste Industries USA, Inc. 1,500	14	•Ethyl Corp. 2,000	32
Waste Management, Inc. 42,100	1,091	Ferro Corp. 4,200	86
•WatchGuard Technologies, Inc. 1,800	10	•Foamex International, Inc. 2,600	12
•Watson Wyatt & Co. Holdings 4,600	111	Georgia Gulf Corp. 3,300	89
•Wave Systems Corp., Class A 1,800	5	Great Lakes Chemical Corp. 3,600	77
•WebEx Communications, Inc. 2,500	55	H.B. Fuller Co. 2,000	50
•WebMD Corp. 19,426	151	Hawkins, Inc. 1,900	24
•webMethods, Inc. 1,921	17	•Hercules, Inc. 8,500	89
•Websense, Inc. 2,500	59	IMC Global, Inc. 3,500	24
•Weight Watchers International, Inc. 6,200	229	Lubrizol Corp. 3,400	103
•Westaff, Inc. 2,000	5	Lyondell Chemical Co. 4,600	66
•Wind River Systems, Inc. 3,160	21	MacDermid, Inc. 3,800	114
•Wireless Facilities, Inc. 1,800	31	•Matrixx Initiatives, Inc. 1,700	24
•Witness Systems, Inc. 2,100	16	Millennium Chemicals, Inc. 2,400	24
•WorldGate Communications, Inc. 2,000	2	Monsanto Co. 18,645	467
•Wynn Resorts Ltd. 4,000	81	Oil-Dri Corp. of America 400	6
•Xybernaut Corp. 1,400	3	Olin Corp. 1,820	32
•Yahoo!, Inc. 44,472	1,943	•OM Group, Inc. 900	16
•Zamba Corp. 2,000	1	•Omnova Solutions, Inc. 1,000	3
•Zap.com Corp. 32	—	•Oxigene, Inc. 900	9
•Zix Corp. 900	8	Penford Corp. 1,700	24
	<b>45,687</b>	•PolyOne Corp. 3,200	15
		PPG Industries, Inc. 11,600	669
		Praxair, Inc. 11,600	807
<b>Chemicals 1.4%</b>			
A. Schulman, Inc. 2,300	44		
Aceto Corp. 5,250	82		

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Rogers Corp. 300	12	• Integrated Electrical Services, Inc. 1,800	13
Rohm & Haas Co. 26,753	1,051	KB Home 3,900	267
Rollins, Inc. 1,950	40	Lafarge North America, Inc. 6,200	224
RPM International, Inc. 7,100	103	Lennar Corp., Class A 4,745	436
Sigma-Aldrich Corp. 6,300	330	Lennar Corp., Class B 474	41
Solutia, Inc. 4,100	11	M/I Schottenstein Homes, Inc. 1,800	75
Stepan Co. 1,200	30	Martin Marietta Materials, Inc. 4,200	172
Tredegar Corp. 2,600	40	Masco Corp. 33,300	916
• Trex Co., Inc. 500	18	• Mastec, Inc. 5,350	69
• Twinlab Corp. 900	—	MDC Holdings, Inc. 1,331	90
• Uniroyal Technology Corp. 1,100	—	• NCI Building Systems, Inc. 2,900	63
Valspar Corp. 4,200	200	• NVR, Inc. 500	245
WD-40 Co. 1,600	52	• Palm Harbor Homes, Inc. 2,700	50
Wellman, Inc. 5,400	45	• Performance Technologies, Inc. 1,600	17
• Zoltek Cos., Inc. 1,500	7	Pulte Homes, Inc. 4,436	384
	<b>12,452</b>	• Quanta Services, Inc. 2,400	20
<b>Construction 0.8%</b>		The Ryland Group, Inc. 3,400	302
American Woodmark Corp. 500	24	• SBA Communications Corp. 1,300	5
Ameron International Corp. 3,400	112	The Sherwin-Williams Co. 10,500	352
Apogee Enterprises, Inc. 2,000	21	• Simpson Manufacturing Co., Inc. 1,600	72
• Armstrong Holdings, Inc. 1,600	2	• Socket Communications, Inc. 800	2
• Beazer Homes USA, Inc. 851	85	Standard-Pacific Corp. 2,400	115
Brookfield Homes Corp. 3,500	76	The Stanley Works 6,600	220
Building Material Holding Corp. 4,000	56	• Stone & Webster, Inc. 700	—
• Cavco Industries, Inc. 205	5	• Surebeam Corp., Class A 2,711	1
Centex Construction Products, Inc. 3,200	172	Texas Industries, Inc. 1,000	27
Centex Corp. 4,100	400	• Toll Brothers, Inc. 5,600	206
Craftmade International, Inc. 2,800	67	United Mobile Homes, Inc. 1,600	26
D.R. Horton, Inc. 12,302	490	• USG Corp. 3,900	65
• Dominion Homes, Inc. 500	14	Vulcan Materials Co. 6,900	306
• Dycom Industries, Inc. 2,399	52	Walter Industries, Inc. 1,900	23
ElkCorp 950	24	• WCI Communities, Inc. 1,300	28
• EMCOR Group, Inc. 900	34	• WESCO International, Inc. 2,300	16
Florida Rock Industries, Inc. 1,550	89	• West Corp. 4,500	109
Fluor Corp. 5,600	208	• Westell Technologies, Inc., Class A 2,560	21
• Global Power Equipment Group, Inc. 1,000	6	• Yankee Candle Co., Inc. 3,700	103
Granite Construction, Inc. 1,850	37		<b>7,328</b>
• Hovnanian Enterprises, Inc., Class A 3,100	252	<b>Consumer Durables 0.4%</b>	
• Huttig Building Products, Inc. 811	2	• applica, Inc. 3,100	23
• Insituform Technologies, Inc., Class A 1,300	19	Black & Decker Corp. 7,100	339

See financial notes. 93



## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Champion Enterprises, Inc. 2,200	16	Greif, Inc., Class A 3,700	120
• Chromcraft Revington, Inc. 1,300	16	• Mobile Mini, Inc. 600	13
Compix International, Inc. 800	5	• Mod-Pac Corp. 500	4
Ethan Allen Interiors, Inc. 1,700	63	• Mod-Pac Corp., Class B 125	1
Flexsteel Industries, Inc. 600	12	• Owens-Illinois, Inc. 16,200	199
Furniture Brands International, Inc. 2,200	53	• Packaging Dynamics Corp. 260	3
• Gemstar -TV Guide International, Inc. 18,160	85	• Pactiv Corp. 12,400	273
• Genlyte Group, Inc. 1,600	75	• Sealed Air Corp. 8,500	453
• Griffon Corp. 2,200	43	• Silgan Holdings, Inc. 2,900	93
Haverty Furniture Cos., Inc. 1,700	35	Sonoco Products Co. 4,100	87
• Helen of Troy Ltd. 2,000	45		<b>1,579</b>
Hillenbrand Industries, Inc. 3,300	196	<b>Electronics 6.3%</b>	
• Interface, Inc., Class A 3,300	18	• ACT Manufacturing, Inc. 900	—
Isco, Inc. 200	2	• ACT Teleconferencing, Inc. 1,100	1
Kimball International, Inc., Class B 3,600	56	• Actel Corp. 1,100	30
La-Z-Boy, Inc. 5,800	117	Acuity Brands, Inc. 17,200	370
Leggett & Platt, Inc. 13,700	286	• Acxiom Corp. 25,700	409
Maytag Corp. 4,600	117	• Adaptive Broadband Corp. 1,000	—
• MITY Enterprises, Inc. 600	9	• ADC Telecommunications, Inc. 28,220	72
• Mohawk Industries, Inc. 4,819	357	• ADE Corp. 600	15
National Presto Industries, Inc. 400	14	• Adelphia Business Solutions, Inc. 4,638	—
Newell Rubbermaid, Inc. 18,900	431	• Adelphia Communications, Class A 6,301	2
• Recoton Corp. 500	—	• Advanced Fibre Communications, Inc. 3,500	84
• Restoration Hardware, Inc. 1,700	14	• Advanced Micro Devices, Inc. 14,500	220
• Salton, Inc. 1,100	12	• Advanced Power Technology, Inc. 1,500	11
Skyline Corp. 100	3	• Agere Systems, Inc., Class A 50,116	174
• SLI, Inc. 1,600	—	• Agilent Technologies, Inc. 34,317	855
Stanley Furniture Co., Inc. 2,600	80	Agilysys, Inc. 1,600	16
Sturm Ruger & Co., Inc. 1,100	12	• Airnet Communications Corp. 1,300	1
Thomas Industries, Inc. 700	21	• Alliance Fiber Optic Products, Inc. 2,100	5
Toro Co. 800	40	• Alliance Semiconductor Corp. 1,200	9
• United Rentals, Inc. 5,900	103	• Alliant Techsystems, Inc. 2,437	126
Virco Manufacturing Corp. 1,170	7	• Altera Corp. 27,900	564
• Water Pik Technologies, Inc. 195	2	• American Physicians Capital, Inc. 2,500	66
Whirlpool Corp. 7,500	529	American Power Conversion Corp. 14,100	285
	<b>3,236</b>	• American Science & Engineering, Inc. 500	7
<b>Containers 0.2%</b>		• American Technical Ceramics Corp. 500	4
Ball Corp. 2,800	157	• AMIS Holdings, Inc. 2,500	50
Bemis Co. 3,200	148	• Amkor Technology, Inc. 11,900	224
• Crown Holdings, Inc. 3,600	28		



**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
•Amphenol Corp., Class A 2,900	170	•Captaris, Inc. 2,200	13
•Anadigics, Inc. 1,150	6	•CCC Information Services Group, Inc. 13,100	220
•Analog Devices, Inc. 25,200	1,117	•Celera Genomics Group - Applera Corp. 5,600	75
•Anaren, Inc. 800	11	Chase Corp. 100	1
•Andrew Corp. 10,925	143	•Checkpoint Systems, Inc. 4,600	87
•Anixter International, Inc. 3,300	79	•ChipPAC, Inc., Class A 6,600	55
•Applied Materials, Inc. 119,998	2,804	•Chronimed, Inc. 600	5
•Applied Micro Circuits Corp. 12,238	71	•CIENA Corp. 17,294	111
•Arris Group, Inc. 2,600	16	•Cirrus Logic, Inc. 3,800	31
•Arrow Electronics, Inc. 12,000	256	•ClearOne Communications, Inc. 1,000	2
•Artisan Components, Inc. 1,100	23	•CMGI, Inc. 14,086	27
•Aspect Communications Corp. 4,200	57	•Coherent, Inc. 1,800	41
•Astronics Corp. 1,000	6	Cohu, Inc. 1,100	22
•Astronics Corp., Class B 250	1	•CommScope, Inc. 4,900	76
•Asyst Technologies, Inc. 1,700	32	•Computer Network Technology Corp. 1,100	11
•Atmel Corp. 17,900	101	•Comtech Telecommunications 1,450	43
•ATMI, Inc. 1,400	32	•Conexant Systems, Inc. 10,796	63
•Audiovox Corp., Class A 1,600	19	•Corvis Corp. 13,000	19
•Avanex Corp. 2,100	11	•Cox Radio, Inc., Class A 4,600	102
•Avid Technology, Inc. 1,100	57	•Credence Systems Corp. 1,700	28
•Avnet, Inc. 8,288	161	•Cree, Inc. 2,900	52
AVX Corp. 7,500	110	CTS Corp. 800	9
•Aware, Inc. 1,100	4	Cubic Corp. 1,200	34
•Axcelis Technologies, Inc. 7,044	75	•Cyberonics 3,700	101
•AXT, Inc. 800	2	•Cymer, Inc. 1,700	78
Badger Meter, Inc. 1,000	36	•Cypress Semiconductor Corp. 8,500	182
BEI Technologies, Inc. 1,200	22	•Daktronics, Inc. 5,600	87
Bel Fuse, Inc., Class A 1,200	31	•DDI Corp. 1,600	—
Belden, Inc. 800	15	•Diodes, Inc. 1,900	45
•Bell Microproducts, Inc. 1,000	8	•Dionex Corp. 1,200	51
•Benchmark Electronics, Inc. 6,700	326	•DSP Group, Inc. 3,300	79
Boston Acoustics, Inc. 1,300	15	•Ducommun, Inc. 4,300	80
•Broadcom Corp., Class A 12,700	406	•Dupont Photomasks, Inc. 1,900	44
•Brooks Automation, Inc. 1,364	34	•Dynamics Research Corp. 1,200	20
•Bruker BioSciences Corp. 2,100	11	•Electro Rent Corp. 2,600	38
C&D Technologies, Inc. 2,000	40	•Electro Scientific Industries, Inc. 1,300	32
•C-COR.net Corp. 1,600	16	•Electroglas, Inc. 900	3
•Cable Design Technologies Corp. 1,700	16	•Electronics for Imaging 3,400	92
•Cabot Microelectronics Corp. 660	38	•Emcore Corp. 1,500	7
•Cadence Design Systems, Inc. 11,600	179	•EMS Technologies, Inc. 1,000	18
•California Amplifier, Inc. 1,000	10		
•Caliper Technologies Corp. 700	4		

See financial notes. 95

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Emulex Corp. 5,900	167	Intersil Corp., Class A 9,864	254
• Energizer Holdings, Inc. 6,333	233	• Itron, Inc. 1,500	31
• Energy Conversion Devices, Inc. 600	7	ITT Industries, Inc. 6,200	422
• Entrada Networks, Inc. 75	—	• Ixia 5,200	62
• ESS Technology, Inc. 3,100	43	• IXYS Corp. 900	9
• Exar Corp. 1,800	29	• Jabil Circuit, Inc. 13,400	373
• Excel Technology, Inc. 600	17	• JDS Uniphase Corp. 54,424	193
• Fairchild Semiconductor International, Inc., Class A 4,100	93	Keithley Instruments, Inc. 700	11
• FEI Co. 1,500	36	• Kemet Corp. 3,700	49
• First Virtual Communications, Inc. 240	—	• KLA-Tencor Corp. 12,500	717
• Flir Systems, Inc. 2,400	75	• Kopin Corp. 2,500	18
• FormFactor, Inc. 2,500	62	• Kulicke & Soffa Industries, Inc. 1,900	28
Frequency Electronics, Inc. 500	5	• Lam Research Corp. 9,100	262
• FSI International, Inc. 1,300	8	• Lattice Semiconductor Corp. 4,600	36
• FuelCell Energy, Inc. 1,200	18	• LeCroy Corp. 900	15
• General Cable Corp. 2,200	21	• Lightpath Technologies, Inc., Class A 75	—
• Genus, Inc. 500	3	Linear Technology Corp. 25,000	1,065
• Gerber Scientific, Inc. 1,900	15	• Littelfuse, Inc. 4,500	120
• Getty Images, Inc. 4,600	206	• Logicvision, Inc. 1,000	4
• Glenayre Technologies, Inc. 2,300	7	• Loral Space & Communications 1,390	—
• GlobespanVirata, Inc. 8,556	53	• LSI Logic Corp. 27,464	254
• GTC Biotherapeutics, Inc. 1,800	6	• Lucent Technologies, Inc. 286,923	918
Harman International Industries, Inc. 3,400	436	• Macromedia, Inc. 4,500	86
• Harmonic, Inc. 6,342	49	• Manufacturers Services Ltd. 2,500	15
Harris Corp. 4,000	149	• Mattson Technology, Inc. 4,100	58
• Harvard Bioscience, Inc. 500	4	Maxim Integrated Products, Inc. 22,453	1,116
• Hearst-Argyle Television, Inc. 3,700	90	• Maxwell Technologies, Inc. 1,000	8
• Herley Industries, Inc. 500	9	• Measurement Specialties, Inc. 700	9
• HI/FN, Inc. 800	8	• MEMC Electronic Materials, Inc. 11,800	132
• Hollywood Entertainment Corp. 4,300	65	• Mercury Computer Systems, Inc. 3,600	77
• Hutchinson Technology, Inc. 17,100	573	• Mestek, Inc. 700	13
• Illumina, Inc. 1,500	9	• Metawave Communications Corp. 1,900	—
• Integrated Circuit Systems, Inc. 5,400	181	Methode Electronics, Class A 3,600	43
• Integrated Silicon Solutions, Inc. 900	13	• Micron Technology, Inc. 25,500	366
• Intel Corp. 472,532	15,617	• Microsemi Corp. 3,500	72
• Intelli-Check, Inc. 500	4	• Microtune, Inc. 2,200	5
• Interactive Data Corp. 20,700	356	• MKS Instruments, Inc. 1,700	44
• Intermagnetics General Corp. 1,371	32	Mocon, Inc. 600	5
• International Rectifier Corp. 4,100	196	Molex, Inc. 16,125	506
		• Monolithic System Technology, Inc. 1,200	10
		Motorola, Inc. 169,155	2,289

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

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
•MRV Communications, Inc. 4,307	13	•Rambus, Inc. 5,700	141
MTS Systems Corp. 4,500	79	Raven Industries, Inc. 1,400	37
•Mykrolis Corp. 3,021	45	•Rayovac Corp. 2,800	46
•Nanogen, Inc. 1,500	5	•Remec, Inc. 2,500	28
•Nanometrics, Inc. 300	4	•Rex Stores Corp. 1,875	30
•National Semiconductor Corp. 12,100	492	•RF Micro Devices, Inc. 7,200	84
•Netopia, Inc. 2,100	21	Richardson Electronics Ltd. 1,300	13
•New Focus, Inc. 2,800	15	•Robotic Vision Systems, Inc. 1,000	1
•Newport Corp. 4,200	66	•Rofin-Sinar Technologies, Inc. 1,900	45
•Novellus Systems, Inc. 6,671	275	•Rudolph Technologies, Inc. 500	13
•Novoste Corp. 1,600	8	•Sanmina-SCI Corp. 35,816	378
•Nvidia Corp. 7,000	124	•SBS Technologies, Inc. 1,700	23
•Omnivision Technologies, Inc. 1,400	80	•ScanSoft, Inc. 1,204	7
•Oplink Communications, Inc. 4,600	11	Scientific-Atlanta, Inc. 11,900	352
•Optical Communication Products, Inc. 500	1	•SCM Microsystems, Inc. 1,200	10
•OSI Systems, Inc. 1,200	22	•Seagate Technology 6,000	138
•P-Com Inc. 520	—	•Semitool, Inc. 1,800	16
Park Electrochemical Corp. 1,100	27	•Semtech Corp. 3,200	71
•Parkervision, Inc. 400	4	•Silicon Image, Inc. 2,000	14
•ParthusCeva, Inc. 433	3	•Silicon Laboratories, Inc. 2,500	135
•Paxson Communications Corp. 1,900	10	•Silicon Storage Technology, Inc. 3,500	39
•Pemstar, Inc. 1,600	6	•Siliconix, Inc. 8,100	411
•Pericom Semiconductor Corp. 1,400	16	•Sipex Corp. 1,600	14
PerkinElmer, Inc. 8,977	162	•Sirenza Microdevices, Inc. 1,300	6
•Photon Dynamics, Inc. 900	34	•Skyworks Solutions, Inc. 5,689	49
•Pinnacle Systems, Inc. 1,800	13	•Solelectron Corp. 36,820	204
•Pixelworks, Inc. 1,600	19	•Somera Communications, Inc. 1,900	3
•Planar Systems, Inc. 3,700	86	•Spectralink Corp. 1,000	18
•Plantronics, Inc. 4,000	111	•Spherix, Inc. 500	3
•Plexus Corp. 1,700	29	•Standard Microsystems Corp. 1,100	33
•PLX Technology, Inc. 1,300	11	•Stratex Networks, Inc. 2,800	9
•Powell Industries, Inc. 1,000	19	•Superconductor Technologies, Inc. 1,600	8
•Power Integrations, Inc. 1,400	49	•Superior Telecom, Inc. 1,124	—
•Power-One, Inc. 6,000	54	•Supertex, Inc. 1,400	26
•Powerwave Technologies, Inc. 3,200	21	Symbol Technologies, Inc. 16,437	205
•Proxim Corp., Class A 5,412	8	•Symmetricom, Inc. 8,450	61
•QLogic Corp. 7,022	394	•Synaptics, Inc. 1,000	13
Qualcomm, Inc. 56,300	2,674	•T/R Systems, Inc. 1,500	2
•Quantum Corp. 5,500	17	•Taser International, Inc. 1,000	63
•QuickLogic Corp. 900	5	•Technitrol, Inc. 4,000	87
•Radisys Corp. 3,700	72	•Tekelec 8,700	140
		Tektronix, Inc. 5,300	136

See financial notes. 97

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Tellabs, Inc. 28,300	213	• Zebra Technologies Corp., Class A 4,250	242
• Tellium, Inc. 4,000	6	• Zoran Corp. 1,761	29
• Teradyne, Inc. 13,059	298		<b>56,542</b>
• Terayon Communication Systems Corp. 2,800	19		
• Tessco Technologies, Inc. 900	12	<b>Energy: Raw Materials 1.5%</b>	
• Texas Instruments, Inc. 127,397	3,684	Alliance Resource Partners L.P. 1,700	50
• Therma-Wave, Inc. 1,000	5	Anadarko Petroleum Corp. 17,030	743
• Thermo Electron Corp. 26,550	584	Apache Corp. 10,936	762
• Thomas & Betts Corp. 7,300	130	APCO Argentina, Inc. 200	5
• THQ, Inc. 1,950	35	Arch Coal, Inc. 3,500	86
• Three-Five Systems, Inc. 1,099	5	• Atwood Oceanics, Inc. 1,200	31
• Tollgrade Communications, Inc. 1,100	17	Baker Hughes, Inc. 23,300	658
• Transmeta Corp. 4,500	18	Berry Petroleum Co., Class A 2,000	36
• Transwitch Corp. 3,100	10	• BJ Services Co. 11,800	387
• Tripath Technology, Inc. 1,800	9	Buckeye Partners L.P. 3,400	147
• Triquint Semiconductor, Inc. 5,310	38	Burlington Resources, Inc. 14,000	681
• Troy Group, Inc. 2,000	5	Cabot Oil & Gas Corp. 14,400	368
• TTM Technologies, Inc. 4,400	71	CARBO Ceramics, Inc. 500	21
• Tweeter Home Entertainment Group, Inc. 1,100	9	• Cimarex Energy Co. 3,122	64
• United Industrial Corp. 1,200	21	• Cooper Cameron Corp. 3,300	141
• Unitil Corp. 600	15	• CREDO Petroleum Corp. 1,200	21
• Valence Technology, Inc. 1,400	5	• Denbury Resources, Inc. 4,900	62
• Varian Semiconductor Equipment Associates, Inc. 1,500	73	Devon Energy Corp. 15,680	761
• Varian, Inc. 5,800	208	ENSCO International, Inc. 5,700	150
• Viasat, Inc. 1,000	20	Enterprise Products Partners L.P. 17,000	368
• Vicor Corp. 1,700	17	EOG Resources, Inc. 11,400	480
• Virage Logic Corp. 1,400	14	• Evergreen Resources, Inc. 1,600	44
• Vishay Intertechnology, Inc. 11,781	221	• FMC Technologies, Inc. 4,591	92
• Vitesse Semiconductor Corp. 6,986	49	• Forest Oil Corp. 4,450	104
• Waters Corp. 8,700	273	• Friede Goldman Halter, Inc. 1,855	—
• Western Digital Corp. 13,200	178	• Grant Prideco, Inc. 3,600	41
• Western Wireless Corp., Class A 5,200	101	• Grey Wolf, Inc. 5,800	19
• Wilson Greatbatch Technologies, Inc. 1,100	41	Halliburton Co. 31,200	745
• WJ Communications, Inc. 2,300	14	• Hanover Compressor Co. 5,600	59
• Xicor, Inc. 1,000	11	Helmerich & Payne, Inc. 2,300	61
• Xilinx, Inc. 24,600	780	• Hydril Co. 2,500	59
• YDI Wireless, Inc. 100	—	Inergy L.P. 1,000	45
		• Joy Global, Inc. 8,600	164
		• Key Energy Services, Inc. 4,800	42
		Kinder Morgan Energy Partners L.P. 1,502	64

Schwab Total Stock Market Index Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Kirby Corp. 1,300	38	Bridgford Foods Corp. 300	2
Lufkin Industries, Inc. 500	12	Bunge Ltd. 6,800	184
Massey Energy Co. 6,000	83	Campbell Soup Co. 24,500	635
Natural Resource Partners L.P. 2,000	66	• Chiquita Brands International, Inc. 10,000	185
NL Industries, Inc. 2,800	49	Coca-Cola Bottling Co. Consolidated 400	20
• Noble Corp. 10,100	347	The Coca-Cola Co. 178,100	8,264
Noble Energy, Inc. 3,500	139	Coca-Cola Enterprises, Inc. 27,200	548
Occidental Petroleum Corp. 28,100	991	ConAgra Foods, Inc. 38,293	913
• Offshore Logistics, Inc. 1,100	24	Consolidated-Tomoka Land Co. 900	27
• Oil States International, Inc. 3,600	44	Corn Products International, Inc. 7,800	264
• Parker Drilling Co. 2,800	6	• Dean Foods Co. 8,613	261
Peabody Energy Corp. 3,800	127	• Del Monte Foods Co. 8,931	85
Penn Virginia Resource Partners L.P. 1,000	33	Delta & Pine Land Co. 2,000	46
Plains All American Pipeline L.P. 4,600	138	Dreyer's Grand Ice Cream Holdings, Inc. 2,300	178
• Plains Resources, Inc. 4,000	53	• Eden Bioscience Corp. 1,000	2
• Range Resources Corp. 2,400	18	• Embrex, Inc. 1,300	13
• Reliant Resources, Inc. 20,125	100	Fleming Cos., Inc. 3,400	—
• Rowan Cos., Inc. 3,400	81	Flowers Foods, Inc. 19,515	463
Schlumberger Ltd. 42,500	1,996	Fresh Brands, Inc. 1,800	23
• Seacor Smit, Inc. 1,250	48	Fresh Del Monte Produce, Inc. 4,200	105
• Smith International, Inc. 7,400	276	General Mills, Inc. 25,800	1,157
TC Pipelines L.P. 400	13	• Green Mountain Coffee Roasters, Inc. 900	19
Tidewater, Inc. 2,700	74	• Griffen Land & Nurseries, Inc. 300	4
• Tom Brown, Inc. 3,200	86	H.J. Heinz Co. 21,900	774
• Unit Corp. 2,400	47	• Hain Celestial Group, Inc. 1,406	30
USEC, Inc. 3,000	22	Hershey Foods Corp. 8,200	632
Valero Energy Corp. 8,649	369	Hormel Foods Corp. 6,500	160
• W-H Energy Services, Inc. 900	14	Ingles Markets, Inc., Class A 300	3
• Weatherford International Ltd. 4,800	167	Interstate Bakeries 3,200	47
Western Gas Resources, Inc. 2,000	85	• J & J Snack Foods Corp. 3,200	114
• Westmoreland Coal Co. 3,500	52	The J.M. Smuckers Co. 2,438	107
World Fuel Services Corp. 500	14	• John B. Sanfilippo & Son 5,000	172
• Xanser Corp. 1,400	3	Kellogg Co. 28,900	957
	<b>13,176</b>	Kraft Foods, Inc., Class A 14,500	422
<b>Food &amp; Agriculture 3.3%</b>		Lance, Inc. 1,900	25
• 7-Eleven, Inc. 5,000	80	• Lesco, Inc. 500	6
• American Italian Pasta Co., Class A 1,000	38	Lindsay Manufacturing Co. 800	19
The Andersons, Inc. 1,500	24	Marsh Supermarkets, Inc., Class B 1,000	11
Archer-Daniels-Midland Co. 45,958	660	• Maui Land & Pineapple Co., Inc. 800	22
• Aurora Foods, Inc. 2,500	—		

See financial notes. 99

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
McCormick & Co., Inc. 5,800	172	Newmont Mining Corp. 29,051	1,272
MGP Ingredients, Inc. 1,700	16	Royal Gold, Inc. 3,100	64
• Monterey Pasta Co. 700	3		<b>1,655</b>
Nash Finch Co. 1,700	27		
• Neogen Corp. 500	10		
• The Pantry, Inc. 400	7		
• Peet's Coffee & Tea, Inc. 1,800	30		
The Pepsi Bottling Group, Inc. 18,200	406		
PepsiAmericas, Inc. 13,200	198		
PepsiCo, Inc. 124,800	5,968		
• Performance Food Group Co. 1,900	71		
Pilgrim's Pride Corp., Class B 1,400	18		
• Ralcorp Holdings, Inc. 6,700	184		
Rocky Mountain Chocolate Factory, Inc. 1,000	11		
Sanderson Farms, Inc. 3,500	123		
Sara Lee Corp. 54,378	1,084		
• The Scotts Co., Class A 2,800	162		
Seaboard Corp. 200	51		
Sensient Technologies Corp. 2,300	44		
• Smart & Final, Inc. 2,700	19		
• Smithfield Foods, Inc. 6,300	134		
• Spartan Stores, Inc. 500	2		
Standard Commercial Corp. 1,100	21		
Supervalu, Inc. 18,087	456		
Sysco Corp. 47,036	1,583		
Tasty Baking Co. 500	4		
• Tejon Ranch Co. 674	27		
Tootsie Roll Industries, Inc. 2,190	72		
Tyson Foods, Inc., Class A 15,240	217		
• United Natural Foods, Inc. 1,300	50		
• VistaCare, Inc., Class A 1,000	35		
• Wild Oats Markets, Inc. 3,800	39		
Wm. Wrigley Jr. Co. 11,600	654		
• Zapata Corp. 1,000	54		
	<b>29,653</b>		
<b>Gold 0.2%</b>			
Barrick Gold Corp. 5,565	109		
• Glamis Gold Ltd. 8,600	120		
• Golden Cycle Gold Corp. 600	6		
• Meridian Gold, Inc. 6,600	84		

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Apria Healthcare Group, Inc. 10,500	305	• Community Health Systems, Inc. 7,100	171
• Arqule, Inc. 1,300	7	• Conmed Corp. 1,700	35
• Arrow International, Inc. 6,400	169	• Cooper Cos., Inc. 2,200	96
• Arthrocare Corp. 1,400	31	• Corixa Corp. 1,802	11
• Aspect Medical Systems, Inc. 1,200	11	• Corvel Corp. 1,900	69
• Atrix Labs, Inc. 1,400	28	• Covance, Inc. 5,800	151
• AVANIR Pharmaceuticals, Class A 1,900	3	• Coventry Health Care, Inc. 9,600	526
• Avant Immunotherapeutics, Inc. 3,000	7	• CryoLife, Inc. 750	5
• Avigen, Inc. 900	6	• CTI Molecular Imaging, Inc. 2,000	32
• Barr Laboratories, Inc. 3,354	258	• Cubist Pharmaceuticals, Inc. 1,900	22
• Bausch & Lomb, Inc. 3,400	164	• Curis, Inc. 3,140	15
• Baxter International, Inc. 26,118	694	• CV Therapeutics, Inc. 1,100	19
• Beckman Coulter, Inc. 5,100	253	• Cygnus, Inc. 600	—
• Becton Dickinson & Co. 17,300	633	• Cyotgen Corp. 230	3
• Beverly Enterprises, Inc. 3,800	23	• Cytoc Corp. 7,800	101
• BioCryst Pharmaceuticals, Inc. 1,400	11	• D&K Healthcare Resources, Inc. 700	9
• Biogen, Inc. 11,500	465	• Dade Behring Holdings, Inc. 2,600	80
• BioMarin Pharmaceuticals, Inc. 1,800	13	• Datascope Corp. 1,000	33
• Biomet, Inc. 17,625	632	• DaVita, Inc. 16,500	579
• Biopure Corp. 1,200	4	• Deltagen, Inc. 2,200	—
• Bioreliance Corp. 1,200	41	• Dendreon Corp. 1,400	12
• Biosite, Inc. 1,400	36	• Dentsply International, Inc. 6,550	289
• Biosource International, Inc. 1,500	11	• Diagnostic Products Corp. 1,700	69
• Bone Care International, Inc. 1,400	20	• Digene Corp. 1,400	49
• Boston Scientific Corp. 30,900	2,093	• DJ Orthopedics, Inc. 3,000	54
• Bradley Pharmaceuticals, Inc. 1,700	46	• Durect Corp. 2,000	4
• Bristol-Myers Squibb Co. 140,550	3,566	• Dynacq International, Inc. 3,616	61
• C.R. Bard, Inc. 4,000	320	• Edwards Lifesciences Corp. 3,900	113
• Cambrex Corp. 900	21	• Eli Lilly & Co. 80,200	5,343
• Cardinal Health, Inc. 30,660	1,819	• Emisphere Technologies, Inc. 800	5
• Caremark Rx, Inc. 19,900	499	• Endo Pharmaceutical Holdings, Inc. 10,500	172
• Cell Therapeutics, Inc. 1,400	15	• Entremed, Inc. 1,200	6
• Centene Corp. 500	15	• Enzo Biochem, Inc. 1,697	31
• Cephalon, Inc. 3,500	164	• Enzon Pharmaceuticals, Inc. 1,900	21
• Cerus Corp. 500	2	• Eon Labs, Inc. 2,400	101
• Charles River Laboratories International, Inc. 1,900	61	• Express Scripts, Inc. 6,300	346
• Chattem, Inc. 1,200	18	• First Health Group Corp. 5,700	139
• Chiron Corp. 12,600	688	• First Horizon Pharmaceutical Corp. 900	6
• Cholestech Corp. 1,700	12	• Forest Laboratories, Inc. 25,000	1,250
• ChromaVision Medical Systems, Inc. 1,100	1	• Gen-Probe, Inc. 3,400	91
• CIPHERGEN Biosystems, Inc. 1,700	19	• Gene Logic, Inc. 1,300	6

See financial notes. 101



## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Genelabs Technologies, Inc. 800	1	• Intuitive Surgical, Inc. 1,050	15
• Genentech, Inc. 15,700	1,287	• Invacare Corp. 2,000	82
• Genome Therapeutics Corp. 2,100	6	• Inveresk Research Group, Inc. 1,700	39
• Genta, Inc. 2,900	31	• Isis Pharmaceuticals, Inc. 1,900	13
• Genzyme Corp. – General Division 15,232	699	• IVAX Corp. 8,750	169
• Geron Corp. 1,000	13	⑩ Johnson & Johnson 214,870	10,814
• Gilead Sciences, Inc. 14,060	767	• Kendle International, Inc. 1,700	11
• Guidant Corp. 25,816	1,317	• Kindred Healthcare, Inc. 2,312	95
• Guilford Pharmaceuticals, Inc. 1,200	9	• King Pharmaceuticals, Inc. 18,516	248
• Haemonetics Corp. 3,700	85	• Kosan Biosciences, Inc. 2,500	23
• HCA, Inc. 29,100	1,113	• KV Pharmaceutical Co., Class A 2,700	65
• Health Management Associates, Inc., Class A 15,900	352	• Laboratory Corp. of America Holdings 10,300	365
• Health Net, Inc. 16,600	524	• Landauer, Inc. 1,100	43
• Healthcare Services Group 2,500	41	• Large Scale Biology Corp. 2,400	4
• HealthExtras, Inc. 1,900	22	• Lexicon Genetics, Inc. 1,900	11
• HealthTronics Surgical Services, Inc. 2,500	17	• LifePoint Hospitals, Inc. 2,300	59
• Henry Schein, Inc. 2,300	143	• Ligand Pharmaceuticals, Inc., Class B 2,300	32
• Hologic, Inc. 2,600	35	• Lincare Holdings, Inc. 7,100	277
• Human Genome Sciences, Inc. 5,100	71	• Magellan Health Services, Inc. 2,200	—
• Humana, Inc. 18,900	384	• Manor Care, Inc. 8,000	266
• I-Stat Corp. 600	7	• Maxim Pharmaceuticals, Inc. 2,400	14
• ICN Pharmaceuticals, Inc. 5,400	104	• McKesson Corp. 19,900	602
• ICU Medical, Inc. 550	19	• Med-Design Corp. 1,200	4
• Idec Pharmaceuticals Corp. 6,900	242	• Medamicus, Inc. 500	6
• IDEXX Laboratories, Inc. 2,500	118	• Medarex, Inc. 3,000	21
• Igen International, Inc. 1,300	75	• Medcath Corp. 1,500	16
• li-Vi, Inc. 1,900	45	• Medco Health Solutions, Inc. 18,638	619
• ImClone Systems, Inc. 4,435	154	• Medicines Co. 1,700	45
• Immucor, Inc. 750	22	• Medicis Pharmaceutical Corp., Class A 1,700	108
• Immunogen, Inc. 1,500	7	• Medimmune, Inc. 17,375	463
• Immunomedics, Inc. 2,400	20	• Medis Technologies Ltd. 1,110	10
• IMPAC Medical Systems, Inc. 3,000	71	• MedQuist, Inc. 3,217	54
• Impax Laboratories, Inc. 1,600	19	• Medtronic, Inc. 87,974	4,009
• Inamed Corp. 9,300	803	• Mentor Corp. 3,000	61
• Incyte Corp. 2,600	14	• Merck & Co., Inc. 158,552	7,016
• Indevus Pharmaceuticals, Inc. 1,800	10	• Merit Medical Systems, Inc. 1,666	44
• Inspire Pharmaceuticals, Inc. 1,300	24	• MGI Pharma, Inc. 1,900	71
• Integra LifeSciences Holdings Corp. 1,100	37	• Mid Atlantic Medical Services, Inc. 8,300	485
• InterMune, Inc. 1,100	22	• Millennium Pharmaceuticals, Inc. 11,956	190
		• MIM Corp. 1,500	9



**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Mine Safety Appliances Co. 900	51	• Priority Healthcare Corp., Class B 2,000	43
• Molecular Devices Corp. 8,100	144	• Protein Design Labs, Inc. 4,100	55
Mylan Laboratories, Inc. 45,000	1,087	• Province Healthcare Co. 2,325	30
• Myriad Genetics, Inc. 1,400	18	• PSS World Medical, Inc. 2,800	26
• Nabi Biopharmaceuticals 2,800	31	• QMed, Inc. 500	4
• National Healthcare Corp. 600	12	• Quest Diagnostics 7,410	501
Nature's Sunshine Products, Inc. 2,000	16	• Regeneration Technologies, Inc. 1,700	20
• NBTY, Inc. 16,000	436	• Regeneron Pharmaceuticals, Inc. 1,900	26
• Nektar Therapeutics 2,200	29	• RehabCare Group, Inc. 4,000	63
• Neose Technologies, Inc. 500	4	• Renal Care Group, Inc. 4,700	176
• Neurocrine Biosciences, Inc. 1,400	66	• Resmed, Inc. 2,000	84
• Neurogen Corp. 800	4	• Respirationics, Inc. 1,900	79
• Northfield Laboratories, Inc. 1,100	7	• Sangamo Biosciences, Inc. 1,200	6
• Noven Pharmaceuticals, Inc. 5,500	56	• Savient Pharmaceuticals, Inc. 2,300	14
• NPS Pharmaceuticals, Inc. 1,000	26	• Schering-Plough Corp. 80,950	1,236
• Nuvelo, Inc. 900	3	• Select Medical Corp. 2,500	84
Oakley, Inc. 4,200	46	• Sepracor, Inc. 6,600	176
• Ocular Sciences, Inc. 1,500	42	• Serologicals Corp. 1,200	19
• Odyssey HealthCare, Inc. 2,250	62	• SICOR, Inc. 7,200	193
Omnicare, Inc. 7,500	288	• Sierra Health Services, Inc. 11,700	273
• Onyx Pharmaceuticals, Inc. 1,800	44	• Sola International, Inc. 2,700	46
• OraSure Technologies, Inc. 1,500	13	• SonoSite, Inc. 1,600	32
• Orthodontic Centers of America, Inc. 2,112	19	• Specialty Laboratories 700	9
• OSI Pharmaceuticals, Inc. 1,690	47	• St. Jude Medical, Inc. 12,300	715
Owens & Minor, Inc. 2,000	41	• Steris Corp. 6,100	127
• Oxford Health Plans, Inc. 21,700	879	• Stryker Corp. 13,800	1,119
• Pacificare Health Systems, Inc. 9,400	559	• Sunrise Senior Living, Inc. 4,900	142
• Pain Therapeutics, Inc. 2,600	16	• Sunrise Technologies International, Inc. 1,700	—
• Parexel International Corp. 2,400	40	• SuperGen, Inc. 900	9
• Patterson Dental Co. 5,300	339	• Sybron Dental Specialties, Inc. 4,633	107
• Pediatrix Medical Group, Inc. 3,000	160	• Tanox, Inc. 1,900	34
Perrigo Co. 4,300	58	• Techne Corp. 3,800	132
⑥ Pfizer, Inc. 555,352	17,549	• Tenet Healthcare Corp. 30,150	416
• Pharmaceutical Product Development, Inc. 2,500	75	• Theragenics Corp. 2,500	11
• Pharmaceutical Resources, Inc. 1,900	137	• Therasense, Inc. 2,300	42
• Pharmacopeia, Inc. 1,300	16	• Third Wave Technologies, Inc. 1,800	6
• Pharmacyclics, Inc. 1,100	6	• Thoratec Corp. 2,636	41
PolyMedica Corp. 4,400	130	• Titan Pharmaceuticals, Inc. 800	3
• Pozen, Inc. 1,300	16	• Transgenomic, Inc. 1,200	3
• Praecis Pharmaceuticals, Inc. 1,600	11	• Transkaryotic Therapies, Inc. 900	12
		• Triad Hospitals, Inc. 6,044	186

See financial notes. 103

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Trimeris, Inc. 500	13	International Flavors & Fragrances, Inc. 4,400	146
• TriPath Imaging, Inc. 2,600	24	Nu Skin Enterprises, Inc., Class A 6,500	103
• Tripos, Inc. 1,000	7	Procter & Gamble Co. 93,700	9,210
• United Surgical Partners International, Inc. 1,400	42		<b>17,028</b>
UnitedHealth Group, Inc. 42,200	2,147	<b>Insurance 4.4%</b>	
• Universal Health Services, Class B 4,000	188	21st Century Holding Co. 1,000	19
• Urologix, Inc. 1,800	8	21st Century Insurance Group 7,200	101
• US Oncology, Inc. 5,200	57	Aetna, Inc. 14,800	850
• USANA Health Sciences, Inc. 1,000	33	AFLAC, Inc. 37,600	1,372
• Utah Medical Products, Inc. 2,500	59	Alfa Corp. 4,800	62
• Varian Medical Systems, Inc. 4,700	301	• Alleghany Corp. 212	43
• Vaxgen, Inc. 600	6	• Allmerica Financial Corp. 2,400	64
• VCA Antech, Inc. 2,700	76	The Allstate Corp. 50,874	2,010
• Ventana Medical Systems, Inc. 1,200	50	AMBAC Financial Group, Inc. 7,250	513
• Vertex Pharmaceuticals, Inc. 3,144	41	American Financial Group, Inc. 5,500	122
• Viasys Healthcare, Inc. 1,482	27	• American International Group, Inc. 185,222	11,267
• Vical, Inc. 1,600	9	• American Medical Security Group, Inc. 5,600	128
• Viropharma, Inc. 1,000	3	American National Insurance Co. 1,300	108
• Visx, Inc. 3,100	75	AmerUs Group Co. 1,900	72
Vital Signs, Inc. 1,900	58	AON Corp. 23,000	504
• Watson Pharmaceuticals, Inc. 7,732	304	• Arch Capital Group Ltd. 1,400	51
• WellPoint Health Networks, Inc. 10,180	905	• Argonaut Group, Inc. 2,400	38
West Pharmaceutical Services, Inc. 3,300	109	Arthur J. Gallagher & Co. 4,300	125
• Wright Medical Group, Inc. 1,700	50	Baldwin & Lyons, Inc., Class B 750	18
Wyeth 96,900	4,277	Brown & Brown, Inc. 3,000	91
• XOMA Ltd. 2,400	18	Chubb Corp. 13,547	905
Young Innovations, Inc. 2,000	60	CIGNA Corp. 10,300	588
• Zimmer Holdings, Inc. 13,300	849	Cincinnati Financial Corp. 12,200	499
• Zymogenetics, Inc. 2,000	25	• Clark, Inc. 1,700	26
	<b>111,298</b>	• CNA Financial Corp. 15,700	339
<b>Household Products 1.9%</b>		• CNA Surety Corp. 2,200	24
Alberto-Culver Co., Class B 3,300	209	Commerce Group, Inc. 1,600	64
Avon Products, Inc. 17,000	1,155	Crawford & Co., Class B 1,600	11
Church & Dwight Co., Inc. 3,300	123	Delphi Financial Group, Inc., Class A 3,010	152
Clorox Co. 27,000	1,223	EMC Insurance Group, Inc. 1,200	20
Colgate-Palmolive Co. 35,500	1,888	Erie Indemnity Co., Class A 3,000	120
The Dial Corp. 13,100	315	FBL Financial Group, Inc., Class A 2,090	55
The Estee Lauder Cos., Inc., Class A 10,300	385	Fidelity National Financial, Inc. 14,503	448
The Gillette Co. 70,900	2,262	First American Corp. 4,800	137
Inter Parfums, Inc. 675	9		

Schwab Total Stock Market Index Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
First United Corp. 2,200	51	The PMI Group, Inc. 5,600	214
• FPIC Insurance Group, Inc. 400	7	Presidential Life Corp. 1,000	15
Fremont General Corp. 2,000	33	Principal Financial Group, Inc. 22,400	702
Great American Financial Resources, Inc. 2,800	44	• ProAssurance Corp. 1,670	50
Harleysville Group, Inc. 1,800	40	The Progressive Corp. 23,300	1,720
Hartford Financial Services Group, Inc. 19,400	1,065	Protective Life Corp. 5,500	179
HCC Insurance Holdings, Inc. 2,100	61	Prudential Financial, Inc. 38,500	1,488
Hilb, Rogal & Hamilton Co. 2,000	60	Radian Group, Inc. 9,202	487
Hooper Holmes, Inc. 2,100	11	Reinsurance Group of America, Inc. 2,600	104
Horace Mann Educators Corp. 1,800	24	RLI Corp. 2,800	94
Independence Holding Co. 1,500	35	Safeco Corp. 10,000	367
Infinity Property & Casualty Corp. 2,500	81	Safety Insurance Group, Inc. 1,000	16
Jefferson-Pilot Corp. 10,100	482	SCPIE Holdings, Inc. 700	9
John Hancock Financial Services, Inc. 19,900	703	Selective Insurance Group, Inc. 1,200	37
Liberty Corp. 1,000	45	• SNTL Corp. - Litigation Trust Certificates 1,300	—
Lincoln National Corp. 12,600	503	St. Paul Cos., Inc. 16,200	618
Loews Corp. 12,500	537	Stancorp Financial Group, Inc. 2,500	158
• Markel Corp. 300	76	State Auto Financial Corp. 1,300	35
Marsh & McLennan Cos., Inc. 43,000	1,838	Sterling Financial Corp. 1,000	28
MBIA, Inc. 9,750	581	• Stewart Information Services Corp. 3,700	115
Mercury General Corp. 2,900	138	Torchmark Corp. 10,600	465
Metlife, Inc. 55,500	1,743	Transatlantic Holdings, Inc. 2,650	203
MGIC Investment Corp. 6,300	323	Travelers Property Casualty Corp., Class A 20,549	335
• MIIX Group, Inc. 2,400	4	Travelers Property Casualty Corp., Class B 36,790	602
Mony Group, Inc. 1,500	48	• Triad Guaranty, Inc. 1,700	84
• National Medical Health Card Systems, Inc. 800	12	• UICI 2,500	37
Nationwide Financial Services, Inc., Class A 1,300	44	United Fire & Casualty Co. 500	20
• Navigators Group, Inc. 1,500	48	Unitrin, Inc. 3,100	115
NYMAGIC, Inc. 2,100	50	UnumProvident Corp. 13,414	220
Odyssey Re Holdings Corp. 2,900	61	• USI Holdings Corp. 4,500	57
• Ohio Casualty Corp. 3,000	46	W.R. Berkley Corp. 10,200	350
Old Republic International Corp. 10,900	392	• WellChoice, Inc. 2,500	81
• Penn Treaty American Corp. 600	1	Zenith National Insurance Corp. 1,100	34
Penn-America Group, Inc. 1,400	21		<b>39,298</b>
• Philadelphia Consolidated Holding Co. 1,000	47		
The Phoenix Cos., Inc. 4,500	49		
PMA Capital Corp., Class A 700	9		
		<b>Media 4.0%</b>	
		• Acme Communications, Inc. 1,900	16
		• Adolor Corp. 1,700	31
		Advanced Marketing Services, Inc. 900	10
		• AMC Entertainment, Inc. 2,900	40

See financial notes. 105

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• American Tower Corp., Class A 14,500	168	Knight-Ridder, Inc. 5,700	418
Banta Corp. 2,700	103	Lee Enterprises, Inc. 2,500	105
Belo Corp., Class A 9,400	256	• Lifeline Systems, Inc. 2,300	81
Blockbuster, Inc., Class A 6,900	133	• Lin TV Corp., Class A 3,300	74
• Cablevision Systems Corp., NY Group, Class A 16,300	329	• Lynch Interactive Corp. 900	23
Cadmus Communications Corp. 1,900	23	• Martha Stewart Living Omnimedia, Class A 1,400	14
• Charter Communications, Inc., Class A 20,300	87	McClatchy Co., Class A 7,200	466
Clear Channel Communications, Inc. 44,221	1,805	The McGraw-Hill Cos., Inc. 17,300	1,158
• CNET Networks, Inc. 9,983	81	Media General, Inc., Class A 2,000	132
• Comcast Corp., Class A 68,336	2,318	• Mediacom Communications Corp. 7,600	53
• Comcast Corp., Special Class A 42,800	1,396	Meredith Corp. 6,000	291
• Consolidated Graphics, Inc. 3,900	108	• Merrimac Industries, Inc. 600	3
• Cox Communications, Inc., Class A 42,135	1,436	• Metro-Goldwyn-Mayer, Inc. 13,134	210
• Crown Media Holdings, Inc., Class A 3,500	31	New York Times Co., Class A 10,200	485
• Cumulus Media, Inc., Class A 2,600	49	• PanAmSat Corp. 15,400	319
• Daily Journal Corp. 500	14	• Quipp, Inc. 900	11
• DGSE Cos., Inc. 700	1	R.R. Donnelley & Sons Co. 7,700	200
Dow Jones & Co., Inc. 5,000	260	• Radio One, Inc., Class A 9,500	152
The E.W. Scripps Co., Class A 6,000	558	• Radio Unica Communications Corp. 300	—
• EchoStar Communications Corp., Class A 18,300	701	The Reader's Digest Association, Inc., Class A 7,300	108
• Emmis Communications Corp., Class A 4,300	95	Regal Entertainment Group, Class A 4,200	86
• Entercom Communications Corp. 3,000	137	• Saga Communications, Inc., Class A 1,250	24
• Entravision Communications Corp., Class A 5,000	48	• Salem Communications Corp., Class A 900	21
• Fox Entertainment Group, Inc., Class A 25,350	702	• Scholastic Corp. 2,200	68
Gannett Co., Inc. 18,500	1,556	• Sinclair Broadcast Group, Inc., Class A 2,300	27
• Gaylord Entertainment Co. 1,800	49	Thomas Nelson, Inc. 800	13
• GC Cos., Inc. 500	—	• Time Warner, Inc. 329,252	5,034
Gray Television, Inc. 3,100	39	• Tivo, Inc. 4,500	36
Gray Television, Inc., Class A 1,000	13	Tribune Co. 21,900	1,074
Harte-Hanks, Inc. 8,100	161	• Univision Communications, Inc., Class A 23,010	781
Hollinger International, Inc. 7,300	98	• Valassis Communications, Inc. 5,900	153
• Information Holdings, Inc. 2,200	49	• Valuevision Media, Inc., Class A 1,400	23
• Insight Communications Co. 2,700	26	Viacom, Inc., Class B 128,012	5,104
• InterActiveCorp 47,117	1,730	The Walt Disney Co. 146,650	3,320
John Wiley & Sons, Class A 3,800	99	Washington Post, Class B 600	443
• Journal Register Co. 3,200	64	• Westwood One, Inc. 7,200	216
		• XM Satellite Radio Holdings, Inc., Class A 10,300	209
			<b>35,755</b>

Schwab Total Stock Market Index Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Miscellaneous 0.5%</b>			
3M Co. 56,000	4,417	• Bay View Capital Corp. 5,061	31
• ABX Air, Inc. 6,900	24	The Bear Stearns Cos., Inc. 13,620	1,039
• ANC Rental Corp. 3,037	—	• Berkshire Hathaway, Inc., Class A 92	7,159
• AT&T Latin America Corp., Class A 2,100	—	Berkshire Hills Bancorp, Inc. 1,400	50
• Breakaway Solutions, Inc. 1,400	—	Blackrock, Inc. 400	21
• Coinstar, Inc. 5,200	76	• Boca Resorts, Inc., Class A 1,800	24
Harbor Global Co. Ltd. 160	2	• BOK Financial Corp. 3,437	130
• i2 Technologies, Inc. 15,300	27	BP Prudhoe Bay Royalty Trust 2,200	46
• Jupiter Media Metrix, Inc. 1,673	—	• Cadiz, Inc. 2,100	—
• NetFlix, Inc. 3,000	172	Camco Financial Corp. 700	12
• Nucentrix Broadband Networks, Inc. 2,100	—	• Capital Corp. of the West 1,050	40
• Scient, Inc. 624	—	Capital One Financial Corp. 17,600	1,070
• Vialta, Inc. 34	—	Cash America International, Inc. 2,500	48
	<b>4,718</b>	Cathay Bancorp., Inc. 1,600	77
		Central Pacific Financial Co. 900	24
		■ The Charles Schwab Corp. 98,620	1,337
		Charter Financial Corp. 900	30
<b>Miscellaneous Finance 8.5%</b>		Charter Municipal Mortgage Acceptance Co. 1,400	27
1st Source Corp. 1,571	31	Charter One Financial, Inc. 15,125	483
• A.B. Watley Group, Inc. 1,300	—	Chesterfield Financial Corp. 1,500	35
A.G. Edwards, Inc. 5,900	239	Chicago Mercantile Exchange 1,800	122
• Acacia Research – Acacia Technologies 330	2	CIT Group, Inc. 16,100	541
• Acacia Research – CombiMatrix 184	1	▲ 4 Citigroup, Inc. 376,436	17,843
• Actrade Financial Technologies Ltd. 1,000	1	Citizens First Bancorp, Inc. 700	16
Advanta Corp., Class A 7,400	81	Coastal Bancorp, Inc. 800	27
• Affiliated Managers Group, Inc. 1,200	87	Coastal Financial Corp. 2,281	37
Alliance Capital Management Holding L.P. 5,200	175	• The Commercial Capital Bancorp, Inc. 2,500	47
Allied Capital Corp. 8,515	212	Commercial Federal Corp. 2,300	59
Amcore Financial, Inc. 1,200	32	• CompuCredit Corp. 4,400	87
American Capital Strategies Ltd. 5,100	138	• Corrections Corp. of America 3,828	94
American Express Co. 94,150	4,418	Countrywide Financial Corp. 8,900	936
American Home Mortgage Holdings, Inc. 2,000	42	Cross Timbers Royalty Trust 1,500	38
• AmeriCredit Corp. 3,800	51	CVB Financial Corp. 2,166	43
• Ameritrade Holding Corp. 28,800	393	Downey Financial Corp. 2,000	92
Asta Funding, Inc. 1,000	30	• DVI, Inc. 1,200	—
Astoria Financial Corp. 7,000	242	• E*TRADE Group, Inc. 25,035	258
Bank of the Ozarks, Inc. 1,400	60	East-West Bancorp, Inc. 1,300	64
• Bankunited Financial Corp., Class A 2,200	49	Eaton Vance Corp. 5,800	202
Banner Corp. 1,200	28	• eSpeed, Inc., Class A 3,300	90
		Fannie Mae 69,900	5,011
		Federated Investors, Inc., Class B 7,450	206

See financial notes. 107

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Fidelity Bankshares, Inc. 1,933	52	• Local Financial Corp. 2,000	39
• Financial Federal Corp. 800	27	• Mail-Well, Inc. 1,300	5
Financial Industries Corp. 700	10	MB Financial, Inc. 1,200	57
First Financial Corp. 600	18	MBNA Corp. 97,650	2,417
First Financial Holdings, Inc. 1,400	42	MCG Capital Corp. 2,200	39
First Indiana Corp. 1,375	25	McGrath RentCorp 800	23
First Place Financial Corp. 2,900	56	• Meritage Corp. 1,000	59
First Sentinel Bancorp., Inc. 2,300	43	Merrill Lynch & Co., Inc. 68,800	4,073
Flagstar Bancorp., Inc. 4,500	100	Metris Cos., Inc. 3,000	14
Flushing Financial Corp. 1,200	29	• MicroFinancial, Inc. 1,900	6
Franklin Resources, Inc. 17,600	835	The Midland Co. 1,800	41
Freddie Mac 50,500	2,835	Moody's Corp. 10,300	596
• Gabelli Asset Management, Inc., Class A 700	25	Morgan Stanley 79,800	4,379
Glacier Bancorp, Inc. 550	17	MutualFirst Financial, Inc. 2,000	56
Golden West Financial Corp. 10,400	1,044	• National Financial Partners Corp. 2,500	68
Goldman Sachs Group, Inc. 36,400	3,418	• National Western Life Insurance Co., Class A 300	43
• Golf Trust of America, Inc. L.P. 2,400	7	• NCO Portfolio Management, Inc. 2,600	18
GreenPoint Financial Corp. 9,150	285	New Century Financial Corp. 3,600	133
• Hawthorne Financial Corp. 1,050	27	New York Community Bancorp., Inc. 9,736	352
Heritage Financial Corp. 700	15	• NextCard, Inc. 2,600	—
Hudson River Bancorp 1,600	53	• North American Scientific, Inc. 700	5
Hugoton Royalty Trust 3,300	66	Northrim BanCorp, Inc. 2,500	52
IBERIABANK Corp. 700	36	Northway Financial, Inc. 200	7
Independence Community Bank Corp. 3,600	132	Northwest Bancorp, Inc. 2,500	52
Independent Bank Corp. Michigan 1,637	47	Nueberger Berman, Inc. 3,950	171
IndyMac Bancorp, Inc. 3,400	100	Nuveen Investments, Inc., Class A 6,300	176
• Instinet Group, Inc. 1,200	7	Oak Hill Financial, Inc. 1,000	30
International Bancshares Corp. 1,877	86	• Ocwen Financial Corp. 2,920	14
Interpool, Inc. 1,200	18	PAB Bankshares, Inc. 700	10
• Investment Technology Group, Inc. 2,250	45	Pacific Capital Bancorp. 2,133	73
Investors Financial Services Corp. 5,500	194	Pacific Northwest Bancorp 1,000	39
• ITLA Capital Corp. 700	33	Partners Trust Financial Group, Inc. 1,700	43
Janus Capital Group, Inc. 16,500	233	The Peoples Holding Co. 500	24
Jefferies Group, Inc. 1,600	50	• Petrocorp, Inc. 3,000	40
Klamath First Bancorp, Inc. 2,700	65	PMC Commercial Trust 1,500	21
• Knight Trading Group, Inc. 9,700	134	• Portfolio Recovery Associates, Inc. 2,000	52
• LabOne, Inc. 2,100	58	Provident Financial Holdings 500	16
LaBranche & Co., Inc. 2,400	25	• Providian Financial Corp. 18,900	210
Legg Mason, Inc. 4,200	350	R&G Financial Corp., Class B 1,700	56
Lehman Brothers Holdings, Inc. 16,500	1,188	Raymond James Financial, Inc. 4,600	188
Leucadia National Corp. 3,100	130		

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Resource America, Inc., Class A 2,000	25	•AFC Enterprises, Inc. 1,000	17
Roslyn Bancorp., Inc. 4,550	123	•American Greetings Corp., Class A 8,500	181
Santander BanCorp 1,760	44	Applebee's International, Inc. 2,775	104
•Saxon Capital, Inc. 1,000	19	Bob Evans Farms, Inc. 2,200	65
Seacoast Financial Services Corp. 1,973	51	Boyd Gaming Corp. 2,800	43
SEI Investments Co. 7,200	210	•Boyd's Collection Ltd. 2,200	11
•Siebert Financial Corp. 2,900	12	•Brinker International, Inc. 6,900	220
SLM Corp. 31,800	1,245	•Buca, Inc. 1,100	6
•SoundView Technology Group, Inc. 600	7	CBRL Group, Inc. 3,300	128
Southern Financial Bancorp, Inc. 253	9	•CEC Entertainment, Inc. 1,350	66
Sovereign Bancorp., Inc. 19,860	413	•Centillum Communications, Inc. 1,000	5
State Financial Services Corp., Class A 2,000	53	•Championship Auto Racing Teams, Inc. 1,000	—
Staten Island Bancorp., Inc. 2,900	58	•The Cheesecake Factory 1,925	77
Student Loan Corp. 1,700	220	Churchill Downs, Inc. 900	35
SWS Group, Inc. 1,141	25	•CKE Restaurants, Inc. 1,800	13
T. Rowe Price Group, Inc. 8,200	337	Darden Restaurants, Inc. 10,800	226
•Tarragon Realty Investors, Inc. 2,359	37	•Dave and Buster's, Inc. 1,700	22
TF Financial Corp. 700	23	•Department 56, Inc. 3,300	46
•UnitedGlobalCom, Inc., Class A 2,200	16	Dover Motorsports, Inc. 1,400	5
Value Line, Inc. 300	15	•Drew Industries, Inc. 2,500	63
W Holding Co., Inc. 2,100	49	•Electronic Arts, Inc. 10,100	1,000
W.P. Carey & Co. LLC 1,600	52	•Electronics Boutique Holdings Corp. 1,300	37
Waddell & Reed Financial, Inc., Class A 4,750	105	•Enesco Group, Inc. 1,100	11
Washington Federal, Inc. 4,064	107	•Equity Marketing, Inc. 500	7
Washington Mutual, Inc. 66,078	2,891	The First Years, Inc. 4,000	57
Waypoint Financial Corp. 1,651	34	Fortune Brands, Inc. 17,700	1,153
Webster Financial Corp. 3,012	135	•Fossil, Inc. 1,975	53
•Wellsford Real Properties, Inc. 1,400	25	•Garden Fresh Restaurant Corp. 1,700	27
Wesco Financial Corp. 200	66	Handleman Co. 6,600	117
Westwood Holdings Group, Inc. 285	5	Hasbro, Inc. 12,000	262
•WFS Financial, Inc. 4,100	179	•Hibbet Sporting Goods, Inc. 1,575	43
White Mountains Insurance Group, Inc. 200	85	•Hollywood Media Corp. 1,100	2
Willow Grove Bancorp, Inc. 1,596	27	IHOP Corp. 500	19
•World Acceptance Corp. 2,500	45	International Game Technology 23,600	773
	<b>76,212</b>	International Speedway Corp., Class A 3,245	138
<b>Non-Durables &amp; Entertainment 1.4%</b>		•Isle of Capri Casinos, Inc. 9,400	196
•The 3DO Co. 262	—	•Jack in the Box, Inc. 1,700	31
•A.T. Cross Co., Class A 2,400	15	•Krispy Kreme Doughnuts, Inc. 2,100	91
Action Performance Cos., Inc. 1,100	23	Lancaster Colony Corp. 3,400	135
•Activision, Inc. 4,950	75		

See financial notes. 109



## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Landry's Restaurants, Inc. 1,800	45	World Wrestling Entertainment, Inc. 900	10
Lone Star Steakhouse & Saloon, Inc. 4,400	96	•Yum! Brands, Inc. 21,500	734
•Luby's, Inc. 1,400	4		<b>12,316</b>
•Marvel Enterprises, Inc. 7,800	230		
Mattel, Inc. 31,300	606	<b>Non-Ferrous Metals 0.4%</b>	
McDonald's Corp. 91,800	2,296	•A.M. Castle & Co. 1,500	8
•Midway Games, Inc. 2,100	6	Alcoa, Inc. 58,464	1,846
Movado Group, Inc. 3,700	89	•Brush Engineered Materials, Inc. 1,100	14
•O'Charleys, Inc. 400	7	•Century Aluminum Co. 600	10
•On Command Corp. 1,500	3	Commercial Metals Co. 1,000	25
Oneida Ltd. 700	3	Commonwealth Industries, Inc. 1,300	9
Outback Steakhouse, Inc. 4,500	189	•Encore Wire Corp. 500	8
•P.F. Chang's China Bistro, Inc. 800	39	Engelhard Corp. 9,300	266
•Panera Bread Co., Class A 800	32	Freeport-McMoran Copper & Gold, Inc., Class B 16,000	620
•Papa John's International, Inc. 1,700	45	•Imco Recycling, Inc. 2,400	18
•Peco II, Inc. 1,200	1	•Kaiser Aluminum Corp. 2,000	—
•Penn National Gaming, Inc. 1,900	45	Minerals Technologies, Inc. 3,100	170
•Rare Hospitality International Inc. 825	20	•Mueller Industries, Inc. 1,700	54
•RC2 Corp. 2,200	47	•Phelps Dodge Corp. 7,330	452
Regis Corp. 3,900	148	Reliance Steel & Aluminum Co. 1,250	36
Riviana Foods, Inc. 1,200	33	•RTI International Metals, Inc. 4,000	48
Ruby Tuesday, Inc. 3,100	85	Southern Peru Copper Corp. 1,500	43
Russ Berrie & Co., Inc. 1,000	36	•Stillwater Mining Co. 1,133	8
•Ryan's Family Steak Houses, Inc. 2,250	31	•Titanium Metals Corp. 180	6
•SCP Pool Corp. 1,275	45	•Wolverine Tube, Inc. 1,000	5
•Service Corp. International 20,100	98		<b>3,646</b>
•Smith & Wollensky Restaurant Group, Inc. 900	5		
•Sonic Corp. 1,875	52	<b>Oil: Domestic 1.1%</b>	
•Sotheby's Holdings, Inc., Class A 2,800	30	Amerada Hess Corp. 6,400	330
•Starbucks Corp. 28,300	894	Ashland, Inc. 4,000	149
•The Steak N Shake Co. 1,580	27	•CAL Dive International, Inc. 1,500	31
•Stewart Enterprises, Inc., Class A 4,200	17	Chesapeake Energy Corp. 6,600	79
•Student Advantage, Inc. 19	—	•Comstock Resources, Inc. 4,500	67
•Take-Two Interactive Software, Inc. 8,000	316	ConocoPhillips 47,598	2,720
The Topps Co., Inc. 1,700	17	Consol Energy, Inc. 5,800	126
•Trans World Entertainment Corp. 1,500	10	Crosstex Energy L.P. 1,000	42
Triarc Cos., Inc., Class B 1,400	15	Diamond Offshore Drilling, Inc. 9,300	172
Triarc Cos., Inc. 700	7	•Enbridge Energy Management LLC 1,064	48
Tupperware Corp. 2,300	35	•Encore Acquisition Co. 1,500	35
Wendy's International, Inc. 7,300	270	•Energy Partners Ltd. 1,700	20
		Frontier Oil Corp. 3,600	58



# Schwab Total Stock Market Index Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Global Industries Ltd. 4,400	20	Unocal Corp. 20,007	634
• Gulf Island Fabrication, Inc. 2,800	42	Valero L.P. 1,600	73
• Gulfmark Offshore, Inc. 1,600	22	• Varco International, Inc. 7,140	126
• Harvest Natural Resources, Inc. 6,000	41	Vintage Petroleum, Inc. 10,500	121
Holly Corp. 2,000	50	• Westport Resources Corp. 5,725	137
• Houston Exploration Co. 5,400	189	XTO Energy, Inc. 13,566	321
Kaneb Services LLC 1,466	41		<b>10,299</b>
Kerr-McGee Corp. 10,519	437		
Magellan Midstream Partners 1,200	58	<b>Oil: International 2.6%</b>	
• Magnum Hunter Resources, Inc. 1,750	15	• ATP Oil & Gas Corp. 1,600	8
Marathon Oil Corp. 23,000	680	ChevronTexaco Corp. 78,317	5,819
Markwest Energy Partners L.P. 500	19	▲ 5 Exxon Mobil Corp. 479,816	17,552
• Meridian Resource Corp. 3,100	12	GlobalSantaFe Corp. 16,655	375
Murphy Oil Corp. 6,000	354		<b>23,754</b>
• Nabors Industries Ltd. 9,317	352		
• National-Oilwell, Inc. 5,569	106	<b>Optical &amp; Photo 0.2%</b>	
• Newfield Exploration Co. 3,700	147	• APA Optics, Inc. 1,000	3
• Nuevo Energy Co. 2,300	45	• August Technology Corp. 1,300	25
• OYO Geospace Corp. 300	4	• BMC Industries, Inc. 2,100	—
Pacific Energy Partners L.P. 1,000	26	• Corning, Inc. 96,307	1,057
Patina Oil & Gas Corp. 3,125	132	CPI Corp. 400	8
• Patterson-UTL Energy, Inc. 6,600	189	• Drexler Technology Corp. 1,000	15
• Pioneer Natural Resources Co. 8,400	222	Eastman Kodak Co. 26,000	635
• Plains Exploration & Production Co. 2,520	34	• Fischer Imaging Corp. 500	2
Pogo Producing Co. 6,300	263	Imation Corp. 2,000	68
• Premcor, Inc. 2,600	61	• Ingram Micro, Inc., Class A 10,400	154
• Pride International, Inc. 5,200	85	• Lexar Media, Inc. 5,400	124
• Quicksilver Resource, Inc. 1,400	36	• Meade Instruments Corp. 800	3
• Remington Oil & Gas Corp. 1,400	25	• Photronics, Inc. 1,400	30
• Spinnaker Exploration Co. 900	23	• Polaroid Corp. 3,800	—
St. Mary Land & Exploration Co. 3,700	97	• StockerYale, Inc. 500	1
• Stone Energy Corp. 976	35	• Zomax, Inc. 2,000	12
Sunoco Logistics Partners L.P. 2,000	68	• Zygo Corp. 500	8
Sunoco, Inc. 5,500	241		<b>2,145</b>
• Superior Energy Services, Inc. 4,900	44		
• Syntroleum Corp. 4,000	16	<b>Paper &amp; Forest Products 0.7%</b>	
TEPPCO Partners L.P. 4,000	151	Boise Cascade Corp. 2,800	79
• Tesoro Petroleum Corp. 4,800	55	Bowater, Inc. 2,300	94
• Transmontaigne, Inc. 1,600	9	• Buckeye Technologies, Inc. 1,200	11
• Transocean, Inc. 22,731	436	Chesapeake Corp. 1,000	24
• Ultra Petroleum Corp. 6,500	119	CSS Industries, Inc. 900	24
• Universal Compression Holdings, Inc. 400	9	Deltic Timber Corp. 700	20
		Georgia-Pacific Corp. 44,365	1,166

See financial notes. 111

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
International Paper Co. 35,304	1,389	CIRCOR International, Inc. 1,250	26
•Kadant, Inc. 1	—	Clarcor, Inc. 1,700	69
Kimberly-Clark Corp. 35,139	1,856	Cognex Corp. 2,900	78
•Louisiana-Pacific Corp. 4,800	91	•Columbus McKinnon Corp. 2,400	13
MeadWestvaco Corp. 8,674	225	Cooper Industries Ltd., Class A 7,200	381
•Packaging Corp. of America 6,000	118	•Cuno, Inc. 1,300	52
Potlatch Corp. 13,400	419	Curtiss-Wright Corp. 400	30
Rayonier, Inc. 1,500	63	•CyberCare, Inc. 900	—
Rock-Tennessee Co., Class A 2,000	32	•Daisytek International Corp. 1,700	—
•Smurfit-Stone Container Corp. 10,900	169	Deere & Co. 16,200	982
Temple-Inland, Inc. 1,900	103	•DiamondCluster International, Inc., Class A 1,000	9
Wausau-Mosinee Paper Corp. 4,700	58	Dover Corp. 14,200	554
Weyerhaeuser Co. 11,250	678	•DT Industries, Inc. 1,200	1
	<b>6,619</b>	•Duratek, Inc. 1,500	14
<b>Producer Goods &amp; Manufacturing 4.5%</b>		Emerson Electric Co. 29,500	1,674
•Aaon, Inc. 1,575	29	•Evergreen Solar, Inc. 1,000	3
•Actuant Corp., Class A 2,840	92	•The Fairchild Corp., Class A 3,100	15
•Advanced Energy Industries, Inc. 3,900	89	Fastenal Co. 3,600	160
•Aeroflex, Inc. 5,400	50	Federal Signal Corp. 2,800	41
•AGCO Corp. 3,762	68	•Fisher Scientific International, Inc. 4,900	197
Alamo Group, Inc. 500	7	•Flowserve Corp. 3,900	80
Albany International Corp., Class A 3,918	121	•FMC Corp. 3,100	87
•American Standard Cos., Inc. 4,800	459	•Foster Wheeler Ltd. 2,500	3
Ametek, Inc. 2,100	99	Franklin Electric Co., Inc. 1,900	116
Applied Industrial Technologies, Inc. 2,900	65	•Gardner Denver, Inc. 2,700	56
Aptargroup, Inc. 2,200	79	▲① General Electric Co. 714,566	20,730
•Astec Industries, Inc. 500	6	The Gorman-Rupp Co. 800	19
Avery Dennison Corp. 7,200	379	Graco, Inc. 4,675	178
•AZZ, Inc. 700	9	•GrafTech International Ltd. 2,100	22
Baldor Electric Co. 3,800	81	Hardinge, Inc. 1,800	17
Barnes Group, Inc. 700	20	Harsco Corp. 3,100	119
•BE Aerospace, Inc. 1,100	6	Helix Technology Corp. 1,100	20
BHA Group Holdings, Inc. 1,500	35	Herman Miller, Inc. 5,700	131
•Blount International, Inc. 1,200	6	•Hexcel Corp. 2,000	14
Blyth, Inc. 2,300	64	HON Industries, Inc. 4,000	164
Briggs & Stratton Corp. 3,000	195	Honeywell International, Inc. 60,962	1,866
Butler Manufacturing Co. 1,200	21	Hubbell, Inc., Class B 3,800	163
•Cantel Medical Corp. 1,381	20	Hughes Supply, Inc. 1,300	50
•Capstone Turbine Corp. 2,600	5	•Ibis Technology Corp. 800	9
Caterpillar, Inc. 26,200	1,920	IDEX Corp. 2,100	78
		Illinois Tool Works, Inc. 22,850	1,681
		Ingersoll-Rand Co., Class A 11,200	676

**Schwab Total Stock Market Index Fund®**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Ionics, Inc. 400	11	Precision Castparts Corp. 4,300	177
• Jacuzzi Brands, Inc. 2,000	14	• Presstek, Inc. 1,100	8
• Jarden Corp. 1,100	45	• Proton Energy Systems, Inc. 1,400	4
JLG Industries, Inc. 1,800	21	Regal Beloit 1,200	24
Johnson Controls, Inc. 6,000	645	• Research Frontiers, Inc. 800	8
• Juno Lighting, Inc. 1,429	27	Robbins & Myers, Inc. 1,400	30
Kaydon Corp. 3,300	78	• ROHN Industries, Inc. 1,800	—
Kennametal, Inc. 1,500	55	Roper Industries, Inc. 1,500	74
Knappe & Vogt Manufacturing Co. 2,200	26	• Safeguard Scientifics, Inc. 3,300	13
• Kos Pharmaceuticals, Inc. 700	28	Sauer-Danfoss, Inc. 2,300	33
• Ladish Co., Inc. 1,300	10	• Sequa Corp., Class A 2,800	134
Lawson Products, Inc. 2,000	60	• The Shaw Group, Inc. 2,000	27
Lennox International, Inc. 5,271	87	Snap-On, Inc. 4,000	117
Libbey, Inc. 1,500	40	• SPS Technologies, Inc. 1,200	59
Lincoln Electric Holdings, Inc. 3,900	95	• SPX Corp. 8,610	414
• Lone Star Technologies, Inc. 1,700	24	Standex International Corp. 3,000	76
• Magnetek, Inc. 1,500	9	Steelcase, Inc., Class A 3,500	41
Manitowoc Co., Inc. 1,300	28	Stewart & Stevenson Services, Inc. 1,000	17
• Material Sciences Corp. 4,000	38	• Strattec Security Corp. 1,500	80
Matthews International Corp., Class A 1,900	51	Tecumseh Products Co., Class A 700	29
• Maverick Tube Corp. 1,000	17	Teleflex, Inc. 1,800	83
• Merix Corp. 1,200	21	Tennant Co. 2,100	83
• Micrel, Inc. 3,600	59	• Tenneco Automotive, Inc. 1,980	12
• Middleby Corp. 3,500	91	• Terex Corp. 1,200	27
Milacron, Inc. 2,300	5	The Timken Co. 7,300	122
• Millipore Corp. 2,600	114	Trinity Industries, Inc. 1,100	28
• Modtech Holdings, Inc. 1,000	8	• Triumph Group, Inc. 1,200	39
• Moog, Inc., Class A 2,350	100	• Ultratech Stepper, Inc. 1,300	41
MSC Industrial Direct Co., Class A 4,300	102	Valhi, Inc. 8,600	108
NACCO Industries, Inc., Class A 1,300	102	Valmont Industries, Inc. 2,400	50
• NATCO Group, Inc., Class A 1,200	8	W.W. Grainger, Inc. 7,300	334
NN, Inc. 1,800	22	Watsco, Inc. 3,400	73
Nordson Corp. 4,000	111	Watts Water Technologies, Inc., Class A 1,500	27
• Oceaneering International, Inc. 1,300	30	Woodward Governor Co. 500	23
Pall Corp. 8,400	197	X-Rite, Inc. 2,000	22
• Park-Ohio Holdings Corp. 2,600	23	York International Corp. 3,800	151
Parker Hannifin Corp. 8,500	433		<b>40,120</b>
Penn Engineering & Manufacturing Corp. 1,000	18		
Pentair, Inc. 3,500	144	<b>Railroad &amp; Shipping 0.4%</b>	
• Plug Power, Inc. 2,248	14	Alexander & Baldwin, Inc. 5,600	174
• Possis Medical, Inc. 1,100	18	Burlington Northern Santa Fe Corp. 27,800	804

See financial notes. 113

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
CSX Corp. 14,600	465	CarrAmerica Realty Corp. 2,900	87
Florida East Coast Industries, Class A 3,600	107	Catellus Development Corp. 6,600	147
GATX Corp. 4,000	90	CBL & Associates Properties, Inc. 2,200	117
• Greenbrier Cos., Inc. 1,600	20	Centerpoint Properties Trust 1,800	122
• Kansas City Southern Railway 2,550	34	Chelsea Property Group, Inc. 4,000	197
Maritrans, Inc. 2,500	39	Colonial Properties Trust 2,500	92
Norfolk Southern Corp. 26,400	532	Commercial Net Lease Realty 3,320	57
• OMI Corp. 4,000	27	Cornerstone Realty Income Trust, Inc. 2,200	18
Overseas Shipholding Group 1,200	33	Corporate Office Properties Trust SBI 3,500	68
• SCS Transportation, Inc. 1,600	24	Correctional Properties Trust 1,600	43
Union Pacific Corp. 19,500	1,221	Cousins Properties, Inc. 2,700	78
Wabtec Corp. 2,828	43	Crescent Real Estate Equity Co. 7,400	114
	<b>3,613</b>	Developers Diversified Realty Corp. 5,112	148
		Duke Realty Corp. 10,490	307
<b>Real Property 1.7%</b>		EastGroup Properties, Inc. 900	26
• Alexander's, Inc. 700	75	Entertainment Properties Trust 2,700	87
Alexandria Real Estate Equities, Inc. 2,500	127	Equity Inns, Inc. 2,700	23
AMB Property Corp. 4,800	144	Equity Office Properties Trust 27,738	777
American Land Lease, Inc. 1,700	31	Equity One, Inc. 6,600	111
American Mortgage Acceptance Co. 1,500	25	Equity Residential 18,700	547
• American Real Estate Partners L.P. 2,300	27	Essex Property Trust, Inc. 2,600	156
• American Realty Investors, Inc. 1,037	11	Federal Realty Investment Trust 2,700	102
• American Retirement Corp. 700	2	FelCor Lodging Trust, Inc. 3,200	33
AMLI Residential Properties 1,000	25	First Industrial Realty Trust 2,600	84
Annaly Mortgage Management, Inc. 6,900	113	Forest City Enterprises, Inc., Class A 2,700	120
Anthrachte Capital, Inc. 4,900	50	Gables Residential Trust 3,500	113
Anworth Mortgage Asset Corp. 1,000	14	General Growth Properties, Inc. 5,200	398
Apartment Investment & Management Co., Class A 7,400	303	Getty Realty Corp. 2,000	49
Archstone-Smith Trust 15,285	408	Glenborough Realty Trust, Inc. 2,900	57
Arden Realty, Inc. 5,500	154	Glimcher Realty Trust 3,800	80
AvalonBay Communities, Inc. 6,100	279	Great Lakes Real Estate Investment Trust 1,000	16
• Avatar Holdings, Inc. 700	23	Health Care Property Investors, Inc. 5,324	248
Bedford Property Investors, Inc. 2,900	76	Health Care Real Estate Investment Trust, Inc. 2,700	90
Boston Properties, Inc. 7,400	327	Healthcare Realty Trust, Inc. 2,400	81
Brandywine Realty Trust 3,000	76	Heritage Property Investment Trust 2,000	56
BRE Properties, Class A 2,500	81	Highwoods Properties, Inc. 3,100	77
Burnham Pacific Properties, Inc. 2,400	1	Home Properties of NY, Inc. 2,500	96
Camden Property Trust 2,300	91	• Homestore, Inc. 4,200	15
Capital Automotive Real Estate Investment Trust 3,300	103	Hospitality Properties Trust 3,500	128
Capstead Mortgage Corp. 2,240	30	• Host Marriott Corp. 20,400	213
		HRPT Properties Trust 7,100	66

## Schwab Total Stock Market Index Fund®

Retail 6.8%		
• 1-800-Flowers.com, Inc., Class A	3,700	39
• 99 Cents Only Stores	3,066	91
• A.C. Moore Arts & Crafts, Inc.	1,400	32
• Abercrombie & Fitch Co., Class A	8,300	237
• Advance Auto Parts, Inc.	1,680	131
Albertson's, Inc.	25,468	517
• Alloy, Inc.	3,100	14

See financial notes. 115

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Amazon.com, Inc. 28,700	1,562	• The Finish Line, Class A 1,800	55
• American Eagle Outfitters, Inc. 5,050	81	• Foot Locker, Inc. 14,100	252
• AnnTaylor Stores Corp. 6,550	234	• Footstar, Inc. 600	4
• Arden Group, Inc., Class A 600	42	• Fred's, Inc. 3,262	123
• Asbury Automotive Group, Inc. 1,600	27	• Friedman's, Inc., Class A 1,500	18
• Autonation, Inc. 21,600	404	• FTD, Inc., Class A 1,500	37
• AutoZone, Inc. 8,900	855	• GameStop Corp., Class A 500	8
• Barnes & Noble, Inc. 7,400	221	• The Gap, Inc. 65,900	1,257
• Bed, Bath & Beyond, Inc. 21,200	895	• Genesco, Inc. 1,300	22
• Best Buy Co., Inc. 23,650	1,379	• Great Atlantic & Pacific Tea Co. 2,200	14
• Big Lots, Inc. 11,100	167	• Guitar Center, Inc. 1,700	55
• BJ's Wholesale Club, Inc. 6,100	157	• The Gymboree Corp. 3,100	51
• Blair Corp. 1,500	34	• Home Depot, Inc. 163,000	6,042
• Borders Group, Inc. 9,000	204	• HOT Topic, Inc. 6,300	181
• Brightpoint, Inc. 1,650	47	• Insight Enterprises, Inc. 2,150	36
• Brookstone, Inc. 4,950	101	• J.C. Penney Co., Inc. Holding Co. 20,100	475
• Burlington Coat Factory Warehouse Corp. 2,500	54	• Jo-Ann Stores, Inc., Class A 3,300	99
• Carmax, Inc. 3,923	124	• Kirkland's, Inc. 1,000	22
• Casey's General Stores, Inc. 2,600	40	• Kohl's Corp. 19,300	1,082
• The Cato Corp., Class A 1,200	25	• Kroger Co. 53,300	932
• Central Garden & Pet Co. 1,600	44	• Limited Brands, Inc. 39,144	689
• Charming Shoppes, Inc. 3,700	24	• Linens 'N Things, Inc. 4,800	142
• Chico's FAS, Inc. 3,150	118	• Longs Drug Stores Corp. 1,800	40
• The Children's Place Retail Stores, Inc. 1,800	54	• Lowe's Cos., Inc. 56,200	3,312
• Christopher & Banks Corp. 2,650	77	• The May Department Stores Co. 13,500	377
• Circuit City Stores, Inc. 12,500	119	• The Men's Wearhouse, Inc. 2,400	71
• Claire's Stores, Inc. 8,000	310	• Michaels Stores, Inc. 4,900	233
• Coldwater Creek, Inc. 1,575	20	• The Neiman Marcus Group, Inc., Class A 2,700	128
• Cole National Corp. 1,300	29	• Nobel Learning Communities, Inc. 500	3
• Cost Plus, Inc. 700	32	• Nordstrom, Inc. 10,300	314
• Costco Wholesale Corp. 30,600	1,082	• O'Reilly Automotive, Inc. 2,200	95
• CVS Corp. 28,000	985	• Office Depot, Inc. 21,000	314
• DEB Shops, Inc. 1,600	31	• OfficeMax, Inc. 6,700	64
• Dillards, Inc., Class A 6,000	97	• Pacific Sunwear of California 9,975	230
• Dollar General Corp. 25,275	568	• Party City Corp. 1,300	18
• Dollar Tree Stores, Inc. 5,150	197	• Pathmark Stores, Inc. 1,400	10
• The Dress Barn, Inc. 5,500	77	• Payless Shoesource, Inc. 2,406	32
• Duane Reade, Inc. 700	10	• PC Connection, Inc. 3,000	31
• Duckwall-ALCO Stores, Inc. 1,800	27	• Pep Boys-Manny, Moe & Jack 2,500	48
• Family Dollar Stores, Inc. 7,700	336	• PETsMART, Inc. 7,600	195
• Federated Department Stores, Inc. 22,400	1,065	• Pier 1 Imports, Inc. 3,900	90
		• Pricesmart, Inc. 200	2

Schwab Total Stock Market Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
RadioShack Corp. 11,600	348	Nucor Corp. 3,000	164
• Rent-A-Center, Inc. 5,250	164	Quanex Corp. 2,500	100
• Retail Ventures, Inc. 700	4	Roanoke Electric Steel Corp. 800	8
• Rite Aid Corp. 34,900	200	Ryerson Tull, Inc. 1,600	13
Ross Stores, Inc. 4,200	210	Schnitzer Steel Industries, Inc., Class A 1,100	41
Ruddick Corp. 3,100	49	• Steel Dynamics, Inc. 1,700	32
• Safeway, Inc. 30,900	652	Steel Technologies, Inc. 700	11
• Saks, Inc. 16,900	235	United States Steel Corp. 7,400	175
• School Specialty, Inc. 1,600	45	Worthington Industries, Inc. 4,700	69
Sears, Roebuck & Co. 21,200	1,116		<b>703</b>
• Shoe Carnival, Inc. 1,200	21		
• ShopKo Stores, Inc. 8,900	138	<b>Telephone 3.2%</b>	
• Spiegel, Inc., Class A 5,000	1	Adtran, Inc. 3,500	238
• Staples, Inc. 34,700	931	• Alaska Communications Systems Group, Inc. 2,700	13
Talbots, Inc. 5,700	187	Alltel Corp. 23,935	1,131
Target Corp. 64,600	2,567	Applied Signal Technology, Inc. 2,100	43
Tiffany & Co. 6,500	308	AT&T Corp. 58,947	1,096
TJX Cos., Inc. 35,400	743	• AT&T Wireless Services, Inc. 192,734	1,397
• Too, Inc. 1,742	29	Atlantic Tele-Network, Inc. 1,300	33
• Toys 'R' Us, Inc. 15,300	199	• Avaya, Inc. 30,385	393
• Tractor Supply Co. 1,500	63	BellSouth Corp. 134,450	3,537
• Tuesday Morning Corp. 2,500	80	• Centennial Communications Corp. 3,500	21
Unifirst Corp. 3,900	103	CenturyTel, Inc. 10,500	375
• United Stationers, Inc. 2,900	108	• Cincinnati Bell, Inc. 18,568	95
• Urban Outfitters, Inc. 3,200	107	• Citizens Communications Co. 22,400	279
▲ ③ Wal-Mart Stores, Inc. 317,100	18,693	• Commonwealth Telephone Enterprises, Inc. 9,400	383
Walgreen Co. 73,900	2,573	• Computer Access Technology Corp. 800	3
Weis Markets, Inc. 1,700	62	• Copper Mountain Networks, Inc. 200	2
• West Marine, Inc. 1,100	24	• Covad Communications Group, Inc. 7,000	31
• The Wet Seal, Inc., Class A 3,075	34	• Crown Castle International Corp. 20,900	265
• Whitehall Jewellers, Inc. 1,800	22	• CTC Communications Group, Inc. 1,550	—
• Whole Foods Market, Inc. 3,600	213	D&E Communications, Inc. 2,000	28
• Williams-Sonoma, Inc. 9,200	325	• Ditech Communications Corp. 1,600	17
• Winmark Corp. 1,200	22	• Equinix, Inc. 65	1
Winn-Dixie Stores, Inc. 16,800	136	• Extreme Networks, Inc. 4,500	39
• Zale Corp. 1,260	65	• Finisar Corp. 7,900	25
	<b>60,996</b>	• Goamerica, Inc. 1,800	1
<b>Steel 0.1%</b>		Hickory Tech Corp. 1,100	13
• AK Steel Holding Corp. 4,027	10	• ID Systems, Inc. 500	5
Allegheny Technologies, Inc. 3,650	28	• Inet Technologies, Inc. 2,200	30
Ampco-Pittsburgh Corp. 2,800	34	Inter-Tel, Inc. 6,000	151
Intermet Corp. 4,100	18		

See financial notes. 117



## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Interdigital Communications Corp. 2,000	34	<b>Tobacco 0.8%</b>	
• ITC Deltacom, Inc. 13	—	Altria Group, Inc. 144,800	6,733
• ITXC Corp. 1,600	6	• M & F Worldwide Corp. 1,200	13
• j2 Global Communications, Inc. 2,000	57	R.J. Reynolds Tobacco Holdings, Inc. 7,332	352
• Level 3 Communications, Inc. 28,000	151	Schweitzer-Mauduit International, Inc. 5,800	154
• Liberty Media Corp., Class A 176,077	1,777	Universal Corp. 1,800	79
• McLeodUSA, Inc., Class A Escrow 21,892	—	UST, Inc. 7,700	262
• Mpower Holding Corp. 27	—	Vector Group Ltd. 1,227	20
• Net2Phone, Inc. 1,600	9		<b>7,613</b>
• Network Plus Corp. 2,000	—	<b>Travel &amp; Recreation 0.7%</b>	
• Nextel Communications, Inc., Class A 74,600	1,805	• Alliance Gaming Corp. 3,000	73
• Nextel Partners, Inc., Class A 6,700	81	• Ambassadors Group, Inc. 1,700	32
North Pittsburgh Systems, Inc. 3,500	64	• Amerco, Inc. 900	17
• Novatel Wireless, Inc. 160	1	• American Classic Voyages Co. 900	—
• NTL, Inc. 3,500	216	• Ameristar Casinos, Inc. 1,700	36
NWH, Inc. 1,000	19	• Argosy Gaming Co. 1,600	38
• Occam Networks, Inc. 1,900	—	• Aztar Corp. 1,900	40
• OmniSky Corp. 2,900	—	• Bally Total Fitness Holding Corp. 1,300	9
• Pegasus Communications Corp. 3,160	58	Brunswick Corp. 13,900	412
• PentaStar Communications, Inc. 600	—	Callaway Golf Co. 5,600	91
• Price Communications Corp. 3,855	48	Carnival Corp. 35,500	1,239
• Qwest Communications International, Inc. 118,337	418	Cedar Fair L.P. 5,300	151
• RCN Corp. 2,300	3	Central Parking Corp. 1,600	19
SBC Communications, Inc. 240,712	5,772	• Choice Hotels International, Inc. 3,400	112
• Sonus Networks, Inc. 15,400	126	• Dick's Sporting Goods, Inc. 500	23
Sprint Corp. (FON Group) 72,700	1,163	• Dollar Thrifty Automotive Group, Inc. 1,000	26
• Sprint Corp. (PCS Group) 70,600	307	Dover Downs Gaming & Entertainment, Inc. 1,480	14
• SR Telecom, Inc. 60	—	• Empire Resorts, Inc. 500	6
• Sunrise Telecom, Inc. 2,000	8	• Extended Stay America, Inc. 6,300	93
Telephone & Data Systems, Inc. 4,300	269	Harrah's Entertainment, Inc. 9,900	431
• Time Warner Telecom, Inc., Class A 2,000	21	Hilton Hotels Corp. 27,926	442
• Turnstone Systems, Inc. 1,600	5	• Interstate Hotels & Resorts, Inc. 82	1
• U.S. Cellular Corp. 3,600	122	• K2, Inc. 1,700	28
• U.S. Wireless Corp. 400	—	• Lakes Entertainment, Inc. 900	12
• Ulticom, Inc. 2,300	24	Mandalay Resort Group 4,100	161
• Utstarcom, Inc. 1,200	38	The Marcus Corp. 4,600	69
Verizon Communications, Inc. 200,286	6,730	Marine Products Corp. 180	3
Warwick Valley Telephone Co. 600	19	Marriott International, Inc., Class A 16,200	700
• WiTel Communications, Inc. 4,800	85	• MGM MIRAGE 12,300	437
	<b>29,081</b>		



# Schwab Total Stock Market Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• MTR Gaming Group, Inc. 2,300	25
• Multimedia Games, Inc. 750	28
• Navigant International, Inc. 4,300	65
• Park Place Entertainment Corp. 20,300	195
• Prime Hospitality Corp. 1,800	16
• Rent-Way, Inc. 3,200	19
• ResortQuest International, Inc. 3,000	22
• Royal Caribbean Cruises Ltd. 12,800	380
• Scientific Games Corp., Class A 6,500	86
• Shuffle Master, Inc. 1,250	38
• Six Flags, Inc. 3,500	21
• Speedway Motorsports, Inc. 2,300	66
• The Sports Authority, Inc. 370	14
• Starwood Hotels & Resorts Worldwide, Inc. 15,230	514
• Station Casinos, Inc. 4,650	138
• Stellent, Inc. 1,100	10
• Vail Resorts, Inc. 1,300	17
• WMS Industries, Inc. 1,500	35
	<b>6,404</b>
<b>Trucking &amp; Freight 0.3%</b>	
• Arkansas Best Corp. 1,100	36
• BancTrust Financial Group, Inc. 1,100	17
• C.H. Robinson Worldwide, Inc. 7,500	294
• CNF, Inc. 2,000	70
• Consolidated Freightways Corp. 2,700	—
• Expeditors International Washington, Inc. 5,600	210
• Forward Air Corp. 1,100	32
• Heartland Express, Inc. 1,971	49
• J.B. Hunt Transport Services, Inc. 4,000	102
• Knight Transportation, Inc. 1,800	45
• Landstar Systems, Inc. 3,800	278
• Old Dominion Freight Line 1,800	58
• Paccar, Inc. 9,400	742
• Pacer International, Inc. 2,800	58
• Roadway Corp. 1,400	72
• Ryder Systems, Inc. 6,400	192
• Swift Transportation Co., Inc. 5,970	134
• USF Corp. 1,300	41
• Werner Enterprises, Inc. 3,332	60
• Yellow Corp. 1,200	39
	<b>2,529</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Utilities: Electric &amp; Gas 2.7%</b>	
• The AES Corp. 41,596	364
• AGL Resources, Inc. 4,300	121
• Allegheny Energy, Inc. 8,000	85
• Allete, Inc. 5,700	172
• Alliant Energy Corp. 4,300	103
• Ameren Corp. 12,100	540
• American Electric Power Co., Inc. 28,320	798
• American States Water Co. 950	23
• Atmos Energy Corp. 1,800	44
• Avista Corp. 3,800	65
• BayCorp Holdings Ltd. 6	—
• Black Hills Corp. 1,400	45
• Calpine Corp. 12,300	57
• Cascade Natural Gas Corp. 1,000	19
• Centerpoint Energy, Inc. 21,100	207
• Central Vermont Public Service Corp. 2,700	62
• CH Energy Group, Inc. 1,900	83
• Cinergy Corp. 12,600	457
• Cleco Corp. 3,400	57
• CMS Energy Corp. 5,000	41
• Consolidated Edison, Inc. 10,300	417
• Constellation Energy Group, Inc. 16,800	611
• Covanta Energy Corp. 2,100	—
• Dominion Resources, Inc. 21,610	1,331
• DPL, Inc. 8,952	163
• DTE Energy Co. 11,301	417
• Duke Energy Corp. 57,200	1,038
• Duquesne Light Holdings, Inc. 6,100	98
• Edison International 58,700	1,157
• El Paso Corp. 27,887	205
• El Paso Electric Co. 2,800	34
• Energen Corp. 2,600	96
• Energy East Corp. 9,714	218
• Entergy Corp. 15,700	846
• Equitable Resources, Inc. 4,400	181
• Exelon Corp. 27,237	1,728
• FirstEnergy Corp. 23,217	798
• Florida Public Utilities Co. 1,066	16
• FPL Group, Inc. 12,200	778
• Great Plains Energy, Inc. 9,000	287

See financial notes. 119

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Green Mountain Power Corp. 3,800	86	Texas Genco Holdings, Inc. 2,680	80
Hawaiian Electric Industries, Inc. 2,600	119	TXU Corp. 14,900	340
Idacorp, Inc. 1,700	46	• U.S. Energy Systems, Inc. 600	1
KeySpan Corp. 10,900	381	UGI Corp. 5,100	157
Kinder Morgan, Inc. 10,700	573	UIL Holdings Corp. 6,200	233
The Laclede Group, Inc. 800	23	Unisource Energy Corp. 2,100	41
MDU Resources Group, Inc. 7,950	180	Vectren Corp. 5,766	136
MGE Energy, Inc. 400	13	Westar Energy, Inc. 5,700	114
National Fuel Gas Co. 5,800	130	WGL Holdings, Inc. 3,000	83
New Jersey Resources Corp. 1,650	62	Williams Cos., Inc. 36,860	376
• NewPower Holdings, Inc. 3,800	2	Wisconsin Energy Corp. 8,400	275
Nicor, Inc. 3,000	103	WPS Resources Corp. 2,400	106
NiSource, Inc. 22,864	474	Xcel Energy, Inc. 29,195	479
Northeast Utilities, Inc. 5,624	106		
Northwest Natural Gas Co. 3,200	93		<b>24,780</b>
NSTAR 3,867	181		
OGE Energy Corp. 3,500	80		
Oneok, Inc. 4,400	88		
Otter Tail Corp. 1,100	29		
Peoples Energy Corp. 3,200	129		
Pepco Holdings, Inc. 5,000	88		
• PG&E Corp. 29,900	731		
Philadelphia Suburban Corp. 2,937	69		
Piedmont Natural Gas Co. 1,600	64		
Pinnacle West Capital Corp. 3,800	139		
PNM Resources, Inc. 2,000	57		
PPL Corp. 12,500	499		
Progress Energy, Inc. 16,159	696		
Public Service Enterprise Group, Inc. 10,000	409		
Puget Energy, Inc. 7,500	170		
Questar Corp. 8,100	257		
SCANA Corp. 7,905	271		
Sempra Energy 16,675	464		
• Sierra Pacific Resources 4,476	27		
The Southern Co. 53,900	1,606		
• Southern Union Co. 3,010	53		
Southwest Gas Corp. 1,100	25		
TECO Energy, Inc. 5,600	74		

**Preferred Stock**  
 0.0% of net assets

**Real Property 0.0%**

 Commercial Net Lease Realty 147 **4**
**Warrants**  
 0.0% of net assets

**Air Transportation 0.0%**

 Timco Aviation Services  
 expires 2/28/07, 160 —

**Business Machines & Software 0.0%**

 MicroStrategy, Inc.  
 expires 6/24/04, 57 —

**Non-Ferrous Metals 0.0%**

 Metals USA, Inc.  
 expires 10/31/07, 97 —

**Real Property 0.0%**

 Pinnacle Holdings, Inc.  
 expires 11/13/07, 9 —

## Schwab Total Stock Market Index Fund®

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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**Rights**  
0.0% of net assets

### Business Machines & Software 0.0%

Comdisco Holding Co. 4,700	4
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### Healthcare/Drugs & Medicine 0.0%

Cell Pathways, Inc. 1,600	—
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### Telephone 0.0%

XO Communications, Inc. expires 1/14/03 8,601	3
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Security Rate, Maturity Date	Face Value (\$ x 1,000)
---------------------------------	----------------------------

**U.S. Treasury Obligations**  
0.1% of net assets

▲ U.S. Treasury Bills 0.84%-0.93%, 12/18/03 310	310
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**End of investments.** For totals, please see the first page of holdings for this fund.

**Collateral Invested for Securities on Loan**  
10.9% of net assets

### Commercial Paper & Other Corporate Obligations

American Express Centurion Bank 1.11%, 12/12/03 4,378	4,378
1.11%, 01/27/04 1,579	1,579
American Express Credit Corp. 1.11%, 04/16/04 2,492	2,492
1.09%, 05/13/04 2,424	2,424
Canadian Imperial Bank Corp. 1.09%, 05/28/04 2,707	2,707

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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Concord Minutemen Capital Corp. 1.11%, 01/09/04 1,118	1,115
1.08%, 11/14/03 3,651	3,644
1.08%, 11/18/03 1,181	1,178
1.07%, 11/19/03 2,962	2,960
Crown Point Funding Corp. 1.11%, 01/16/04 3,403	3,394
1.08%, 11/14/03 2,459	2,454
Depfa Bank PLC 1.08%, 11/18/03 2,260	2,254
1.08%, 12/22/03 1,278	1,274
Fairway Finance Corp. 1.10%, 01/12/04 1,235	1,232
General Electric Capital Corp. 1.08%, 05/10/04 1,392	1,392
Lexington Parker 1.07%, 11/06/03 580	580
Svenska Handelsbanken 1.39%, 10/27/04 2,553	2,553
Tulip Funding Corp. 1.07%, 11/10/03 4,803	4,798
Westdeutsche Landesbank AG 1.09%, 09/23/04 2,324	2,323
1.09%, 09/29/04 3,676	3,675
1.08%, 10/12/04 926	926

**49,332**

### Short-Term Investments

Wells Fargo Bank Time Deposit 1.06%, 11/03/03 6,436	6,436
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Security and Number of Shares

### Other Investment Companies

Institutional Money Market Trust 42,401,212	42,401
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**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

## Schwab Total Stock Market Index Fund\*

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$94,850 of securities on loan)	\$891,919
Collateral held for securities on loan	98,169
Receivables:	
Fund shares sold	1,684
Interest	4
Dividends	1,084
Investments sold	14,512
Income from securities on loan	15
Prepaid expenses	+ 43
<b>Total assets</b>	<b>1,007,430</b>

#### Liabilities

Collateral held for securities on loan	98,169
Cash Overdraft	6,958
Payables:	
Fund shares redeemed	386
Investments bought	3,173
Due to broker for futures	14
Investment adviser and administrator fees	1
Transfer agent and shareholder service fees	10
Accrued expenses	+ 131
<b>Total liabilities</b>	<b>108,842</b>

#### Net Assets

<b>Total assets</b>	1,007,430
<b>Total liabilities</b>	- 108,842
<b>Net assets</b>	<b>\$898,588</b>

#### Net Assets by Source

Capital received from investors	941,236
Net investment income not yet distributed	7,185
Net realized capital losses	(22,578)
Net unrealized capital losses	(27,255)

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$469,499		26,863		\$17.48
Select Shares®	\$429,089		24,495		\$17.52

Unless stated, all numbers x 1,000.

The fund paid \$919,360 for these securities. Not counting short-term obligations and government securities, the fund paid \$241,442 for securities during the report period and received \$22,234 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had eleven open S&P 500 futures contracts due to expire on December 18, 2003, with an aggregate contract value of \$2,886 and net unrealized gains of \$89 and twelve open Russell 2000 futures due to expire on December 21, 2003 with an aggregate contract value of \$3,170 and net unrealized gains of \$97.

#### Federal Tax Data

<b>Portfolio cost</b>	\$920,253
<b>Net unrealized gains and losses:</b>	
Gains	\$139,980
Losses	+ (168,314)
	<b>(\$28,334)</b>

#### Undistributed earnings:

Ordinary income	\$7,180
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2007	\$18
2008	3,413
2009	2,000
2010	11,486
2011	+ 4,577
	<b>\$21,494</b>

#### Reclassifications:

Net realized capital losses	\$3
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#### Reclassified as:

Net investment income not yet distributed	(\$3)
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## Schwab Total Stock Market Index Fund®

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$11,488
Interest	58
Securities on loan	+ 216
<b>Total investment income</b>	<b>11,762</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	(6,655)
Net realized gains on futures contracts	+ 1,361
<b>Net realized losses</b>	<b>(5,294)</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	155,330
Net unrealized gains on futures contracts	+ 222
<b>Net unrealized gains</b>	<b>155,552</b>

#### Expenses

Investment adviser and administrator fees	1,913
Transfer agent and shareholder service fees:	
Investor Shares	872
Select Shares®	339
Trustees' fees	9
Custodian fees	58
Portfolio accounting fees	116
Professional fees	39
Registration fees	89
Shareholder reports	90
Other expenses	+ 27
Total expenses	3,552
Expense reduction	- 492
<b>Net expenses</b>	<b>3,060</b>

#### Increase in Net Assets from Operations

Total investment income	11,762
Net expenses	- 3,060
<b>Net investment income</b>	<b>8,702</b>
Net realized losses	(5,294)
Net unrealized gains	+ 155,552
<b>Increase in net assets from operations</b>	<b>\$158,960</b>

Unless stated, all numbers x 1,000.

An additional \$1 was withheld for foreign taxes.

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

For the fund's independent trustees only.

Includes \$386 from the investment adviser (CSIM) and \$106 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 29, 2004, as follows:

Share Class	% of Average Daily Net Assets
Investor Shares	0.58
Select Shares	0.39

Prior to March 1, 2003, these limits were 0.40% and 0.27% for the Investor Shares and Select Shares, respectively. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$150,258

See financial notes. 123

## Schwab Total Stock Market Index Fund®

Statements of

### Changes in Net Assets

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

#### Operations

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$8,702	\$6,337
Net realized losses	(5,294)	(11,625)
Net unrealized gains or losses	+ 155,552	(71,931)
<b>Increase or decrease in net assets from operations</b>	<b>158,960</b>	<b>(77,219)</b>

#### Distributions Paid

Dividends from net investment income		
Investor Shares	3,195	2,256
Select Shares®	+ 3,512	2,809
<b>Total dividends from net investment income</b>	<b>\$6,707</b>	<b>\$5,065</b>

#### Transactions in Fund Shares

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	12,774	\$194,287	8,607	\$139,890
Select Shares	+ 11,399	172,567	7,243	117,125
<b>Total shares sold</b>	<b>24,173</b>	<b>\$366,854</b>	<b>15,850</b>	<b>\$257,015</b>
<b>Shares Reinvested</b>				
Investor Shares	209	\$2,984	120	\$2,114
Select Shares	+ 203	2,911	139	2,439
<b>Total shares reinvested</b>	<b>412</b>	<b>\$5,895</b>	<b>259</b>	<b>\$4,553</b>
<b>Shares Redeemed</b>				
Investor Shares	(4,461)	(\$68,649)	(3,882)	(\$62,511)
Select Shares	+ (5,507)	(85,326)	(4,446)	(70,982)
<b>Total shares redeemed</b>	<b>(9,968)</b>	<b>(\$153,975)</b>	<b>(8,328)</b>	<b>(\$133,493)</b>
<b>Net transactions in fund shares</b>	<b>14,617</b>	<b>\$218,774</b>	<b>7,781</b>	<b>\$128,075</b>

#### Shares Outstanding and Net Assets

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	36,741	\$527,561	28,960	\$481,770
Total increase	+ 14,617	371,027	7,781	45,791
<b>End of period</b>	<b>51,358</b>	<b>\$898,588</b>	<b>36,741</b>	<b>\$527,561</b>

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 tax-basis components of distributions paid are:

#### Current period:

Ordinary Income	\$6,707
Long-term capital gains	\$–

#### Prior period:

Ordinary Income	\$5,065
Long-term capital gains	\$–

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase.

#### Current period:

Investor Shares	\$76
Select Shares	+ 173
<b>Total</b>	<b>\$249</b>

#### Prior period:

Investor Shares	\$65
Select Shares	+ 60
<b>Total</b>	<b>\$125</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$7,185 and \$5,193 for the current period and prior period, respectively.

# Schwab International Index Fund®

## Financial Statements

### Financial Highlights

Investor Shares	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.47	12.22	17.13	17.93	14.21
Income or loss from investment operations:					
Net investment income	0.23	0.21	0.15	0.20	0.19
Net realized and unrealized gains or losses	2.25	(1.82)	(4.81)	(0.85)	3.66
Total income or loss from investment operations	2.48	(1.61)	(4.66)	(0.65)	3.85
Less distributions:					
Dividends from net investment income	(0.21)	(0.14)	(0.25)	(0.15)	(0.13)
Net asset value at end of period	12.74	10.47	12.22	17.13	17.93
Total return (%)	24.24	(13.34)	(27.58)	(3.69)	27.31
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.65	0.58	0.58	0.58 <sup>1</sup>	0.58
Gross operating expenses	0.74	0.76	0.75	0.82	0.99
Net investment income	2.01	1.70	1.14	1.60	1.24
Portfolio turnover rate	7	13	18	16	5
Net assets, end of period (\$ x 1,000,000)	494	443	519	637	447

<sup>1</sup> The ratio of net operating expenses would have been 0.59% if certain non-routine expenses (proxy fees) had been included.

## Financial Highlights

Select Shares®	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.47	12.23	17.14	17.96	14.23
Income or loss from investment operations:					
Net investment income	0.25	0.21	0.16	0.27	0.18
Net realized and unrealized gains or losses	2.26	(1.82)	(4.80)	(0.91)	3.70
Total income or loss from investment operations	2.51	(1.61)	(4.64)	(0.64)	3.88
Less distributions:					
Dividends from net investment income	(0.23)	(0.15)	(0.27)	(0.18)	(0.15)
Net asset value at end of period	12.75	10.47	12.23	17.14	17.96
Total return (%)	24.50	(13.31)	(27.45)	(3.65)	27.49
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.49	0.47	0.47	0.47 <sup>1</sup>	0.47
Gross operating expenses	0.59	0.61	0.60	0.67	0.86
Net investment income	2.19	1.81	1.25	1.71	1.57
Portfolio turnover rate	7	13	18	16	5
Net assets, end of period (\$ x 1,000,000)	629	536	616	700	449

<sup>1</sup> The ratio of net operating expenses would have been 0.48% if certain non-routine expenses (proxy fees) had been included.



**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ◆ American Depositary Receipt

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Market Value</b> (\$x1,000)
<b>99.4% Foreign Common Stock</b>	<b>1,070,673</b>	<b>1,115,751</b>
<b>0.4% Foreign Preferred Stock</b>	<b>2,913</b>	<b>4,024</b>
<b>0.0% Warrants</b>	<b>724</b>	<b>606</b>
<b>0.0% Rights</b>	<b>—</b>	<b>392</b>
<b>0.0% Short-Term Investment</b>	<b>43</b>	<b>43</b>
<b>99.8% Total Investments</b>	<b>1,074,353</b>	<b>1,120,816</b>
<b>4.5% Collateral Invested for Securities on Loan</b>	<b>50,420</b>	<b>50,420</b>
<b>(4.3)% Other Assets and Liabilities, Net</b>		<b>(48,298)</b>
<b>100.0% Total Net Assets</b>		<b>1,122,938</b>

**Foreign Common Stock 99.4% of net assets****Australia 4.0%**

Amcor Ltd.	170,097	1,026
AMP Ltd.	243,014	1,135
Australia & New Zealand Banking Group Ltd.	299,660	3,785
BHP Billiton Ltd.	753,530	6,266
Coles Myer Ltd.	218,165	1,203
Commonwealth Bank of Australia	256,408	5,003
Foster's Group Ltd.	446,157	1,447
Insurance Australia Group Ltd.	337,549	1,066

<b>Security and Number of Shares</b>	<b>Mkt. Value</b> (\$ x 1,000)
Macquarie Bank Ltd. 41,612	1,029
Macquarie Infrastructure Group 386,221	869
National Australia Bank Ltd. 306,901	6,661
News Corp. Ltd. 292,452	2,604
QBE Insurance Group Ltd. 125,449	917
Rio Tinto Ltd. 60,818	1,538
Suncorp-Metway Ltd. 107,619	990
Telstra Corp. Ltd. 416,897	1,402
Wesfarmers Ltd. 80,774	1,662
Westpac Banking Corp. 346,721	3,973
Woodside Petroleum Ltd. 101,251	951
Woolworths Ltd. 202,146	1,595
	<b>45,122</b>

**Belgium 0.7%**

Dexia 121,918	1,920
Electrabel SA 6,048	1,673
Fortis 211,219	3,767
Solvay SA 12,932	963
	<b>8,323</b>

**Canada 5.8%**

Alcan, Inc. 62,405	2,490
Bank of Montreal 99,813	3,736
Bank of Nova Scotia 99,352	4,935
Barrick Gold Corp. 110,291	2,146
BCE, Inc. 65,656	1,487
• Biovail Corp. 27,400	659
Bombardier, Inc., Class B 279,400	1,255
Brascan Corp. 31,900	908
Canadian Imperial Bank of Commerce 75,516	3,392
Canadian National Railway Co. 39,116	2,352
Canadian Natural Resources Ltd. 25,900	1,100
Canadian Pacific Railway Ltd. 32,300	905
Enbridge, Inc. 33,700	1,324
EnCana Corp. 97,217	3,339
George Weston Ltd. 11,500	900
Imperial Oil Ltd. 24,010	956
• Inco Ltd. 37,300	1,238

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Loblaw Cos. Ltd. 21,098	1,022	European Aeronautic Defense & Space Co. 61,447	1,250
Magna International, Inc., Class A 16,447	1,319	• France Telecom SA 158,066	3,826
Manulife Financial Corp. 98,250	2,982	Groupe Danone 24,586	3,710
• MI Developments, Inc., Class A 8,223	207	L'oreal 69,764	5,158
National Bank of Canada 36,900	1,145	Lafarge SA 33,456	2,396
• Nortel Networks Corp. 784,900	3,502	Lagardere S.C.A. 24,730	1,244
Petro-Canada 48,400	1,951	LVMH Moët-Hennessy Louis Vuitton SA 44,980	3,109
Placer Dome, Inc. 83,200	1,285	Michelin (C.G.D.E.), Class B 28,839	1,131
Power Corp. of Canada 35,402	1,163	Pechiney, Class A 15,156	838
Power Financial Corp. 26,300	906	Pernod-Ricard 11,468	1,107
Royal Bank of Canada 136,817	6,589	Peugeot SA 37,097	1,591
Sun Life Financial Services of Canada, Inc. 130,364	3,223	Pinault-Printemps-Redoute SA 14,727	1,501
Suncor Energy, Inc. 81,600	1,714	Renault SA 30,391	2,010
Talisman Energy, Inc. 25,625	1,252	Sanofi-Synthelabo SA 74,329	4,601
Thomson Corp. 40,000	1,310	Schneider Electric SA 40,373	2,363
TransCanada Corp. 94,561	1,930	Societe Generale, Class A 65,700	4,880
	<b>64,622</b>	Societe Television Francaise 1 26,048	781
		STMicroelectronics NV 117,296	3,123
<b>Denmark 0.6%</b>		Suez SA 155,587	2,496
AP Moller-Maersk A/S 224	1,759	⑤ Total Fina Elf SA 131,656	20,463
Danske Bank A/S 103,537	2,089	Veolia Environnement 52,576	1,173
Novo-Nordisk A/S, Class B 50,724	1,824	Vinci SA 13,931	1,010
TDC A/S 23,628	759	• Vivendi Universal SA 177,845	3,736
	<b>6,431</b>	◆ Vivendi Universal SA 54,392	1,144
			<b>117,445</b>
<b>France 10.5%</b>		<b>Germany 6.9%</b>	
Accor SA 37,106	1,459	Adidas-Salomon AG 9,200	852
Air Liquide SA 19,987	2,962	Allianz AG 55,988	6,002
• Alcatel SA, Class A 245,737	3,242	Altana AG 12,100	763
Arcelor SA 74,513	1,063	BASF AG 108,135	4,960
Aventis SA 134,970	7,147	Bayer AG 128,045	3,077
AXA 281,489	5,334	• Bayerische Hypo- und Vereinsbank AG 66,874	1,473
BNP Paribas 161,683	8,496	Commerzbank AG 88,400	1,747
Bouygues 42,044	1,144	DaimlerChrysler AG 173,770	6,482
• Cap Gemini SA 21,739	1,096	Deutsche Bank AG 106,276	7,010
Carrefour SA 112,519	5,907	Deutsche Boerse AG 19,400	1,079
Cie Generale D'Optique Essilor International SA 19,882	956	Deutsche Post AG 75,227	1,447
Compagnie de Saint-Gobain 60,643	2,558	• Deutsche Telekom AG 420,162	6,618
Credit Agricole SA 67,809	1,440		

Schwab International Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
E.ON AG 118,150	5,972	• Telecom Italia SPA 1,239,033	2,149
• Hypo Real Estate Holding 16,719	292	TIM SPA 753,178	3,476
• Infineon Technologies AG 75,100	1,107	UniCredito Italiano SPA 767,312	3,782
Linde AG 18,812	863		<b>34,544</b>
Metro AG 29,214	1,195		
Muenchener Rueckversicherungs AG 23,640	2,819	<b>Japan 19.2%</b>	
RWE AG 69,676	1,936	Advantest Corp. 13,000	968
SAP AG 40,624	5,910	Aeon Co. Ltd. 48,000	1,585
Schering AG 33,246	1,553	Ajinomoto Co., Inc. 111,000	1,121
Siemens AG 160,190	10,801	Asahi Glass Co. Ltd. 146,000	1,153
ThyssenKrupp AG 63,966	1,067	Asahi Kasei Corp. 250,000	1,192
Volkswagen AG 46,293	2,335	Bridgestone Corp. 126,000	1,650
	<b>77,360</b>	Canon, Inc. 171,000	8,275
		Chubu Electric Power Co., Inc. 122,100	2,449
<b>Hong Kong / China 1.3%</b>		Dai Nippon Printing Co. Ltd. 117,000	1,807
Cheung Kong Holdings Ltd. 299,000	2,493	Denso Corp. 92,000	1,745
CLP Holdings Ltd. 387,080	1,749	East Japan Railway Co. 653	2,958
Hang Seng Bank Ltd. 154,700	1,932	Eisai Co. Ltd. 37,000	868
Hong Kong & China Gas Co. 718,400	994	Fanuc Ltd. 24,300	1,461
HongKong Electric Holdings 277,756	1,084	Fuji Photo Film Co. Ltd. 92,000	2,711
Hutchison Whampoa Ltd. 445,800	3,459	Fujisawa Pharmaceutical Co. Ltd. 47,000	970
Sun Hung Kai Properties Ltd. 265,694	2,250	• Fujitsu Ltd. 326,000	2,043
Swire Pacific Ltd., Class A 190,000	1,160	Honda Motor Co. Ltd. 158,700	6,265
	<b>15,121</b>	Hoya Corp. 23,600	2,136
		Ito-Yokado Co. Ltd. 68,000	2,499
<b>Italy 3.1%</b>		Itochu Corp. 273,000	921
Alleanza Assicurazioni SPA 100,995	1,011	Japan Tobacco, Inc. 158	1,055
Assicurazioni Generali SPA 194,418	4,475	• JFE Holdings, Inc. 94,000	2,403
Banca Intesa SPA 735,870	2,481	The Kansai Electric Power Co. 130,000	2,247
Banco Popolare di Verona e Novara 75,422	1,166	Kao Corp. 109,000	2,241
Enel SPA 429,348	2,685	KDDI Corp. 1	2
ENI-Ente Nazionale Idrocarburi SPA 514,100	8,164	Keyence Corp. 6,900	1,518
Mediaset SPA 110,368	1,115	• Kinki Nippon Railway Co. Ltd. 305,830	921
Mediobanca SPA 95,210	957	Kirin Brewery Co. Ltd. 127,000	1,015
Riunione Adriatica di Sicurtà SPA 60,519	946	Komatsu Ltd. 193,000	1,045
Sanpaolo IMI SPA 189,885	2,137	Konica Minolta Holdings, Inc. 81,000	1,065
		Kyocera Corp. 34,500	2,077

See financial notes. 129

**Portfolio Holdings** continued[illegible]

Schwab International Index Fund\*

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Koninklijke Philips Electronics NV 263,980	7,117	<b>Sweden 1.6%</b>	
Reed Elsevier NV 117,871	1,313	Electrolux AB, Series B 61,579	1,263
⑥ Royal Dutch Petroleum Co. 422,591	18,752	Hennes & Mauritz AB, Series B 98,150	2,082
• Royal KPN NV 360,914	2,744	Nordea AB 486,740	3,020
TPG NV 67,143	1,448	Sandvik AB 44,107	1,312
Unilever NV 113,789	6,610	Skandinaviska Enskilda Banken, Series A 85,410	1,029
VNU NV 47,654	1,451	Svenska Cellulosa AB, Series B 41,064	1,550
Wolters Kluwer NV 55,267	777	Svenska Handelsbanken AB, Series A 112,602	1,985
	<b>63,753</b>	• Telefonaktiebolaget LM Ericsson, Class B 3,006,733	5,165
<b>Singapore 0.6%</b>		Volvo AB, Series B 40,445	1,130
DBS Group Holdings Ltd. 217,778	1,789		<b>18,536</b>
Oversea-Chinese Banking Corp. 185,000	1,286	<b>Switzerland 8.0%</b>	
Singapore Press Holdings Co. Ltd. 74,666	845	• ABB Ltd. 204,408	1,202
Singapore Telecommunications Ltd. 1,180,696	1,166	Adecco SA, Registered 26,587	1,568
United Overseas Bank Ltd. 237,000	1,851	• Ciba Specialty Chemicals AG 14,322	948
	<b>6,937</b>	Compagnie Financiere Richemont AG, Series A 102,430	2,305
<b>Spain 3.6%</b>		Credit Suisse Group 237,823	8,379
Altadis SA 57,998	1,406	Holcim Ltd. 30,865	1,299
• Antena 3 Television SA 3,262	107	⑧ Nestle SA, Registered 81,268	17,892
Banco Bilbao Vizcaya Argentaria SA 604,944	6,941	⑦ Novartis AG, Registered 476,511	18,163
Banco Popular Espanol 29,001	1,508	Roche Holdings — Genus 143,196	11,849
Banco Santander Central Hispano SA 854,969	8,200	Serono SA, Series B 1,193	824
Endesa SA 186,597	2,961	Swiss Reinsurance, Registered 65,184	4,103
Gas Natural SDG SA 37,672	724	Swisscom AG, Registered 5,043	1,467
Iberdrola SA 149,580	2,495	Syngenta AG 20,323	1,089
Inditex SA 47,334	978	UBS AG, Registered 238,248	14,630
Repsol YPF SA 178,984	3,121	• Zurich Financial Services AG 28,547	3,656
Telefonica SA 964,517	11,997		<b>89,374</b>
	<b>40,438</b>	<b>United Kingdom 27.8%</b>	
		Amersham PLC 136,906	1,704
		Amvescap PLC 119,189	944
		⑨ AstraZeneca PLC 350,878	16,481
		Aviva PLC 444,350	3,646

See financial notes. 131

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
BAA PLC 211,384	1,672	Man Group PLC 57,326	1,410
BAE Systems PLC 605,069	1,879	Marks & Spencer Group PLC 443,141	2,164
Barclays PLC 1,321,019	11,141	National Grid Transco PLC 616,442	3,936
BG Group PLC 727,751	3,319	Next PLC 57,431	1,150
BHP Billiton PLC 472,369	3,709	Pearson PLC 158,738	1,643
BOC Group PLC 97,556	1,330	Prudential PLC 410,142	3,182
Boots Group PLC 162,117	1,960	Reckitt Benckiser PLC 111,099	2,338
② BP PLC 4,449,092	30,879	Reed Elsevier PLC 261,955	2,036
British American Tobacco PLC 319,563	3,864	Rentokil Initial PLC 364,152	1,380
British Land Co. PLC 100,943	886	Reuters Group PLC 267,194	1,164
• British Sky Broadcasting PLC 246,398	2,676	Rio Tinto PLC 216,014	5,238
BT Group PLC 1,748,011	5,502	Rolls-Royce Group PLC 296,618	955
Cable & Wireless PLC 485,728	1,123	Royal Bank of Scotland Group PLC 556,113	14,901
Cadbury Schweppes PLC 431,126	2,764	SABMiller PLC 162,857	1,376
Carnival PLC 36,790	1,270	Safeway PLC 215,328	1,060
Centrica PLC 861,673	2,698	Sage Group PLC 246,979	782
Compass Group PLC 440,157	2,538	Scottish & Newcastle PLC 145,929	856
Diageo PLC 614,379	7,225	Scottish & Southern Energy PLC 173,758	1,809
Dixons Group PLC 356,181	820	Scottish Power PLC 382,227	2,270
Emap PLC 52,220	709	Severn Trent Water PLC 70,101	842
Friends Provident PLC 333,413	777	Shell Transport & Trading Co. PLC 1,919,478	11,987
④ GlaxoSmithKline PLC 1,197,647	25,648	Smith & Nephew PLC 175,479	1,394
Granada PLC 564,218	1,123	Smiths Group PLC 107,917	1,285
GUS PLC 205,342	2,509	Tesco PLC 1,445,671	5,796
Hanson Plc 150,209	1,040	Unilever PLC 548,778	4,679
HBOS PLC 766,462	8,916	United Utilities PLC 124,590	996
Hilton Group PLC 350,064	1,152	③ Vodafone Group PLC 13,840,849	29,065
① HSBC Holdings PLC 2,165,929	32,528	Wolseley PLC 111,522	1,367
Imperial Tobacco Group PLC 142,051	2,355	WPP Group PLC 230,860	2,200
• Intercontinental Hotels Group PLC 149,688	1,358		<b>312,494</b>
J. Sainsbury PLC 313,408	1,506		
Kingfisher PLC 442,761	2,123		
Land Securities Group PLC 95,357	1,458		
Legal & General Group PLC 1,220,030	2,153		
Lloyds TSB Group PLC 1,130,020	7,848		

## United States 0.0%

• NTL Europe, Inc. 41

—

## Schwab International Index Fund\*

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

### Foreign Preferred Stock 0.4% of net assets

#### Australia 0.3%

News Corp. Ltd. 425,956	3,134
-------------------------	-------

#### Germany 0.1%

Henkel KGaA 12,100	890
--------------------	-----

### Warrants 0.0% of net assets

#### France 0.0%

• Casino Guichard Perrachon SA, expires 12/15/03, 1,026	—
• Casino Guichard Perrachon SA, expires 12/15/05, 1,026	1
• France Telecom-CVG Equant NV, expires 06/29/04, 35,326	605
	<b>606</b>

#### United States 0.0%

• NTL, Inc., Series A, expires 01/13/11, 48	—
--	---

### Rights 0.0% of net assets

#### Australia 0.0%

• AMP Ltd. 243,014	14
• Australia & New Zealand Banking Group Ltd. 54,484	167
	<b>181</b>

#### France 0.0%

• Credit Agricole SA 67,809	16
-----------------------------	----

#### Germany 0.0%

• Muenchener Rueckversicherungs AG 23,640	195
--	-----

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
---------------------------------	----------------------------	----------------------------

### Short-Term Investment 0.0% of net assets

Brown Brothers Harriman, Grand Cayman Time Deposit 0.50%, 11/03/03	43	43
--	----	----

**End of investments.** For totals, please see the first page of holdings for this fund.

### Security and Number of Shares

### Collateral Invested for Securities on Loan 4.5% of net assets

#### Other Investment Companies

Securities Lending Investment Fund 50,419,584	50,420
--	--------

**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

## Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$47,564 of securities on loan)	\$1,120,816
Collateral held for securities on loan	50,420
Foreign currency	28
Receivables:	
Fund shares sold	1,077
Dividends	1,578
Income from securities on loan	17
Dividend tax reclaim	408
Prepaid expenses	+ 27
<b>Total assets</b>	<b>1,174,371</b>

**Liabilities**

Collateral held for securities on loan	50,420
Cash overdraft	28
Payables:	
Fund shares redeemed	706
Investment adviser and administrator fees	13
Transfer agent and shareholder service fees	9
Accrued expenses	+ 257
<b>Total liabilities</b>	<b>51,433</b>

**Net Assets**

<b>Total assets</b>	1,174,371
<b>Total liabilities</b>	- 51,433
<b>Net assets</b>	<b>\$1,122,938</b>

**Net Assets by Source**

Capital received from investors	1,363,651
Net investment income not yet distributed	20,044
Net realized capital losses	(307,255)
Net unrealized capital gains	46,498

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$493,559		38,727		\$12.74
Select Shares®	\$629,379		49,374		\$12.75

Unless stated, all numbers x 1,000.

The fund paid \$1,074,353 for these securities. Not counting short-term obligations and government securities, the fund paid \$73,693 for securities during the report period, and received \$133,500 from securities it sold or that matured.

The fund paid \$27 for these currencies.

**Federal Tax Data**

<b>Portfolio cost</b>	\$1,079,866
<b>Net unrealized gains and losses:</b>	
Gains	\$170,034
Losses	+ (129,084)
	<b>\$40,950</b>

**Undistributed earnings:**

Ordinary income	\$20,158
Long-term capital gains	\$-

**Unused capital losses:**

Expires 10/31 of:	Loss amount
2004	\$1,743
2005	1,837
2006	11,905
2007	7
2008	3,669
2009	130,942
2010	112,722
2011	+ 39,016
	<b>\$301,841</b>

**Reclassifications:**

Capital received from investors	\$4
Net investment income not yet distributed	\$233
Reclassified as:	
Net realized capital losses	((\$237))



Statement of  
**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$25,891
Interest	12
Securities on loan	+ 801
<b>Total investment income</b>	<b>26,704</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(38,072)
Net realized gains on foreign currency transactions	+ 233
<b>Net realized losses</b>	<b>(37,839)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	241,990
Net unrealized losses on foreign currency transactions	+ (36)
<b>Net unrealized gains</b>	<b>241,954</b>

**Expenses**

Investment adviser and administrator fees	4,046
Transfer agent and shareholder service fees:	
Investor Shares	1,105
Select Shares®	557
Trustees' fees	9
Custodian fees	434
Portfolio accounting fees	162
Professional fees	39
Registration fees	44
Shareholder reports	117
Interest expense	5
Other expenses	+ 19
Total expenses	6,537
Expense reduction	- 907
<b>Net expenses</b>	<b>5,630</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>26,704</b>
<b>Net expenses</b>	<b>- 5,630</b>
<b>Net investment income</b>	<b>21,074</b>
<b>Net realized losses</b>	<b>(37,839)</b>
<b>Net unrealized gains</b>	<b>+ 241,954</b>
<b>Increase in net assets from operations</b>	<b>\$225,189</b>

Unless stated, all numbers x 1,000.

An additional \$3,149 was withheld for foreign taxes.

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

For the fund's independent trustees only.

Includes \$697 from the investment adviser (CSIM) and \$210 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through at least February 29, 2004, as follows:

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

Prior to March 1, 2003, these limits were 0.58% and 0.47% for the Investor Shares and Select Shares, respectively. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$204,115.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net Investment income	\$21,074	\$19,959
Net realized losses	(37,839)	(111,855)
Net unrealized gains or losses	+ 241,954	(61,568)
<b>Increase or decrease in net assets from operations</b>	<b>225,189</b>	<b>(153,464)</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	9,001	5,966
Select Shares®	+ 11,662	7,879
<b>Total dividends from net investment income</b>	<b>\$20,663</b>	<b>\$13,845</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	5,440	\$59,471	10,848	\$131,550
Select Shares	+ 8,086	86,648	14,690	174,196
<b>Total shares sold</b>	<b>13,526</b>	<b>\$146,119</b>	<b>25,538</b>	<b>\$305,746</b>
<b>Shares Reinvested</b>				
Investor Shares	815	\$8,329	456	\$5,554
Select Shares	+ 1,072	10,936	610	7,432
<b>Total shares reinvested</b>	<b>1,887</b>	<b>\$19,265</b>	<b>1,066</b>	<b>\$12,986</b>
<b>Shares Redeemed</b>				
Investor Shares	(9,803)	(\$105,853)	(11,478)	(\$134,445)
Select Shares	+ (10,942)	(119,750)	(14,549)	(173,548)
<b>Total shares redeemed</b>	<b>(20,745)</b>	<b>(\$225,603)</b>	<b>(26,027)</b>	<b>(\$307,993)</b>
<b>Net transactions in fund shares</b>	<b>(5,332)</b>	<b>(\$60,219)</b>	<b>577</b>	<b>\$10,739</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	93,433	\$978,631	92,856	\$1,135,201
Total increase or decrease	+ (5,332)	144,307	577	(156,570)
<b>End of period</b>	<b>88,101</b>	<b>\$1,122,938</b>	<b>93,433</b>	<b>\$978,631</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$20,663
Long-term capital gains	\$–

**Prior period:**

Ordinary Income	\$13,845
Long-term capital gains	\$–

The fund charges 1.50% of early withdrawal fees on shares redeemed 180 days or less after the purchase.

**Current period:**

Investor Shares	\$62
Select Shares	+ 46
<b>Total</b>	<b>\$108</b>

**Prior period:**

Investor Shares	\$170
Select Shares	+ 56
<b>Total</b>	<b>\$226</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$20,044 and \$19,400 for the current period and prior period, respectively.

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

**Schwab MarketTrack Portfolios\***

All Equity Portfolio	11.4%
Growth Portfolio	10.3%
Balanced Portfolio	6.9%
Conservative Portfolio	2.6%

**Schwab Annuity Portfolios**

Growth Portfolio II	0.5%
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## 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	•	•	•
Schwab 1000	•	•	
Small-Cap Index	•	•	
Total Stock Market Index	•	•	
International Index	•	•	

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 Fund®**

Schwab Short-Term Bond Market Fund™

Schwab Total Bond Market Fund™

Schwab YieldPlus Fund®

Schwab Short/Intermediate Tax-Free Bond Fund™

Schwab Long-Term Tax-Free Bond Fund™

Schwab California Short/Intermediate Tax-Free Bond Fund™

Schwab California Long-Term Tax-Free Bond Fund™

Schwab GNMA Fund™

**Schwab Capital Trust** organized May 7, 1993

**Schwab S&P 500 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™

Schwab U.S. MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

Institutional Select S&P 500 Fund

Institutional Select Large-Cap Value Index Fund

Institutional Select Small-Cap Value Index Fund

## Fund Operations

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

**The funds 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.

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. The fund records the change in market value of futures, and also the change in the amount of margin deposit required ("variation margin").

**The Schwab International Index Fund® may invest in forward currency contracts in connection with the purchase and sale of portfolio securities to minimize the uncertainty of changes in future exchange rates.** "Forwards," as they are known, are contracts to buy and sell a currency at a set price on a future date.

Forwards are similar to futures except that they are not publicly traded, but are agreements directly between two parties.

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

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

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

**The funds may loan securities to certain brokers, dealers and other financial institutions who pay the funds negotiated fees.** The funds receive cash, letters of credit or U.S. government securities as collateral on these loans. All of the cash collateral received is reinvested in high quality, short-term investments. The value of the collateral must be at least 102% of the market value of the loaned securities as of the first day of the loan, and at least 100% each day thereafter.

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

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the funds that may limit the total

expenses charged. The rates and limitations for these fees vary from fund to fund, and are described in each fund's Statement of Operations.

**The funds may engage in certain transactions involving related parties.** For instance, a fund may own shares of The Charles Schwab Corporation if that company is included in its index. The funds also may let other SchwabFunds® 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 SchwabFunds® 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 SchwabFunds®. 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 SchwabFunds®.

**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 trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

Fund	Amount outstanding at 10/31/03 (\$ x 1,000)	Average borrowing* (\$ x 1,000)	Weighted average interest rate* (%)
Schwab S&P 500 Fund	—	5,678	1.61
Schwab 1000®	—	2,293	1.62
Schwab Small-Cap Index Fund®	785	1,895	1.70
Schwab Total Stock Market Index Fund®	6,958	2,839	1.53
Schwab International Index Fund®	28	1,016	1.67

\* 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 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 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 for which no market quotations are readily available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the fund's Board of Trustees.
- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.
- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

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

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

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

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

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

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

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

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

## Report of independent auditors

**To the Board of Trustees and Shareholders of:**

Schwab S&P 500 Fund

Schwab 1000 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 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 S&P 500 Fund, Schwab 1000 Fund (one of the portfolios constituting Schwab Investments), Schwab Total Stock Market Index Fund, Schwab Small-Cap Index Fund, and Schwab International Index Fund (hereafter collectively referred to as the “funds”) at October 31, 2003, and the results of each of their operations for the year then ended, 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 auditing standards generally accepted in the United States of America, which 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, 2003 by correspondence with the custodians and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, CA

December 12, 2003



## Fund Trustees

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 SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

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

Each of the SchwabFunds (of which there were 49 as of 10/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

### Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03:</i> Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03:</i> Co-Chair, The Charles Schwab Corporation. <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01:</i> Director, The Charles Schwab Trust Company. <i>Until 1/99:</i> Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

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

<sup>2</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.



## Schwab Equity Index Funds

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

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Dawn G. Lepore</b> <sup>1</sup> 3/21/54	Trustee:2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
<b>Jeffrey M. Lyons</b> <sup>1</sup> 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

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

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
<b>Tai-Chin Tung</b> 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
<b>Stephen B. Ward</b> 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

<sup>1</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Schwab Equity Index Funds

Individuals Who Are Independent Trustees		
Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Non-Executive Chairman, Solelectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Networks (telecommunications); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

## Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

**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."

**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.

## Notes

## Notes

## Notes

## Contact Schwab

SchwabFunds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies.

Actively managed funds include multi-manager stock funds, a fund that uses long-short strategies, and a range of taxable and tax-free bond funds. Index funds include large-cap, small-cap and international stock funds. The list at right shows all currently available SchwabFunds.

Whether you're an experienced investor or just starting out, SchwabFunds can help you achieve your financial goals. Please call 1-800-435-4000 for a free prospectus and brochure for any SchwabFund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

### Methods for Placing Orders

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

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

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

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

Automated touch-tone phone service at **1-800-272-4922**.

#### Mail

Write to SchwabFunds 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.

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

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

## The SchwabFunds Family®

### Stock Funds

Schwab S&P 500 Fund

Schwab 1000 Fund®

Schwab Small-Cap Index Fund®

Schwab Total Stock Market Index Fund®

Schwab International Index Fund®

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Schwab Focus Funds

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

Schwab MarketMasters Funds™

Schwab U.S. MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

### Asset Allocation Funds

Schwab MarketTrack Portfolios®

Schwab MarketTrack All Equity Portfolio™

Schwab MarketTrack Growth Portfolio™

Schwab MarketTrack Balanced Portfolio™

Schwab MarketTrack Conservative Portfolio™

### Bond Funds

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund™

Schwab Total Bond Market Fund™

Schwab GNMA Fund™

Schwab Short/Intermediate Tax-Free Bond Fund™

Schwab Long-Term Tax-Free Bond Fund™

Schwab California Short/Intermediate  
Tax-Free Bond Fund™

Schwab California Long-Term Tax-Free Bond Fund™

### Schwab Money Funds

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

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



**Investment Adviser**

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

**Distributor**

SchwabFunds®  
P.O. Box 3812, Englewood, CO 80155-3812

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# *Schwab MarketMasters Funds*<sup>™</sup>

## **Annual Report**

October 31, 2003

Schwab U.S.  
MarketMasters Fund<sup>™</sup>

Schwab Balanced  
MarketMasters Fund<sup>™</sup>

Schwab Small-Cap  
MarketMasters Fund<sup>™</sup>

Schwab International  
MarketMasters Fund<sup>™</sup>

*charles* **SCHWAB**

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

## In This Report

### Management's Discussion . . . . . 2

The president of SchwabFunds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

Performance at a Glance . . . . . 5

### Schwab U.S. MarketMasters Fund™

Ticker Symbol: **SWOGX**

The fund seeks capital growth.

Performance and Fund Facts . . . . . 7

Financial Statements . . . . . 15

### Schwab Balanced MarketMasters Fund™

Ticker Symbol: **SWOBX**

The fund seeks capital growth and income.

Performance and Fund Facts . . . . . 9

Financial Statements . . . . . 23

### Schwab Small-Cap MarketMasters Fund™

Ticker Symbol: **SWOSX**

The fund seeks long-term capital appreciation.

Performance and Fund Facts . . . . . 11

Financial Statements . . . . . 39

### Schwab International MarketMasters Fund™

Ticker Symbol: **SWOIX**

The fund seeks long-term capital appreciation.

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

## *From the Chairman*



**Charles R. Schwab**, Chairman

In the past few months, the mutual fund industry has been rocked by the discovery of improper practices and arrangements. Investors large and small have seen their confidence shaken, and understandably so.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. Many firms, including our own, have begun thorough investigations of their broker processes and procedures. We are continuing to scrutinize such transactions and arrangements, and are working closely with regulatory authorities. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds®.

I fully believe that even a small number of irregularities is unacceptable. We have spent nearly 30 years building an ethical firm, and our business is founded on a commitment to doing what's right for investors. That commitment leaves no room for any failures to follow company policies or industry regulations.

Given the importance of mutual funds to American investors, I can understand why investors find the recent news to be disturbing. At the same time, I would caution investors not to overreact. Before taking any action, investors should consider implications to their portfolio, tax situation and long-term financial goals.

Ultimately, mutual funds still offer all the features that have made them so popular—diversification, liquidity, convenience, low investment minimums, and professional management. For individual investors especially, mutual funds continue to be one of the most cost-effective investment vehicles available. To date, millions of Americans have relied on mutual funds as an important way to invest for retirement, their children's education, and other financial goals. We see no reason why mutual funds cannot continue to do the same for millions more Americans in the years to come.

Sincerely,



# Management's Discussion

for the year ended October 31, 2003



**Randall W. Merk** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear SchwabFunds® Shareholders:

By now, many of you have read the significant media coverage regarding the mutual fund industry. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. CSIM, which is a separate Charles Schwab subsidiary, has been conducting its own review of the SchwabFunds policies and procedures regarding market timing and late trading. We have examined over two years of activity by CSIM personnel and have not found the types of improper market timing or late trading arrangements that you have been reading about. Our research is still ongoing, so some of these facts may change. Here are our key findings to date:

- **The Integrity of our Staff:** We have not found any indication that any CSIM employees, including portfolio managers and senior managers, have engaged in improper or inappropriate trading for their own account.
- **Market Timing & Late Trading:** We have not found any special arrangements with any shareholders to permit market timing or trading of SchwabFunds after market close.
- **Hedge Funds:** We have not found any special arrangements with hedge funds or other private investment vehicles that would permit them to trade in a way that was inconsistent with a fund's policies and procedures.

As part of the recent mutual fund investigations, requests for information were sent by the SEC to about 90 of the largest mutual fund companies. As the nation's 11th largest fund family with over \$140 billion under management, SchwabFunds also received a request from the SEC. We take these requests very seriously and are working closely with the regulators on this matter.

Charles Schwab founded his firm 30 years ago with a vision to create the most useful and ethical financial services firm in the world. We live by that philosophy every day and nothing means more to our business than the trust of our shareholders.

Your investment in SchwabFunds is an indication of the trust you place in us. As the managers of your money, we have a special obligation to live up to that trust. I want to thank you for investing with us, and want to assure you that we strive relentlessly to operate our business with the highest ethical standards and an unwavering commitment to serve you, our SchwabFunds shareholders.

Sincerely,

A handwritten signature in black ink that reads "Randall W. Merk". The signature is written in a cursive, flowing style.



**Jeffrey Mortimer, CFA**, a vice president of the investment adviser, has overall responsibility for the management of the fund. 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 advisor, co-manages the Schwab MarketMasters Funds. Prior to joining the firm in 1999, she worked for 10 years in equity and fixed-income analysis.

## The Economy and the Market

**The economy continued to gather strength during the report period, but improvement remained sluggish and uneven.** Although numerous factors had been indicating that the U.S. economy was in recovery when the report period began, many remained concerned about the slow pace of improvement, in particular the absence of job growth. However, the government reported an 8.2% increase in GDP for the third quarter of 2003, job growth for October 2003 was the largest since January 2003, and merger activity picked up—indications that the economy may have gained real strength during the report period.

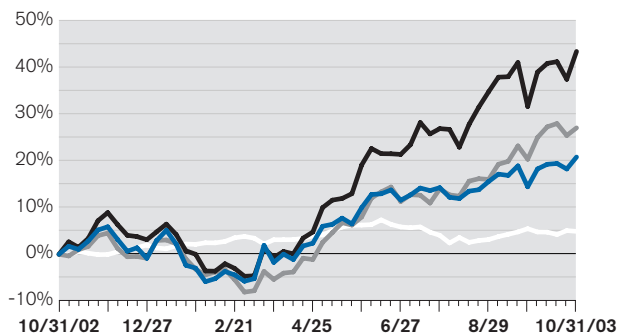
**Government policies were strongly aimed at stimulating the economy.** The Federal Reserve (the Fed) cut short-term interest rates twice during the period—0.50% in November 2002 and 0.25% in June 2003—bringing the Fed funds target rate to a 45-year low of 1.00%. On the fiscal side, stimulus measures included tax cuts.

Consumer spending held up strongly throughout the economic downturn, bolstered in part by unprecedented activity in mortgage refinancing (as individuals took advantage of the opportunity to refinance at historically low rates). During the period, we also saw business capital spending show signs of life after declining for the past few years.

### 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.

- 20.80% **S&P 500® Index:** measures U.S. large-cap stocks
- 43.37% **Russell 2000® Index:** measures U.S. small-cap stocks
- 27.03% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 4.91% **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 can't invest in them directly. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

*Even the worst-performing sector in each fund posted a positive return, with formerly hard-hit sectors such as information technology leading the rebound.*

**Stock prices rose significantly over the period, even as skepticism lingered about the quality of the rally.** After more than two years of generally negative performance, U.S. equity markets reached an apparent bottom during the report period, then rose strongly, ending the period with significant gains. During the report period, the Nasdaq Composite Index rose 46%, while the S&P 500® Index rose nearly 21%.

One striking feature of the overall U.S. stock market during the report period is that stocks with more speculative characteristics tended to perform better than stocks with more demonstrable quality. For example, companies with low earnings or dividends generally outperformed companies with higher earnings or dividends. This held true for other measures of quality as well, such as debt to equity: those with higher levels of debt performed better than companies with lower levels of debt. Consistent with this trend, small-cap stocks (which tend to be more speculative) performed well during the period, and microcap stocks performed even better. Large-cap stocks lagged both groups, but still performed well.

Many market observers have asked why lower quality securities outperformed higher quality and whether it could continue. There are many possible answers, but we believe the more important point is that in the long run, quality has been shown to be a superior indicator of performance.

**Despite the dividend tax cut, dividend stocks underperformed the overall market during the period.** Congress passed the tax cut during the period as part of the government's economic stimulus efforts. The cut reduced the double taxation of corporate dividends, thus lowering the cost of capital and encouraging investment. Since companies that pay dividends are generally more established and less speculative, we see the underperformance of these stocks as being part of the larger market trend mentioned earlier.

**U.S. investors saw gains overseas, helped by currency trends.** Most foreign markets showed positive total returns for the period, and these returns were augmented by the fact that the United States dollar fell versus most major foreign currencies.

## Performance at a Glance

Total return for the 12 months ended 10/31/03

**Schwab U.S. MarketMasters Fund™** . . . . . **32.89%**  
Benchmark . . . . . **20.80%**  
Category Average . . . . . **19.40%**

*Performance Details . . . . . page 7*

**Schwab Balanced MarketMasters Fund™** . . . . . **20.25%**  
Benchmark . . . . . **14.54%**  
Category Average . . . . . **15.87%**

*Performance Details . . . . . page 9*

**Schwab Small-Cap MarketMasters Fund™** . . . . . **54.32%**  
Benchmark . . . . . **43.37%**  
Category Average . . . . . **37.84%**

*Performance Details . . . . . page 11*

**Schwab International MarketMasters Fund™** . . . . . **36.74%**  
Benchmark . . . . . **27.03%**  
Category Average . . . . . **22.49%**

*Performance Details . . . . . page 13*

## The Funds

All of the funds posted positive total returns and outperformed their respective benchmarks and category averages for the report period. We're pleased to be able to report such results in this first 12-month report for the funds since their transition to a multi-manager format.

During the period, we remained in close contact with each fund's sub-advisers, and made adjustments to all sub-advisers' allocations based on a combination of market conditions and daily cash flows. Just prior to the report period, and during it as well, we believed that small-cap stocks would lead a market recovery. Consequently, we positioned each fund to participate more fully in this opportunity. Each fund benefited from this strategy.

In the **Schwab U.S. MarketMasters Fund**, Harris Associates L.P. and TCW Investment Management Company (TCW) were the primary reasons for the fund's strong performance. We see their strong performance as a reflection of their stock selection, industry allocations, and the fact that during the period, small- and mid-cap stocks generally performed better than large-cap stocks. Their ability and willingness to capitalize on this were beneficial to the fund overall.

For most of the period, the portfolio maintained a weighting of over 20% each in Harris and TCW, in order to capitalize on our belief that small company stocks were likely to perform well, which they did. This was instrumental in helping the fund outperform its benchmark.

In the **Schwab Balanced MarketMasters Fund**, we reallocated assets from fixed-income to equities in order to maintain a 60:40 stock-to-bond allocation, as declines in stock prices had reduced our equity allocation

Past performance does not indicate future results.

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

All fund and index figures on this page assume dividends and distributions were reinvested. Benchmark index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Each fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. For more current performance information visit [www.schwab.com](http://www.schwab.com) or call 1-800-435-4000.

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.

*Positioning the funds to have greater exposure to small-cap stocks proved a significant contributor to performance during this report period.*

and we did not want to be underweighted in stocks during the early part of the report period.

Perkins, Wolf, McDonnell and Company, LLC was the best performing sub-adviser for the fund over the past year. We attribute its strong performance to stock selection and asset class strength. On the fixed-income side, our bond sub-adviser, Pacific Investment Management Company LLC also performed well, with superior security selection being the primary driver of performance.

In the **Schwab Small-Cap MarketMasters Fund™**, outperformance was primarily driven by Royce & Associates, LLC. Stock selection, exposure to the technology sector and owning stocks in the micro-cap area were the main drivers for their strong returns. Early in the report period we added assets to Royce, anticipating their strong performance. They were the largest holding in the fund during the period, and ended the period at just over 40% of fund assets.

In the **Schwab International MarketMasters Fund™**, outperformance was led by American Century Investment Management, Inc., the sub-adviser who manages the small-cap component of the portfolio. The main elements of American Century's performance were country allocation and stock selection. A relatively high allocation to emerging markets also proved beneficial.

Believing the market would reward international small company stocks, we began adding assets to American Century early in the period. This move, as well as the performance of American Century, was instrumental to the fund's outperformance of its benchmark, an index that mainly consists of large-cap stocks.

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 subsequent to the report date.

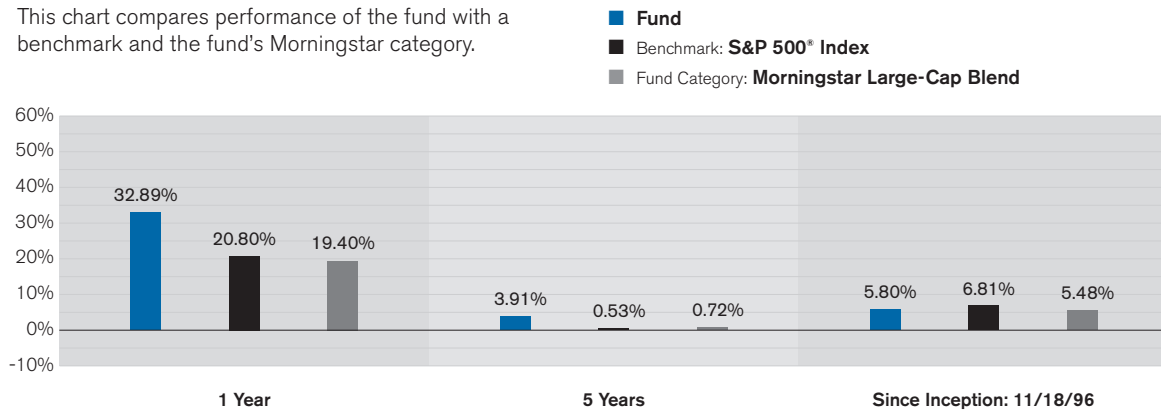


# Schwab U.S. MarketMasters Fund™

Performance as of 10/31/03

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

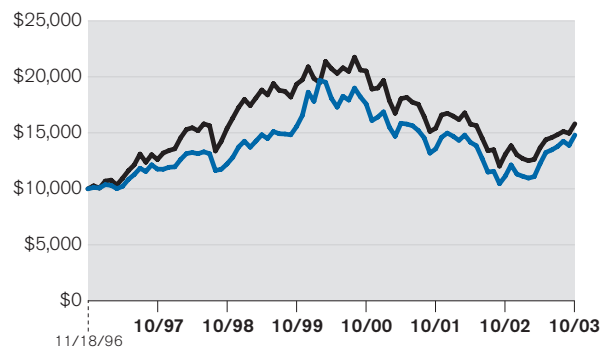
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

■ \$14,801 Fund  
■ \$15,808 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

Because the fund was originally an asset allocation fund with a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

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

## Schwab U.S. MarketMasters Fund™

## Fund Facts as of 10/31/03

Fund Category<sup>1</sup>

## Investment Managers and Allocations

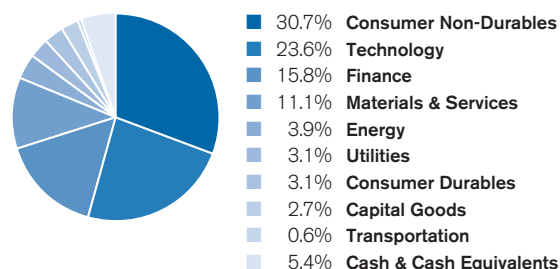
Investment Manager	Investment Style	% of Net Assets
<b>Eagle Asset Management, Inc.</b>	Large-Cap Growth	21.3%
<b>Harris Associates L.P.</b>	Mid/Large-Cap Value	22.5%
<b>TCW Investment Management Company</b>	Small/Mid-Cap Blend	23.2%
<b>Thornburg Investment Management, Inc.</b>	Large-Cap Blend	30.2%

## Top Holdings<sup>2</sup>

Security	% of Net Assets
① Time Warner, Inc.	2.2%
② Washington Mutual, Inc.	2.0%
③ First Data Corp.	1.9%
④ Pfizer, Inc.	1.8%
⑤ Cendant Corp.	1.8%
⑥ Carnival Corp.	1.7%
⑦ Citigroup, Inc.	1.6%
⑧ Interpublic Group of Cos., Inc.	1.4%
⑨ Guidant Corp.	1.4%
⑩ Health Management Associates, Inc.	1.3%
<b>Total</b>	<b>17.1%</b>

### Sector Weightings % of Portfolio

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.



## Statistics

<b>Number of Holdings</b>	167
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$37,967
<b>Price/Earnings Ratio (P/E)</b>	28.9
<b>Price/Book Ratio (P/B)</b>	2.5
<b>Portfolio Turnover Rate</b>	97%

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

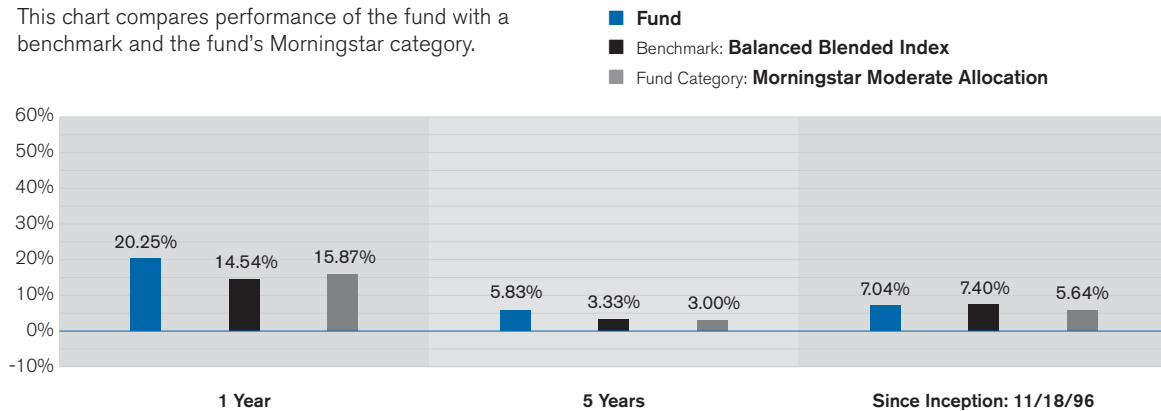
<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Schwab Balanced MarketMasters Fund™

Performance as of 10/31/03

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

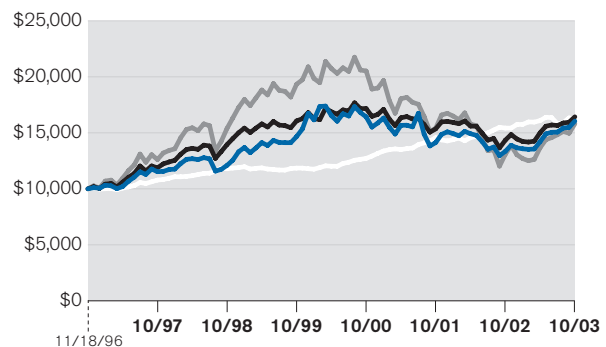
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

- \$16,051 Fund
- \$16,430 Balanced Blended Index
- \$15,808 S&P 500 Index
- \$16,183 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

Because the fund originally used a different asset allocation strategy and a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

## Schwab Balanced MarketMasters Fund™

### Fund Facts as of 10/31/03

Top Holdings <sup>1</sup>		Investment Managers and Allocations		
Security	% of Net Assets	Investment manager	Investment style	% of Net Assets
① Citigroup, Inc.	2.0%	Aronson + Johnson + Ortiz, LP	Large-Cap Value	32.9%
② Ginnie Mae II 6.50%, 11/19/33	1.9%			
③ U.S. Treasury Index Participation Note 3.38%, 01/15/07	1.9%	Eagle Asset Management, Inc.	Large-Cap Growth	12.2%
④ U.S. Treasury Bond 7.50%, 11/15/16	1.8%	Janus Capital Management LLC/ Perkins, Wolf, McDonnell and Company, LLC	Mid-Cap Value	17.3%
⑤ U.S. Treasury Note 3.63%, 05/15/03	1.8%			
⑥ U.S. Treasury Note 2.00%, 11/30/04	1.4%	Pacific Investment Management Company LLC	Total Return Fixed-Income	35.3%
⑦ Bank of America Corp.	1.1%			
⑧ Fannie Mae 6.50%, 11/13/33	1.0%			
⑨ Fannie Mae 4.00%, 08/01/18	0.9%			
⑩ U.S. Treasury Index Participation Note 3.63%, 01/15/08	0.9%			
<b>Total</b>	<b>14.7%</b>			

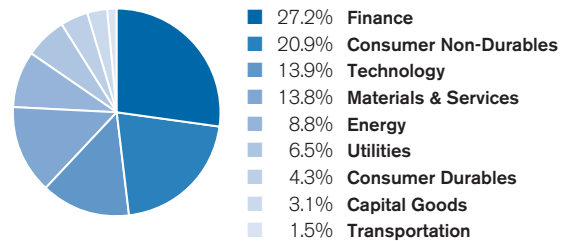
  

Statistics	
Number of Long Holdings	385
Number of Short Positions	5
Weighted Average Market Cap (\$ x 1,000,000)	\$39,301
Price/Earnings Ratio (P/E)	16.8
Price/Book Ratio (P/B)	2.2
Portfolio Turnover Rate	256%

Sector Weightings % of Equity Securities	
	<ul style="list-style-type: none"> <li>27.2% Finance</li> <li>20.9% Consumer Non-Durables</li> <li>13.9% Technology</li> <li>13.8% Materials &amp; Services</li> <li>8.8% Energy</li> <li>6.5% Utilities</li> <li>4.3% Consumer Durables</li> <li>3.1% Capital Goods</li> <li>1.5% Transportation</li> </ul>

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.



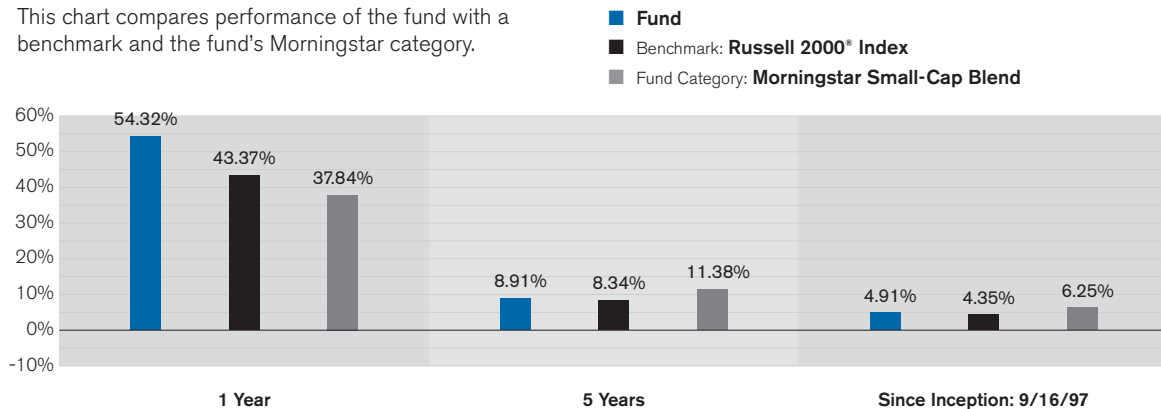
<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Schwab Small-Cap MarketMasters Fund™

Performance as of 10/31/03

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

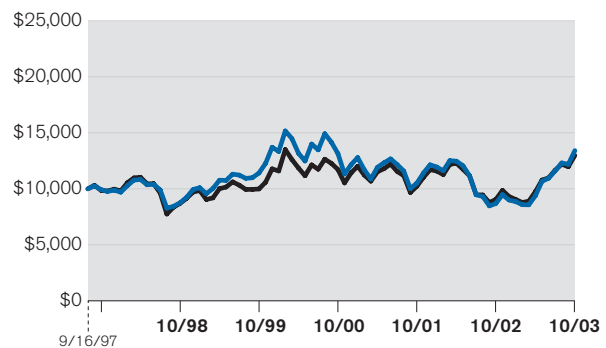
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

■ \$13,416 Fund  
■ \$12,980 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

Because the fund originally used a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

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

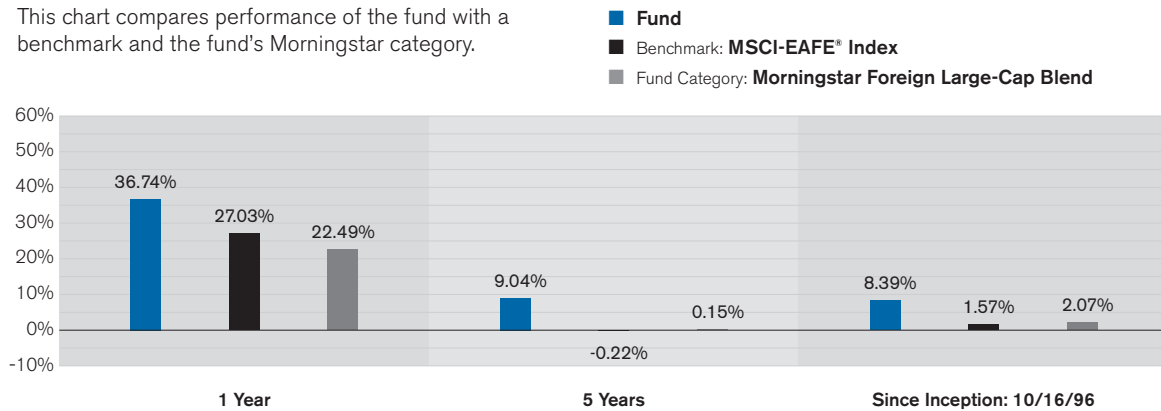
## Fund Facts as of 10/31/03

# Schwab International MarketMasters Fund™

Performance as of 10/31/03

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

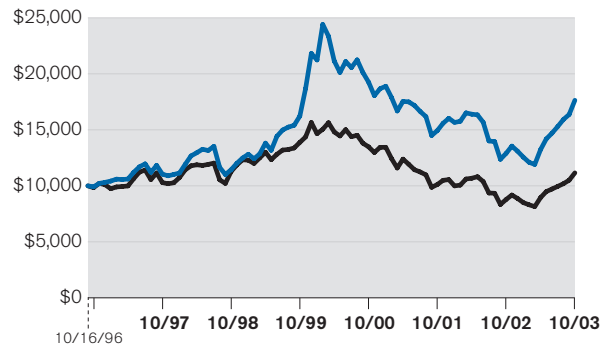
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

■ \$17,638 Fund  
■ \$11,158 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

## Schwab International MarketMasters Fund™

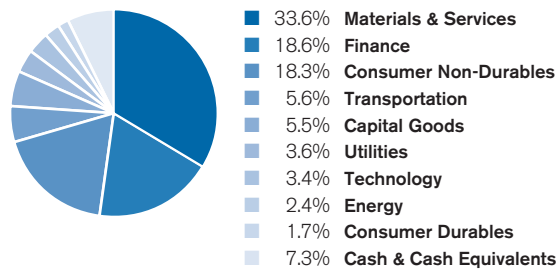
### Fund Facts as of 10/31/03

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

Security	% of Net Assets
1 Diageo PLC	1.5%
2 Nestle SA	1.4%
3 Deutsche Boerse AG	1.3%
4 Vivendi Universal SA	1.2%
5 Grupo Televisa SA de CV	1.1%
6 GlaxoSmithKline PLC	1.1%
7 Henkel KGaA	1.1%
8 Aventis SA	1.0%
9 John Fairfax Holdings Ltd.	1.0%
10 Michael Page Group PLC	1.0%
<b>Total</b>	<b>11.7%</b>

#### Sector Weightings % of Portfolio

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.



#### Statistics

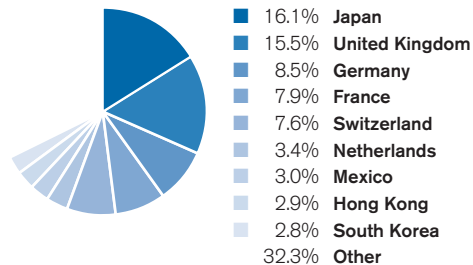
Number of Holdings	362
Weighted Average Market Cap (\$ x 1,000,000)	\$14,972
Price/Earnings Ratio (P/E)	27.5
Price/Book Ratio (P/B)	2.5
Portfolio Turnover Rate	99%

#### Investment Managers and Allocations

Investment manager	Investment style	% of Net Assets
American Century Investment Management, Inc.	International Small Company	23.2%
Artisan Partners Limited Partnership	International Growth	17.1%
Harris Associates L.P.	International Value	32.3%
William Blair & Company, LLC	International Growth	24.6%

#### Country Weightings % of Portfolio

This chart shows the fund's country composition as of the report date.



<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.



# Schwab U.S. MarketMasters Fund™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	7.48	9.20	13.89	14.06	11.43
Income or loss from investment operations:					
Net investment income or loss	(0.01)	0.06	0.38	0.38	0.16
Net realized and unrealized gains or losses	2.47	(1.68)	(3.21)	1.55	2.91
Total income or loss from investment operations	2.46	(1.62)	(2.83)	1.93	3.07
Less distributions:					
Dividends from net investment income	—	(0.10)	(0.46)	(0.33)	(0.21)
Distributions from net realized gains	—	—	(1.40)	(1.77)	(0.23)
Total distributions	—	(0.10)	(1.86)	(2.10)	(0.44)
Net asset value at end of period	9.94	7.48	9.20	13.89	14.06
Total return (%)	32.89	(17.92)	(22.81)	12.98	27.38
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	1.25	0.74 <sup>1,2</sup>	0.50 <sup>2</sup>	0.50 <sup>2,3</sup>	0.50 <sup>2</sup>
Gross operating expenses	1.42	1.16 <sup>2</sup>	0.89 <sup>2</sup>	0.89 <sup>2</sup>	0.93 <sup>2</sup>
Net investment income or loss	(0.12)	0.50	3.27	2.34	1.23
Portfolio turnover rate	97	390	145	179	284
Net assets, end of period (\$ x 1,000,000)	169	129	176	248	181

<sup>1</sup> The ratio of net operating expenses would have been 0.83% if certain non-routine expenses (proxy fees) had been included.

<sup>2</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>3</sup> The ratio of net operating expenses would have been 0.51% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for futures contracts
- ◆ American Depositary Receipt

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>93.7% Common Stock</b>	133,161	158,010
<b>0.4% Foreign Common Stock</b>	481	715
<b>0.2% Short-Term Investments</b>	295	295
<b>5.4% Other Investments</b>	9,139	9,139
<b>99.7% Total Investments</b>	<b>143,076</b>	<b>168,159</b>
<b>0.3% Other Assets and Liabilities, Net</b>		460
<b>100.0% Total Net Assets</b>		<b>168,619</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Common Stock 93.7% of Net Assets</b>	

**Aerospace / Defense 0.6%**

Lockheed Martin Corp.	9,550	443
United Technologies Corp.	6,400	542
		<b>985</b>

**Air Transportation 0.4%**

Southwest Airlines, Inc.	37,500	<b>728</b>
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**Apparel 0.7%**

Jones Apparel Group, Inc.	35,565	<b>1,227</b>
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**Banks 4.1%**

Bank of America Corp.	3,550	269
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Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Bank of New York Co., Inc. 57,700	1,800
BankNorth Group, Inc. 29,800	933
Chase Manhattan Corp. 500	18
Mellon Financial Corp. 27,900	833
North Fork Bancorp, Inc. 19,400	756
• Silicon Valley Bancshares 10,500	369
Wells Fargo & Co. 24,600	1,385
Zions Bancorp. 10,000	613
	<b>6,976</b>

**Business Machines & Software 4.6%**

• Cisco Systems, Inc.	62,600	1,313
• Dell Computer Corp.	25,200	910
• EMC Corp.	23,230	322
• Hewlett Packard Co.	87,750	1,958
• Maxtor Corp.	41,200	563
• Microsoft Corp.	50,600	1,323
• Oracle Systems Corp.	34,100	408
• Tech Data Corp.	11,000	362
• Unisys Corp.	41,000	630
		<b>7,789</b>

**Business Services 9.2%**

• Accenture, Ltd.	13,700	321
• Affiliated Computer Services, Inc.	17,500	856
• Aspen Technology, Inc.	79,500	636
• ⑤ Cendant Corp.	144,900	2,960
• Doubleclick, Inc.	63,400	528
• Ebay, Inc.	2,850	159
• Eclipsys Corp.	50,700	601
• ③ First Data Corp.	88,750	3,168
• ⑧ Interpublic Group of Cos., Inc.	161,500	2,403
• Lamar Advertising Co.	13,200	400
• Network Associates, Inc.	64,000	892
• Reynolds & Reynolds Co., Class A	21,600	587
• Veritas Software Corp.	10,150	367
• Waste Management, Inc.	65,000	1,685
		<b>15,563</b>

**Chemical 0.2%**

Rohm & Haas Co.	10,800	<b>424</b>
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Schwab U.S. MarketMasters Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Consumer Durables 0.7%</b>		<b>Food &amp; Agriculture 0.9%</b>	
• Leggett & Platt, Inc. 24,700	516	The Pepsi Bottling Group, Inc. 70,000	1,560
• Maytag Corp. 28,200	716		
	<b>1,232</b>	<b>Healthcare / Drugs &amp; Medicine 12.6%</b>	
<b>Electronics 14.5%</b>		Abbott Laboratories 10,050	428
• Agere Systems, Inc., Class B 358,200	1,214	Amgen, Inc. 8,650	534
• Agilent Technologies, Inc. 35,850	893	• Apogent Technologies, Inc. 44,900	986
• Alliant Techsystems, Inc. 13,300	688	Beckman Coulter, Inc. 13,900	690
• Anixter International, Inc. 21,100	504	• Caremark Rx, Inc. 38,400	962
• Applied Materials, Inc. 20,400	477	• Charles River Laboratories, Inc. 22,100	712
• Arrow Electronics, Inc. 36,500	779	Eli Lilly & Co. 4,800	320
• ASML Holding N.V. 20,800	365	• Genzyme Corp. 28,775	1,321
• Celestica, Inc. 43,600	619	• Gilead Sciences, Inc. 5,500	300
• Cox Radio, Inc. 12,250	271	• 9 Guidant Corp. 46,000	2,346
• Fairchild Semiconductor Corp. 36,100	816	10 Health Management Associates, Inc. 99,100	2,195
• Flextronics International Ltd. 18,550	260	• Health Net, Inc. 23,150	731
• General Motors Corp. Class H 96,100	1,579	• IDEC Pharmaceutical Corp. 15,650	550
Intel Corp. 49,100	1,623	Johnson & Johnson, Inc. 28,050	1,412
• LAM Research Corp. 17,750	510	• Medimmune, Inc. 37,650	1,004
• LSI Logic Corp. 161,350	1,491	Medtronic, Inc. 5,700	260
• Macromedia, Inc. 18,350	351	Merck & Co., Inc. 12,750	564
• National Semiconductor Corp. 23,650	961	4 Pfizer, Inc. 98,500	3,113
• Nextel Communications, Inc., Class A 45,900	1,111	• Quest Diagnostic, Inc. 29,100	1,969
• Novellus System, Inc. 5,150	213	• St. Jude Medical, Inc. 2,100	122
PerkinElmer, Inc. 44,900	809	• Univision Communications, Inc. 9,000	306
Seagate Technology 41,200	947	Wyeth 9,550	421
Symbol Technologies, Inc. 28,700	358		<b>21,246</b>
◆ Taiwan Semiconductor Co. Ltd. 62,823	695	<b>Household Products 0.6%</b>	
• Tektronix, Inc. 33,600	862	• Estee Lauder Cos., Inc., Class A 11,600	433
• Teradyne, Inc. 59,700	1,360	Procter & Gamble Co. 5,400	531
Texas Instruments, Inc. 40,300	1,165		<b>964</b>
• Uniphase Corp. 86,700	308	<b>Insurance 2.1%</b>	
• Vishay Intertechnology, Inc. 51,400	964	Lincoln National Corp. 25,500	1,018
• Waters Corp. 66,500	2,090	MBIA, Inc. 18,200	1,085
	<b>24,283</b>	St. Paul Cos., Inc. 39,000	1,487
<b>Energy: Raw Materials 0.8%</b>			<b>3,590</b>
• Cooper Cameron Corp. 12,500	535	<b>Media 8.3%</b>	
Devon Energy Corp. 11,600	563	Cablevision Systems New York Group, Class A 90,000	1,818
ENSCO International, Inc. 11,400	300		
	<b>1,398</b>		

See financial notes. 17

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Clear Channel Communications, Inc. 11,650	476	<b>Non-Ferrous Metals 0.5%</b>	
• Comcast Corp. Class A 61,400	2,003	• Phelps Dodge Corp. 13,700	846
• EchoStar Communications Corp. 5,950	228	<b>Oil: Domestic 2.8%</b>	
• Fox Entertainment Group, Inc., Class A 34,100	945	Amerada Hess Corp. 19,300	996
• InterActive Corp. 33,080	1,214	Marathon Oil Corp. 41,100	1,215
Meredith Corp. 5,000	243	• Pride International, Inc. 17,900	293
• Metro Goldwyn Mayer, Inc. 46,300	739	• Transocean, Inc. 38,400	737
Readers Digest Association, Inc. 39,400	580	Unocal Corp. 46,700	1,480
• The Walt Disney Co. 34,600	783		<b>4,721</b>
• ① Time Warner, Inc. 246,100	3,763	<b>Paper &amp; Forest Products 0.7%</b>	
• Viacom, Inc., Class B 19,450	775	Kimberly-Clark Corp. 22,400	1,183
• Westwood One, Inc. 12,150	364	<b>Producer Goods &amp; Manufacturing 2.3%</b>	
	<b>13,931</b>	Deere & Co. 18,500	1,122
<b>Miscellaneous 0.2%</b>		Dover Corp. 15,000	585
• DigitalNet Holdings, Inc. 2,800	64	General Electric Co. 38,050	1,104
3M Co. 3,000	237	Pall Corp. 16,900	395
	<b>301</b>	York International Corp. 18,300	727
<b>Miscellaneous Finance 8.4%</b>			<b>3,933</b>
American Express Co. 4,450	209	<b>Real Property 0.4%</b>	
• ⑦ Citigroup, Inc. 57,800	2,740	Boston Properties, Inc. 16,800	743
Countrywide Credit Industries, Inc. 8,550	899	<b>Retail 9.9%</b>	
• E*TRADE Group, Inc. 160,000	1,648	• American Eagle Outfitters, Inc. 39,300	629
Fannie Mae 23,100	1,656	• Best Buy Co., Inc. 30,000	1,749
Freddie Mac 14,200	797	Circuit City Stores, Inc. 67,100	640
Lehman Brothers Holdings, Inc. 6,100	439	• Costco Cos., Inc. 50,000	1,769
Merrill Lynch & Co., Inc. 2,350	139	Home Depot, Inc. 19,700	730
Sovereign Bancorp, Inc. 90,000	1,873	J.C. Penny Co., Inc. 45,300	1,071
The Goldman Sachs Group, Inc. 5,000	469	• Kohls Corp. 8,550	479
• ② Washington Mutual, Inc. 75,200	3,290	• Kroger Co. 80,000	1,399
	<b>14,159</b>	Lowe's Cos., Inc. 25,400	1,497
<b>Non-Durables &amp; Entertainment 3.3%</b>		Talbots, Inc. 18,500	608
• American Greetings Corp. Class A 32,000	683	Target Corp. 34,750	1,381
Darden Restaurants, Inc. 31,100	651	The Gap, Inc. 110,000	2,099
• Electronic Arts, Inc. 15,700	1,555	Tiffany & Co. 35,000	1,661
• EMCOR Group, Inc. 23,100	871	Wal-Mart Stores, Inc. 15,550	917
• Yum! Brands, Inc. 50,000	1,707		<b>16,629</b>
	<b>5,467</b>		

# Schwab U.S. MarketMasters Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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## Telephone 1.0%

• Liberty Media Corp. Class A 160,000	1,614
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## Travel & Recreation 2.2%

⑥ Carnival Corp. 81,950	2,861
• Harrah's Entertainment, Inc. 7,850	342
• Starwood Hotel & Resorts Worldwide, Inc. 14,600	492
	<b>3,695</b>

## Trucking & Freight 0.2%

United Parcel Service, Inc. 3,800	276
Overnite Corp. 3,150	70
	<b>346</b>

## Utilities: Electric & Gas 1.5%

Dominion Resources, Inc. 26,700	1,645
El Paso Energy Corp. 113,400	832
	<b>2,477</b>

## Foreign Common Stocks 0.4% of Net Assets

### South Korea 0.4%

Samsung Electronics Co. 1,800	715
-------------------------------	-----

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
---------------------------------	----------------------------	----------------------------

## Short-Term Investments 0.2% of Net Assets

### U.S. Government Securities 0.2%

▲ U.S. Treasury Bills		
0.93%, 12/18/03	295	<b>295</b>

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

## Other Investments 5.4% of Net Assets

### Other Investment Companies 5.4%

Provident Institutional Funds— TempCash 882,417	882
▲ Provident Institutional Funds— TempFund 8,257,350	8,257
	<b>9,139</b>

**End of investments.** For totals, please see the first page of holdings for this fund.

Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$168,159
Receivables:	
Fund shares sold	148
Dividends	159
Due from brokers for futures	4
Investments sold	1,810
Prepaid expenses	+ 10
<b>Total assets</b>	<b>170,290</b>

**Liabilities**

Payables:	
Fund shares redeemed	38
Investments bought	1,575
Investment adviser and administrator fees	8
Transfer agency and shareholder service fees	2
Accrued expenses	+ 48
<b>Total liabilities</b>	<b>1,671</b>

**Net Assets**

<b>Total assets</b>	170,290
<b>Total liabilities</b>	- 1,671
<b>Net assets</b>	<b>\$168,619</b>

**Net Assets by Source**

Capital received from investors	207,552
Net realized capital losses	(64,185)
Net unrealized capital gains	25,252

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$168,619		16,965		\$9.94

Unless stated, all numbers x 1,000.

The fund paid \$143,076 for these securities. Not counting short-term obligations and government securities, the fund paid \$129,549 for securities during the report period and received \$126,742 from securities it sold or that matured.

These derive from investments, foreign currency transactions and futures. As of the report date, the fund had seventeen open S&P 500 futures contracts due to expire on December 19, 2003, with an aggregate net contract value of 4,460 and a net unrealized gain of \$169.

**Federal Tax Data**

<b>Portfolio cost</b>	\$144,331
<b>Net unrealized gains and losses:</b>	
Gains	\$27,209
Losses	+ (3,381)
	<b>\$23,828</b>

**Undistributed earnings:**

Ordinary income	\$-
Long-term capital gains	\$-

**Unused capital losses:**

Expires 10/31 of:	Loss amount:
2009	\$27,772
2010	34,385
2011	+ 604
	<b>\$62,761</b>

**Reclassifications:**

Net investment income not yet distributed	\$170
Reclassified as:	
Capital received from investors	(\$170)

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$1,580
Interest	+ 2
<b>Total investment income</b>	<b>1,582</b>

Unless stated, all numbers x 1,000.

An additional \$10 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized losses on investments sold	(444)
Net realized gains of futures contracts	+ 474
<b>Net realized gains</b>	<b>30</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	40,325
Net unrealized losses on futures contracts	+ (195)
<b>Net unrealized gains</b>	<b>40,130</b>

Calculated as 1.00% of average daily net assets.

**Expenses**

Investment adviser and administrator fees	1,402
Transfer agent and shareholder service fees	350
Trustees' fees	6
Custodian and portfolio accounting fees	109
Professional fees	34
Registration fees	15
Shareholder reports	60
Other expenses	+ 11
Total expenses	1,987
Expense reduction	+ (235)
<b>Net expenses</b>	<b>1,752</b>

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

For the fund's independent trustees only.

**Increase in Net Assets From Operations**

<b>Total investment income</b>	<b>1,582</b>
<b>Net expenses</b>	<b>- 1,752</b>
<b>Net investment loss</b>	<b>(170)</b>
<b>Net realized gains</b>	<b>30</b>
<b>Net unrealized gains</b>	<b>+ 40,130</b>
<b>Increase in net assets from operations</b>	<b>\$39,990</b>

This reduction was made by the investment advisor (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 1.25% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$40,160.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income or losses	(\$170)	\$834
Net realized gains or losses	30	(35,944)
Net unrealized gains	+ 40,130	5,875
<b>Increase or decrease in net assets from operations</b>	<b>39,990</b>	<b>(29,235)</b>

**Distributions Paid**

Dividends from net investment income	—	<b>1,826</b>
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**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	3,184	\$28,358	2,107	\$18,996
Shares reinvested	—	—	180	1,826
Shares redeemed	+ (3,420)	(28,461)	(4,234)	(37,188)
<b>Net transactions in fund shares</b>	<b>(236)</b>	<b>(\$103)</b>	<b>(1,947)</b>	<b>(\$16,366)</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	17,201	\$128,732	19,148	\$176,159
Total increase or decrease +	(236)	39,887	(1,947)	(47,427)
<b>End of period</b>	<b>16,965</b>	<b>\$168,619</b>	<b>17,201</b>	<b>\$128,732</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current period**

Ordinary income	\$—
Long-term capital gains	\$—

**Prior period**

Ordinary income	\$1,826
Long-term capital gains	\$—

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

There is no distributable net investment income at the end of the current and prior period.



# Schwab Balanced MarketMasters Fund™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	9.35	10.12	13.44	13.44	11.36
Income or loss from investment operations:					
Net investment income	0.12	0.20	0.43	0.45	0.27
Net realized and unrealized gains or losses	1.75	(0.73)	(2.12)	1.18	2.11
Total income or loss from investment operations	1.87	(0.53)	(1.69)	1.63	2.38
Less distributions:					
Dividends from net investment income	(0.15)	(0.24)	(0.52)	(0.35)	(0.30)
Distributions from net realized gains	–	–	(1.11)	(1.28)	–
Total distributions	(0.15)	(0.24)	(1.63)	(1.63)	(0.30)
Net asset value at end of period	11.07	9.35	10.12	13.44	13.44
Total return (%)	20.25	(5.55)	(13.95)	12.00	21.28
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	1.10	0.72 <sup>1,2</sup>	0.50 <sup>2</sup>	0.50 <sup>2,3</sup>	0.50 <sup>2</sup>
Gross operating expenses	1.33	1.10 <sup>2</sup>	0.89 <sup>2</sup>	0.90 <sup>2</sup>	0.95 <sup>2</sup>
Net investment income	1.13	1.89	3.67	3.18	2.20
Portfolio turnover rate	256	380	95	114	244
Net assets, end of period (\$ x 1,000,000)	109	97	118	153	122

<sup>1</sup> The ratio of net operating expenses would have been 0.76% if certain non-routine expenses (proxy fees) had been included.

<sup>2</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>3</sup> The ratio of net operating expenses would have been 0.51% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for futures contracts
- ◆ American Depositary Receipt
- + Credit-enhanced security
- Collateral for Short Sales
- ▷ Delayed-delivery security

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

Holdings by Category	Cost/ Proceeds (\$x1,000)	Market Value (\$x1,000)
<b>60.9% Common Stock</b>	57,032	66,343
<b>8.7% U.S. Government Securities</b>	9,488	9,532
<b>13.5% Agency Mortgage-Backed Securities</b>	14,813	14,763
<b>3.9% Corporate Bonds</b>	4,001	4,202
<b>1.8% Municipal Bonds</b>	2,010	1,945
<b>1.3% Non-Agency Mortgage-Backed Securities</b>	1,399	1,395
<b>8.5% Short-Term Investments</b>	9,258	9,259
<b>6.4% Other Investments</b>	7,019	7,019
<b>0.0% Options</b>	2	2
<b>105.0% Total Investments</b>	<b>105,022</b>	<b>114,460</b>
<b>(11.9%) Short Sales</b>	(12,875)	(12,948)
<b>(0.1%) Options Written</b>	(182)	(158)
<b>7.0% Other Assets and Liabilities, Net</b>		7,619
<b>100.0% Total Net Assets</b>		<b>108,973</b>

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

**Common Stock** 60.9% of Net Assets**Aerospace / Defense 0.3%**

Lockheed Martin Corp.	3,400	157
United Technologies Corp.	2,300	195
		<b>352</b>

**Alcoholic Beverages 0.1%**

Coors (Adolph) Co. Class B	1,800	<b>101</b>
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**Apparel 0.1%**

• Jones Apparel Group, Inc.	4,100	<b>141</b>
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**Automobile Products / Motor Vehicles 2.1%**

Autoliv, Inc.	16,400	543
• Autonation, Inc.	12,400	232
Borg Warner, Inc.	2,000	159
Cooper Tire & Rubber Co.	5,200	102
Genuine Parts Co.	8,800	280
• Lear Corp.	3,900	227
◆ Magna International, Inc.	3,000	241
Polars Industries Partners LP	1,500	128
Smith (A.O.) Corp. Class B	3,000	95
• United Defense Industries, Inc.	7,700	249
		<b>2,256</b>

**Banks 5.5%**

Associated Bancorp.	4,300	177
⑦ Bank of America Corp.	16,400	1,242
Bank of Hawaii Corp.	1,000	39
Brookline Bancorp, Inc.	11,300	167
Chase Manhattan Corp.	16,650	598
City National Corp.	3,100	187
• Compass Bancshares, Inc.	5,000	189
◆ Doral Financial Corp.	6,900	348
First Tennessee National Corp.	6,600	299
Marshall & Ilsley Corp.	5,700	204
Mercantile Bankshares Corp.	6,000	254
PNC Financial Services Corp.	2,800	150
Popular, Inc.	4,100	185
Regions Financial Corp.	7,300	268

# Schwab Balanced MarketMasters Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Southtrust Corp. 7,300	233
Union Planters Corp. 6,700	223
UnionBanCal Corp. 6,400	347
Wachovia Corp. 17,300	794
Wilmington Trust Co. 3,800	128
	<b>6,032</b>

## Business Machines & Software 2.6%

• Adaptec, Inc. 4,400	38
Autodesk, Inc. 6,500	125
• Cisco Systems, Inc. 36,100	757
• Dell Computer Corp. 9,100	329
• EMC Corp. 8,700	120
Hewlett Packard Co. 8,200	183
• Integrated Device Technology, Inc. 11,000	173
Microsoft Corp. 19,550	511
• Oracle Systems Corp. 12,650	151
• Sybase, Inc. 16,600	297
• Tech Data Corp. 4,500	148
	<b>2,832</b>

## Business Services 3.4%

• Accenture, Ltd. 22,400	524
• Cendant Corp. 39,950	816
• Citrix Systems, Inc. 6,200	157
• Convergys Corp. 8,800	141
• Ebay, Inc. 1,000	56
Factset Research Systems, Inc. 2,900	127
First Data Corp. 4,200	150
• GTech Holdings Corp. 3,800	170
H&R Block, Inc. 3,100	146
• Informatica Corp. 9,200	100
• Internet Security Systems, Inc. 7,400	121
• Invitrogen Corp. 2,300	146
• ITT Educational Services, Inc. 2,800	140
• Lamar Advertising Co. 4,900	149
• Netiq Corp. 8,400	102
• Openwave Systems, Inc. 5,700	74
• Polycom, Inc. 7,600	152
• Priority Healthcare Corp. Class B 4,400	95
• Republic Services, Inc., Class A 9,500	221

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Veritas Software Corp. 3,750	136
	<b>3,723</b>

## Chemical 0.7%

Air Products & Chemicals, Inc. 2,000	91
• Cytec Industries, Inc. 7,200	251
Lubrizol Corp. 3,200	97
Monsanto Co. 9,700	243
Sigma Aldrich Corp. 1,500	79
	<b>761</b>

## Construction 1.9%

Centex Corp. 3,500	341
• Dycom Industries, Inc. 4,400	95
• EMCOR Group, Inc. 2,100	79
Fluor Corp. 5,000	186
KB Home 4,100	281
• NVR, Inc. 300	147
Pulte Corp. 6,800	588
Standard Pacific Corp. 4,000	191
The Ryland Group, Inc. 1,800	160
	<b>2,068</b>

## Consumer Durables 0.6%

• Furniture Brands International, Inc. 4,100	100
Hillenbrand Industries, Inc. 4,100	244
La-Z-Boy Chair Co. 8,800	178
Newell Rubbermaid, Inc. 3,200	73
• Rent-A-Center, Inc. 3,500	109
	<b>704</b>

## Containers 0.1%

Ball Corp. 2,200	<b>124</b>
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## Electronics 4.1%

• Agilent Technologies, Inc. 13,500	336
• Applied Materials, Inc. 7,500	175
• ASML Holding N.V. 8,250	145
• Avnet, Inc. 10,200	198
• Cox Radio, Inc. 4,600	102
• Fairchild Semiconductor Corp. 20,000	452
• Flextronics International Ltd. 6,850	96

See financial notes. 25

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Intel Corp. 23,250	768	<b>Healthcare / Drugs &amp; Medicine 5.6%</b>	
• LAM Research Corp. 6,550	188	Abbott Laboratories 3,950	168
• LSI Logic Corp. 28,550	264	• American Pharmaceutical Partners, Inc. 7,200	175
• National Semiconductor Corp. 3,650	148	Amgen, Inc. 3,350	207
• Newport Corp. 7,200	114	Bausch & Lomb, Inc. 3,300	159
• Nextel Communications, Inc., Class A 6,900	167	Bristol-Meyers Squibb Co. 6,900	175
• Novellus System, Inc. 1,900	79	• Covance, Inc. 5,200	135
• Pinnacle Systems, Inc. 14,700	102	• Cytec Corp. 7,300	94
Scientific Atlanta, Inc. 9,800	290	Eli Lilly & Co. 2,700	180
• Silicon Storage Technologies, Inc. 8,200	92	• Gilead Sciences, Inc. 1,950	107
• Stratex Networks, Inc. 19,000	61	• Haemonetics Corp. 2,700	62
• Synopsys, Inc. 4,000	127	• Health Net, Inc. 9,200	291
◆ Taiwan Semiconductor Co. Ltd. 23,133	256	• Humana, Inc. 5,800	118
• Tellabs, Inc. 13,700	103	• IDEC Pharmaceutical Corp. 5,500	193
• Uniphase Corp. 32,500	115	Invacare Corp. 4,200	172
• Vishay Intertechnology, Inc. 6,400	120	Johnson & Johnson, Inc. 10,650	536
	<b>4,498</b>	• King Pharmaceuticals, Inc. 11,700	157
<b>Energy: Raw Materials 2.0%</b>		• Laboratory Corporation of America 5,600	199
Anadarko Petroleum Corp. 2,500	109	• Lifepoint Hospitals, Inc. 3,600	93
Arch Coal, Inc. 7,500	184	• Manor Care, Inc. 6,900	230
Burlington Resources, Inc. 4,400	214	McKesson Corp. 7,650	232
EOG Resources, Inc. 4,200	177	• Medimmune, Inc. 13,950	372
• Forest Oil Corp. 6,300	148	Medtronic, Inc. 2,400	109
• Joy Global, Inc. 12,500	238	Merck & Co., Inc. 7,550	334
• Key Energy Group, Inc. 15,000	131	Mylan Laboratories, Inc. 2,250	54
Noble Energy, Inc. 5,000	198	Omnicare, Inc. 6,100	234
Occidental Petroleum Corp. 12,000	423	• Pacificare Health Systems, Inc. 3,300	196
Tidewater, Inc. 7,000	192	Pfizer, Inc. 16,750	529
Valero Energy Corp. 4,400	188	• Province Healthcare Co. 11,300	145
	<b>2,202</b>	• St. Jude Medical, Inc. 700	41
<b>Food &amp; Agriculture 1.4%</b>		• Steris Corp. 4,700	98
Agrium, Inc. 19,800	304	• Univision Communications, Inc. 3,600	122
Bunge Ltd. 5,300	144	Wyeth 3,350	148
Fresh Del Monte Produce, Inc. 9,400	235		<b>6,065</b>
H.J. Heinz Co. 2,700	95	<b>Household Products 0.2%</b>	
Hormel Foods Corp. 4,000	99	Procter & Gamble Co. 1,800	177
Supervalu, Inc. 18,500	466	<b>Insurance 3.5%</b>	
Tyson Foods, Inc. 15,600	223	Allstate Corp. 11,900	470
	<b>1,566</b>	Cincinnati Financial Corp. 3,300	135

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Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Everest Reinsurance Group Ltd. 3,400	282	Flagstar Bancorp, Inc. 9,400	210
Fidelity National Financial, Inc. 9,125	282	• Franklin Resources, Inc. 3,000	142
First American Financial Corp. 9,600	275	Home Properties of New York, Inc. 5,500	212
Lincoln National Corp. 6,200	248	Independence Community Bank Corp. 4,100	151
Mercury General Corp. 3,600	171	IndyMac Bankcorp, Inc. 9,500	279
Old Republic International Corp. 12,500	449	IPC Holdings Ltd. 7,500	281
PMI Group, Inc. 8,400	321	Lehman Brothers Holdings, Inc. 5,550	399
• Principal Financial Group, Inc. 11,300	354	LNR Property Corp. 3,700	151
Radian Group, Inc. 5,100	270	MDC Holdings, Inc. 4,000	269
RenaissanceRe Holdings Ltd. 5,800	261	Merrill Lynch & Co., Inc. 700	41
• StanCorp Financial Group, Inc. 2,100	132	Morgan Stanley 8,600	472
Torchmark Corp. 4,300	189	The Bear Stearns Cos., Inc. 4,900	374
	<b>3,839</b>	The Goldman Sachs Group, Inc. 1,800	169
<b>Media 2.3%</b>		Waddell & Reed Financial, Inc. 5,400	120
Blockbuster, Inc. 7,200	139	Washington Federal, Inc. 10,400	274
• Clear Channel Communications, Inc. 4,400	180	Washington Mutual, Inc. 14,300	626
• Comcast Corp. Class A 2,400	78	Webster Financial Corp. 3,600	161
• EchoStar Communications Corp. 2,200	84		<b>8,016</b>
Knight-Ridder, Inc. 1,800	132	<b>Non-Durables &amp; Entertainment 0.9%</b>	
McGraw Hill Cos., Inc. 1,700	114	• Activision, Inc. 12,550	189
• Panamsat Corp. 7,900	163	• American Greetings Corp. Class A 5,300	113
Readers Digest Association, Inc. 11,900	175	• CBRL Group, Inc. 7,500	291
• The Walt Disney Co. 13,800	312	• Energizer Holdings, Inc. 4,200	155
• Time Warner, Inc. 31,300	479	Wendy's International, Inc. 5,000	185
• Tom Brown, Inc. 7,000	189		<b>933</b>
• Viacom, Inc., Class B 7,550	301	<b>Non-Ferrous Metals 0.6%</b>	
• Westwood One, Inc. 4,700	141	Alcan Aluminum Ltd. 3,600	144
	<b>2,487</b>	Engelhard Corp. 4,600	131
<b>Miscellaneous 0.1%</b>		Freeport-McMoRan Copper & Gold, Inc., Class B 9,200	357
• DigitalNet Holdings, Inc. 1,000	23		<b>632</b>
3M Co. 1,000	79	<b>Oil: Domestic 2.4%</b>	
	<b>102</b>	Amerada Hess Corp. 5,200	268
<b>Miscellaneous Finance 7.4%</b>		• Cal Dive International, Inc. 7,800	162
A.G. Edwards, Inc. 3,300	134	Chesapeake Energy Corp. 12,800	153
American Express Co. 1,700	80	Chevron Corp. 1,900	141
Astoria Financial Corp. 4,900	170	• Cimarex Energy Co. 4,500	92
CIT Group, Inc. 7,800	262	Marathon Oil Corp. 12,500	370
① Citigroup, Inc. 46,100	2,185	• National Oilwell, Inc. 4,600	88
Countrywide Credit Industries, Inc. 6,900	725	• Newfield Exploration Co. 5,800	230
Fannie Mae 1,800	129		

See financial notes. 27

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Precision Drilling Corp. 6,300	248	Plum Creek Timber Co., Inc. 3,300	87
Sunoco, Inc. 6,400	280		<b>271</b>
Talisman Energy, Inc. 3,200	156		
Teekay Shipping Corp. 9,900	477		
	<b>2,665</b>		
<b>Oil: International 0.9%</b>		<b>Retail 3.1%</b>	
ExxonMobil Corp. 23,200	849	Albertson's, Inc. 15,100	306
GlobalSantaFe Corp. 4,600	103	• Barnes & Noble, Inc. 7,800	232
	<b>952</b>	• BJ's Wholesale Club, Inc. 8,200	211
		Claire's Stores, Inc. 3,900	151
<b>Optical &amp; Photo 0.3%</b>		CVS Corp. 7,100	250
Eastman Kodak Co. 6,900	169	• Federated Department Stores, Inc. 9,200	437
• Ingram Micro, Inc., Class A 13,800	204	Foot Locker, Inc. 5,200	93
	<b>373</b>	Home Depot, Inc. 7,150	265
		• Kohls Corp. 3,150	177
<b>Paper &amp; Forest Products 0.5%</b>		• Kroger Co. 21,300	372
• Louisiana-Pacific Corp. 7,100	135	• Safeway, Inc. 8,000	169
Rayonier, Inc. 5,250	221	Talbots, Inc. 2,400	79
Temple Inland, Inc. 4,500	243	Tandy Corp. 4,300	129
	<b>599</b>	Target Corp. 1,650	66
		• Toys 'R' Us, Inc. 3,800	49
<b>Producer Goods &amp; Manufacturing 1.4%</b>		Wal-Mart Stores, Inc. 6,150	363
Briggs & Stratton Corp. 1,800	117		<b>3,349</b>
General Electric Co. 13,450	390	<b>Sanitary Services 0.3%</b>	
Graco, Inc. 3,600	137	• Citizens Utilities Co., Class B 21,600	<b>269</b>
Grainger, Inc. 3,500	160		
Harsco Corp. 4,000	153	<b>Steel 0.3%</b>	
Hon Industries, Inc. 2,900	119	Nucor Corp. 1,900	104
• Mettler-Toledo International, Inc. 5,800	223	• Steel Dynamics, Inc. 10,700	199
Pentair, Inc. 2,800	115		<b>303</b>
Trinity Industries, Inc. 5,000	127	<b>Telecommunications Services &amp; Equipment 0.1%</b>	
	<b>1,541</b>	• Advanced Fibre Communications, Inc. 3,600	<b>87</b>
<b>Railroad &amp; Shipping 0.3%</b>			
Burlington Northern Santa Fe Corp. 3,000	87	<b>Telephone 1.6%</b>	
◆ Canadian Pacific Railway Ltd. 2,600	73	• Amdocs Ltd. 7,600	163
• Kansas City Southern Industries, Inc. 15,800	209	BellSouth Corp. 26,100	687
	<b>369</b>	SBC Communications, Inc. 15,600	374
		Verizon Communications, Inc. 15,600	524
<b>Real Property 0.3%</b>			<b>1,748</b>
First Industrial Realty Trust, Inc. 5,700	184	<b>Tobacco 0.5%</b>	
		Altria Group, Inc. 3,100	144

## Schwab Balanced MarketMasters Fund™

See financial notes. 29

## Portfolio Holdings continued

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)	Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Pool# 613782 6.50%, 11/01/31	71	74	■ Republic of Panama 9.38%, 01/16/23	250	273
Pool# 632288 ▲ 6.50%, 02/01/32	527	548	United Mexican States Series A 6.38%, 01/16/13	150	155
Pool# 638016 6.50%, 04/01/32	601	624			<b>2,920</b>
Pool# 569666 6.50%, 05/01/32	63	65	<b>Variable-Rate Obligations 1.2%</b>		
Pool# 630039 6.50%, 07/01/32	16	17	■ British Telecom PLC 2.41%, 12/15/03	500	501
Pool# 656465 6.50%, 09/01/32	543	565	Entergy Gulf States 144A 2.04%, 12/18/03	200	201
Pool# 732153 4.50%, 07/01/33	481	458	Federal Republic of Brazil Series EI 2.13%, 04/15/04	80	78
Pool# 733910 4.50%, 08/01/33	518	494	■ National Rural Utilities Series C 2.11%, 01/26/04	500	502
■ 5.50%, 11/13/33	800	808			<b>1,282</b>
● 6.50%, 11/13/33	1,000	1,039	<b>Municipal Bonds 1.8% of Net Assets</b>		
Series 2003-W1 Class 1A1 6.50%, 12/25/42	168	178	■ California State Revenue Anticipation Note Warrant, Series A 2.00%, 06/16/04	300	301
Freddie Mac Series 2535 Class DT 5.00%, 09/15/16	236	243	■ Golden State, California Securitization Corp. Revenue Bond, Series 2003-A-1 6.25%, 06/01/33	250	221
Pool# C90580 ▲ 6.00%, 09/01/22	455	469	■ Massachusetts State Water Resource Authority General Revenue Bond, Series 2002J 5.00%, 08/01/32	250	251
Series 2504 Class B 6.00%, 08/15/26	98	98	■ Tobacco Settlement Financing Corp. of Rhode Island Revenue Bond, Series 2002A 6.25%, 06/01/42	500	420
Series 2553 Class JD 4.50%, 08/15/31	114	112	■ Triborough, New York Bridge & Tunnel Authority Revenue Bond, Series 2002B 5.00%, 11/15/32	750	752
Ginnie Mae II ● 6.50%, 11/19/33	2,000	2,088			<b>1,945</b>
		<b>14,763</b>			
<b>Corporate Bonds 3.9% of Net Assets</b>					
<b>Fixed-Rate Obligations 2.7%</b>					
■ AT&T Corp. 8.50%, 11/15/31	250	284			
El Paso Corp. 7.80%, 08/01/31	250	191			
7.75%, 01/15/32	150	114			
Federal Republic of Brazil Series C 8.00%, 04/15/14	369	346			
■ Ford Motor Co. 8.90%, 01/15/32	500	492			
■ General Motors Corp. 6.88%, 08/28/12	750	770			
Pemex Project Funding Master Trust 9.13%, 10/13/10	250	295			



# Schwab Balanced MarketMasters Fund™

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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## Non-Agency Mortgage-Backed Securities 1.3% of Net Assets

### Variable-Rate Obligations 1.1%

Bear Stearns Adjustable Rate Mortgage Trust Series 2002-11 Class 1A1 5.68%, 11/01/03	199	200
Series 2002-5 Class 6A 6.05%, 11/01/03	95	95
Series 2002-9 Class 2A 5.44%, 11/01/03	198	201
Structured Asset Securities Corp. Series 2002-13 Class 2A1 1.62%, 11/01/03	583	585
Wells Fargo Mortgage Backed Securities Trust Series 2002-E Class 2A1 5.22%, 11/01/03	109	111
		<b>1,192</b>

### Fixed-Rate Obligations 0.2%

Residential Funding Mortgage Security I Series -S9 Class A1 6.50%, 03/25/32	201	<b>203</b>
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## Short-Term Investments 8.5% of Net Assets

### Commercial Paper & Other Corporate Obligations 6.0%

BP Capital Markets PLC 1.08%, 03/02/04	600	598
▲ Danske Corp. 1.07%, 11/12/03	900	900
▲ General Electric Capital Corp. 1.06%, 12/18/03	1,000	999
▲ HBOS Treasury Services PLC 1.07%, 12/10/03	1,000	999
▲ Kraft Foods 2.08%, 02/27/04	300	300
Rabobank Nederland 1.07%, 01/20/04	900	898
Royal Bank of Scotland 1.08%, 02/03/04	800	798
UBS Finance, Inc. 1.06%, 01/21/04	1,000	997
		<b>6,489</b>

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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## U.S. Government Securities 2.5%

Fannie Mae ■ 1.07%, 11/05/03	1,100	1,100
U.S. Treasury Bills		
▲ 0.96%, 12/04/03	85	85
▲ 0.92%, 12/11/03	50	50
▲ 0.87%, 12/18/03	65	65
▲ 0.92%, 12/18/03	150	150
▲ 0.93%, 12/18/03	205	205
▲ 0.94%, 12/18/03	120	120
1.00%, 04/08/04	1,000	995
		<b>2,770</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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## Other Investments 6.4% of Net Assets

### Other Investment Companies 6.4%

▲ Provident Institutional Funds— TempCash 1,578,741	1,579
▲ Provident Institutional Funds— TempFund 5,439,594	5,440
	<b>7,019</b>

Security Description	Number of Contracts	Mkt. Value (\$ x 1,000)
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## Options 0.0% of Net Assets

### Put Options 0.0%

10 Year U.S. Treasury Note Future, Strike Price 100.00, Expires 11/22/03	100	2
3 Month Eurodollar Future, Strike Price 95.00, Expires 03/15/04	20	—
		<b>2</b>

**End of investments.** For totals, please see the first page of holdings for this fund.

See financial notes. 31

## Schwab Balanced MarketMasters Fund™

### Portfolio Holdings continued

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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#### Short Sales 11.9% of Net Assets

#### Foreign Government Securities 1.1%

Obrigacoes do Tesouro 5.00%, 06/15/12	1,000	1,222
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#### U.S. Government Securities 10.8%

U.S. Treasury Note		
4.38%, 05/15/07	500	529
5.50%, 05/15/09	4,800	5,320
3.63%, 05/15/13	5,200	4,980
4.25%, 08/15/13	900	897
		<b>11,726</b>

Security Description	Number of Contracts	Mkt. Value (\$ x 1,000)
----------------------	------------------------	----------------------------

#### Options Written 0.1% of Net Assets

#### Call Options 0.1%

3 Month LIBOR, Strike Price 3.00, Expires 11/12/03	120	—
3 Month LIBOR, Strike Price 5.00, Expires 01/07/05	370	130
		<b>130</b>

#### Put Options 0.0%

3 Month LIBOR, Strike Price 5.50, Expires 12/17/03	80	—
3 Month LIBOR, Strike Price 7.00, Expires 01/07/05	370	28
		<b>28</b>

**End of short sales and options written.** For totals, please see the first page of holdings for this fund.

In addition to the above, the fund held the following at 10/31/03. All numbers x 1,000.

Swap Agreements		
	Notional Amount	Unrealized Gains/(Losses)
<b>British Pounds</b>		
Interest Rate		
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.25%, expires 03/17/05, Morgan Stanley	4,500	(42)
<b>European Euro</b>		
Interest Rate		
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.00%, expires 12/17/13, Barclays Bank PLC	2,300	31
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 3.50%, expires 09/15/05, Barclays Bank PLC	10,600	(18)
<b>Japanese Yen</b>		
Interest Rate		
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 1.07%, expires 06/02/12, Morgan Stanley	50,000	16
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 1.07%, expires 06/02/12, Goldman Sachs	50,000	20
<b>Swiss Francs</b>		
Interest Rate		
Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 1.50%, expires 03/29/05, Merrill Lynch	3,100	1
Receive variable rate payments of 3 month LIBOR, Pay fixed rate payments of 1.50%, expires 03/29/05, J.P. Morgan	400	1
<b>U.S. Dollars</b>		
Credit Default		
Eli Lilly & Co. Rate 0.16%, expires 12/20/08, Barclays Bank PLC	100	—
Johnson & Johnson, Inc. Rate 0.11%, expires 12/20/08, Lehman Brothers, Inc.	100	—
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	—

See financial notes. 33

All numbers x 1,000 except number of futures contracts.

### Swap Agreements (continued)

	Notional Amount	Unrealized Gains/(Losses)
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	—
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	—
Masco Corp. Rate 0.30%, expires 12/20/08, Lehman Brothers, Inc.	100	—
		<u>10</u>

### Futures Contracts

	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
S&P 500 Index, Long expires 12/19/03	8	2,099	61
90 Day Eurodollar, Long expires 03/14/05	32	7,767	(27)
90 Day Eurodollar, Long expires 06/13/05	24	5,804	10
90 Day Eurodollar, Long expires 09/13/04	1	245	2
90 Day Eurodollar, Short expires 09/19/05	(8)	(1,928)	(3)
10 Year, Long U.S. Treasury Note, expires 03/22/04	20	2,217	(4)
10 Year, Long U.S. Treasury Note, expires 12/19/03	127	14,262	247
20 Year, Short U.S. Treasury Note, expires 12/19/03	(16)	(1,740)	(59)
90 Day LIBOR, Long expires, 03/17/04	1	203	(2)
90 Day LIBOR, Long expires, 03/17/05	3	602	(11)

**Schwab Balanced MarketMasters Fund™**

*All numbers x 1,000 except number of futures contracts.*

**Futures Contracts (continued)**

	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
90 Day LIBOR, Long expires, 06/16/04	1	202	(2)
90 Day LIBOR, Long expires, 09/16/04	1	202	(3)
90 Day LIBOR, Long expires, 12/16/04	5	1,007	(7)
3 Month, Long Eurodollar LIBOR, expires, 12/13/04	4	1,128	(1)
10 Year, Long Eurobond, expires 12/10/03	27	3,539	(40)
			<u>161</u>

**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)
11/05/2003	European Euro	649	U.S. Dollars	755	(3)
11/05/2003	U.S. Dollars	183	European Euro	159	(1)
12/11/2003	U.S. Dollars	17	British Pounds	10	—
09/08/2004	China Renminbi	6,077	U.S. Dollars	750	7
					<u>3</u>

## Schwab Balanced MarketMasters Fund™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$114,460
Foreign currency	115
Swap agreements, at fair value	122
Receivables:	
Fund shares sold	17
Dividends	79
Interest	286
Due from brokers for futures	62
Investments sold	1,401
Investments sold short	14,390
Unrealized gains on forward foreign currency contracts	7
Prepaid expenses	<div><div></div><div>+</div><div></div></div> 7
<b>Total assets</b>	<b>130,946</b>

#### Liabilities

Securities sold short at market value	12,948
Options written, at value	158
Payables:	
Fund shares redeemed	91
Investments bought	7,215
Covered short sales	1,240
Interest on short sales	264
Investment adviser and administrator fees	4
Transfer agency and shareholder service fees	2
Unrealized losses on forward foreign currency contracts	4
Accrued expenses	<div><div></div><div>+</div><div>47</div></div>
<b>Total liabilities</b>	<div><div></div><div></div><div><b>21,973</b></div></div>

#### Net Assets

Total assets	130,946
Total liabilities	— 21,973
Net assets	<u>\$108,973</u>

#### Net Assets by Source

Capital received from investors	117,023
Net investment income not yet distributed	1,066
Net realized capital losses	(18,702)
Net unrealized capital gains	9,586

#### Net Asset Value (NAV)

<b>Net Assets</b>	+	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$108,973		9,843		\$11.07

Unless stated, all numbers x 1,000.

The fund paid \$105,022 for these securities. Not counting short-term obligations and government securities, the fund paid \$89,008 for securities during the report period and received \$101,702 from securities it sold or that matured. For long-term government securities, the fund paid \$146,761 during the report period and received \$152,193 for securities it sold or that matured.

The fund paid \$108 for this currency.

The fund paid \$112 to enter into these swap agreements.

The proceeds for securities sold short is \$12,875.

Options Written	Number of Contracts	Premiums Received
Beginning of period	980	\$188
Options written	1,434	\$57
Options closed	(416)	(\$52)
Options expired	(1,058)	(\$11)
Options exercised	+	-
End of period	<b>940</b>	<b>\$182</b>

These derive from investments, short sales, options, foreign currency transactions, futures and swap agreements.

#### Federal Tax Data

<b>Portfolio cost</b>	\$105,425
<b>Net unrealized gains and losses:</b>	
Gains	\$10,388
Losses	+ (1,353)
	<b>\$9,035</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$1,062
Long-term capital gains	\$-
<b>Capital losses utilized</b>	<b>\$511</b>
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount:
2009	\$8,981
2010	+ 9,116
	<b>\$18,097</b>

#### Reclassifications:

Net investment income not yet distributed	\$287
Reclassified as:	
Net realized capital gains	(\$287)

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$1,018
Interest	+ 1,205
<b>Total investment income</b>	<b>2,223</b>

Unless stated, all numbers x 1,000.

An additional \$3 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized gains on investments sold	250
Net realized gains on short sales	113
Net realized gains on foreign currency transactions	41
Net realized losses on option contracts	(107)
Net realized gains on futures contracts	951
Net realized losses on swap agreements	+ (331)
<b>Net realized gains</b>	<b>917</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	15,901
Net unrealized losses on short sales	(73)
Net unrealized gains on foreign currency transactions	118
Net unrealized gains on option contracts	207
Net unrealized losses on futures contracts	(40)
Net unrealized gains on swap agreements	+ 336
<b>Net unrealized gains</b>	<b>16,449</b>

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% of the fund's assets. These fees are paid to Charles Schwab &amp; Co.

**Expenses**

Investment adviser and administrator fees	847
Transfer agent and shareholder service fees	249
Trustees' fees	6
Custodian and portfolio accounting fees	129
Professional fees	32
Registration fees	16
Shareholder reports	28
Other expenses	+ 16
Total expenses	1,323
Expense reduction	+ (226)
<b>Net expenses</b>	<b>1,097</b>

For the fund's independent trustees only.

This reduction was made by the investment advisor (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 1.10% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>2,223</b>
<b>Net expenses</b>	<b>- 1,097</b>
<b>Net investment income</b>	<b>1,126</b>
<b>Net realized gains</b>	<b>917</b>
<b>Net unrealized gains</b>	<b>+ 16,449</b>
<b>Increase in net assets from operations</b>	<b>\$18,492</b>

These add up to a net gain on investments of \$17,366.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$1,126	\$2,119
Net realized gains or losses	917	(9,475)
Net unrealized gains	+ 16,449	1,868
<b>Increase or Decrease in Net Assets from Operations</b>	<b>18,492</b>	<b>(5,488)</b>

**Distributions Paid**

Dividends from net investment income	<b>\$1,516</b>	<b>\$2,727</b>
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**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	1,150	\$11,825	1,632	\$16,319
Shares reinvested	151	1,431	257	2,727
Shares redeemed	+ (1,851)	(18,430)	(3,131)	(31,384)
<b>Net transactions in fund shares</b>	<b>(550)</b>	<b>(\$5,174)</b>	<b>(1,242)</b>	<b>(\$12,338)</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	10,393	\$97,171	11,635	\$117,724
Total increase or decrease +	(550)	11,802	(1,242)	(20,553)
<b>End of period</b>	<b>9,843</b>	<b>\$108,973</b>	<b>10,393</b>	<b>\$97,171</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

<b>Current period</b>	
Ordinary income	\$1,516
Long-term capital gains	\$—
<b>Prior period</b>	
Ordinary income	\$2,727
Long-term capital gains	\$—

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

Includes distributable net investment income in the amount of \$1,066 and \$1,169 at the end of the current and prior period, respectively.



# Schwab Small-Cap MarketMasters Fund™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	7.18	8.73	12.27	11.04	8.51
Income or loss from investment operations:					
Net investment income or loss	(0.09)	0.04	0.41	0.39	0.24
Net realized and unrealized gains or losses	3.99	(1.54)	(2.68)	1.30	2.34
Total income or loss from investment operations	3.90	(1.50)	(2.27)	1.69	2.58
Less distributions:					
Dividends from net investment income	(0.00) <sup>1</sup>	(0.03)	(0.55)	(0.46)	(0.05)
Distributions from net realized gains	–	(0.02)	(0.72)	–	–
Total distributions	–	(0.05)	(1.27)	(0.46)	(0.05)
Net asset value at end of period	11.08	7.18	8.73	12.27	11.04
Total return (%)	54.32	(17.34)	(19.99)	15.17	30.38
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	1.55	0.84 <sup>2,3</sup>	0.50 <sup>3</sup>	0.50 <sup>3,4</sup>	0.50 <sup>3</sup>
Gross operating expenses	1.80	1.31 <sup>3</sup>	0.91 <sup>3</sup>	0.92 <sup>3</sup>	1.01 <sup>3</sup>
Net investment income or loss	(0.98)	0.06	4.17	2.86	2.23
Portfolio turnover rate	94	324	172	128	145
Net assets, end of period (\$ x 1,000,000)	115	81	111	162	123

<sup>1</sup> Per-share amount was less than \$0.01.

<sup>2</sup> The ratio of net operating expenses would have been 0.93% if certain non-routine expenses (proxy fees) had been included.

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

<sup>4</sup> The ratio of net operating expenses would have been 0.51% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for futures contracts
- ◆ American Depositary Receipt

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>95.5% Common Stock</b>	88,474	109,830
<b>0.1% Short-Term Investments</b>	110	110
<b>4.2% Other Investments</b>	4,820	4,820
<b>99.8% Total Investments</b>	<b>93,404</b>	<b>114,760</b>
<b>0.2% Other Assets and Liabilities, Net</b>		287
<b>100.0% Total Net Assets</b>		<b>115,047</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock 95.5% of Net Assets**

**Aerospace / Defense 0.5%**

• Esterline Technologies Corp.	12,400	275
• Veeco Instruments, Inc.	9,600	243
		<b>518</b>

**Air Transportation 0.7%**

• Aviall, Inc.	9,200	140
• CPI Aerostructures, Inc.	2,700	30
• Hawk Corp. Class A	30,100	116
• Mesa Airlines, Inc.	12,800	138
• Southwest Airlines, Inc.	17,900	347
		<b>771</b>

**Apparel 1.3%**

• Hartmarx Corp.	28,000	120
• Jones Apparel Group, Inc.	16,585	572

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Phillips-Van Heusen Corp. 9,200	158
• The Dixie Group, Inc. 15,000	108
• The Warnaco Group, Inc. 20,200	352
• Tommy Hilfiger Corp. 10,000	147
	<hr/> 1,457

**Automobile Products / Motor Vehicles 0.9%**

• CSK Auto Corp.	19,400	333
• Fleetwood Enterprises, Inc.	23,000	232
• Lamson & Sessions Co.	4,900	29
• National RV Holdings, Inc.	19,700	213
• Spartan Motors, Inc.	23,500	219
		<b>1,026</b>

**Banks 1.5%**

• BankNorth Group, Inc.	13,600	426
• Mellon Financial Corp.	12,300	367
• North Fork Bancorp, Inc.	9,000	351
• Silicon Valley Bancshares	4,900	172
• Texas Capital Bancshares, Inc.	8,300	113
• Zions Bancorp.	4,600	282
		<b>1,711</b>

**Business Machines & Software 4.8%**

• Advanced Digital Information Corp.	15,700	255
• ⑥ Ascential Software Corp.	36,500	810
• Borland Software Corp.	9,400	83
• Computer Horizons Corp.	171,600	652
• Concurrent Computer Corp.	18,600	87
• Cray, Inc.	1,400	18
• DIGI International, Inc.	40,000	368
• Flow International Corp.	100,000	311
• Hypercom Corp.	24,700	122
• Interland, Inc.	300	2
• Interphase Corp.	36,000	572
• Lantronix, Inc.	26,900	32
• Maxtor Corp.	27,500	376
• MSC Software Corp.	16,700	172
• Omnicell, Inc.	17,700	252
• Printronix, Inc.	500	7
• SCM Microsystems, Inc.	11,100	92

# Schwab Small-Cap MarketMasters Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Systems & Computer Technology Corp. 38,500	566	• Network Associates, Inc. 29,700	414
• Tech Data Corp. 5,300	175	• Openwave Systems, Inc. 18,033	235
• Ultimate Electronics, Inc. 13,000	117	• Phoenix Technologies Ltd. 26,000	171
• Unisys Corp. 19,100	293	• Planar Systems, Inc. 2,600	60
• White Electronics Designs Corp. 3,200	35	• Polycom, Inc. 31,000	621
	<b>5,397</b>	• Portal Software, Inc. 10,020	160
		• Prime Medical Services, Inc. 15,800	68
<b>Business Services 13.2%</b>		• Priority Healthcare Corp. Class B 24,400	528
• Alliance Semiconductor Corp. 39,500	304	• Radiant Systems, Inc. 16,700	111
• American Management Systems, Inc. 45,500	673	• Reynolds & Reynolds Co., Class A 10,200	277
• Analogic Corp. 4,000	174	• Rogue Wave Software, Inc. 12,000	70
• Ansoft Corp. 30,000	351	• RSA Security, Inc. 13,100	170
• Aquantive, Inc. 4,300	45	• SafeNet, Inc. 2,700	90
• Aspen Technology, Inc. 56,500	452	• SCB Computer Technology, Inc. 2,600	5
• Bottomline Technology, Inc. 19,700	142	• Standard Register Co. 14,100	248
• Bowne & Co., Inc. 24,000	360	• Stericycle, Inc. 13,200	610
• Carreker Corp. 19,400	189	• Technology Solutions Corp. 75,300	106
• Computer Task Group, Inc. 58,900	227	• Teledyne Technologies, Inc. 2,200	36
• Connective Therapeutics, Inc. 11,200	201	• Tetra Technologies, Inc. 19,050	431
• Credence Systems Corp. 39,900	651	• The Management Network Group, Inc. 48,300	140
• Cross Country Healthcare, Inc. 8,200	114	• The TriZetto Group, Inc. 14,300	97
• Dot Hill Systems Corp. 8,700	117	• Universal Electronics, Inc. 20,000	260
• eFunds Corp. 77,800	1,246	• Unova, Inc. 22,300	484
• Epicor Software Corp. 17,500	177	• Valueclick, Inc. 14,800	119
• Epresence, Inc. 17,900	71	• Versant Corp. 17,800	32
• Harris Interactive, Inc. 7,400	49	• Volt Information Sciences, Inc. 21,400	374
• Indus International, Inc. 7,900	20	• Watchguard Technologies, Inc. 16,000	92
• InFocus Corp. 64,900	428	• WebEx Communications, Inc. 14,100	311
• Internap Network Services Corp. 56,500	63	• Wireless Facilities, Inc. 13,800	237
• Interpublic Group of Cos., Inc. 23,400	348		<b>15,207</b>
• Ivillage, Inc. 25,800	76		
• JDA Software Group, Inc. 18,200	390	<b>Chemical 2.5%</b>	
• Keane, Inc. 46,600	612	• A. Schulman, Inc. 13,100	249
• ManTech International Corp. Class A 900	22	• Applied Extrusion Technologies, Inc. 57,500	143
• Mapics, Inc. 11,900	129	• Calgon Carbon Corp. 47,500	305
• Medical Staffing Network Holdings, Inc. 10,900	85	• Deswell Industries, Inc. 10,000	249
• Metasolv, Inc. 56,900	114	• Gundel Environmental Systems, Inc. 8,000	137
• Modem Media Poppe Tyson, Inc. 84,000	469	• H.B. Fuller Co. 6,200	154
• Netiq Corp. 18,800	228	• MacDermid, Inc. 10,000	299
• Netsolve, Inc. 15,200	123		

See financial notes. 41

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Olin Corp. 26,600	463	<b>Electronics 17.1%</b>	
• Peak International Ltd. 10,000	60	• Advanced Fibre Communications, Inc. 16,700	402
• Polyone Corp. 50,300	243	• Agere Systems, Inc., Class B 170,300	577
Quaker Chemical Corp. 8,300	220	• Alliant Techsystems, Inc. 6,200	321
Rohm & Haas Co. 5,000	196	• Anadigics, Inc. 14,600	74
Wellman, Inc. 22,100	182	• Andrew Corp. 16,200	212
	<b>2,900</b>	• Anixter International, Inc. 9,800	234
<b>Construction 5.2%</b>		• Applied Micro Circuits Corp. 29,500	172
D.R. Horton, Inc. 13,500	537	• Arris Group, Inc. 15,100	91
• EMCOR Group, Inc. 10,900	411	• Arrow Electronics, Inc. 17,000	363
• 4 Hovnanian Enterprises, Inc. 11,000	894	• Avnet, Inc. 13,000	252
KB Home 7,100	486	Belden, Inc. 7,600	143
• NCI Building Systems, Inc. 2,000	44	• Bell Industries, Inc. 50,000	135
• 7 Pulte Corp. 9,100	787	• Bell Microproducts, Inc. 45,000	380
Standard Pacific Corp. 7,600	364	Bonso Electronics International, Inc. 1,500	10
Texas Industries, Inc. 10,600	288	• Brooks Automation, Inc. 10,200	255
The Ryland Group, Inc. 4,400	391	C & D Technologies, Inc. 26,000	518
• Toll Brothers, Inc. 19,600	722	• C-COR.Net Corp. 24,900	251
• WCI Communities, Inc. 32,400	706	• Cable Design Technologies 26,100	252
• Westell Technologies, Inc., Class A 14,000	117	• California Micro Devices Corp. 26,700	226
• Wilsons, The Leather Experts, Inc. 24,800	230	• Captaris, Inc. 48,300	287
	<b>5,977</b>	• Celestica, Inc. 20,300	288
<b>Consumer Durables 2.1%</b>		Cohu, Inc. 3,400	68
Bassett Furniture Industries, Inc. 9,700	152	• Computer Network Technology 13,200	131
• Bush Industries, Inc., Class A 89,100	420	CTS Corp. 18,000	199
• Champion Enterprises, Inc. 56,000	398	• DSP Group, Inc. 14,100	337
• Furniture Brands International, Inc. 11,700	284	• Del Global Technologies Corp. 50,000	104
• Griffon Corp. 8,100	157	Ducommun, Inc. 5,000	94
• Interface, Inc. 24,600	136	• FSI International, Inc. 64,500	406
• Leggett & Platt, Inc. 11,500	240	• Gerber Scientific, Inc. 38,500	304
• Maytag Corp. 13,100	333	• Glenayre Technologies, Inc. 31,900	97
• Salton, Inc. 23,400	250	• Globespan, Inc. 56,700	349
• Water PIK Technologies, Inc. 2,800	31	• Harmonic Lightwaves, Inc. 24,600	191
	<b>2,401</b>	• Innovex, Inc. 13,200	149
<b>Containers 0.6%</b>		• Integrated Silicon Solution, Inc. 16,000	226
• Graphic Packaging Corp. 35,300	136	Keithley Instruments, Inc. 15,500	250
• Mobile Mini, Inc. 27,400	578	• Lecroy Corp. 15,000	255
	<b>714</b>	• LSI Logic Corp. 40,400	373
		• Macromedia, Inc. 8,500	162
		• Manufacturers Services Ltd. 59,500	366

## Schwab Small-Cap MarketMasters Fund™

See financial notes. 43

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Omnicare, Inc. 14,000	537	<b>Miscellaneous 0.3%</b>	
• Pharmaceutical Product Development, Inc. 20,000	601	◆ Pengrowth Energy Trust 14,100	185
• Pharmacopeia, Inc. 11,200	140	• 3Com Corp. 28,300	204
• Province Healthcare Co. 48,400	622		<b>389</b>
• Quest Diagnostic, Inc. 5,900	399	<b>Miscellaneous Finance 3.0%</b>	
• Quest Medical, Inc. 6,750	277	• Accredited Home Lenders Holding Co. 10,400	298
• SciClone Pharmaceuticals, Inc. 6,000	48	Countrywide Credit Industries, Inc. 2,700	284
• Transgenomic, Inc. 82,500	173	• eSpeed, Inc., Class A 5,700	155
• Tripos, Inc. 12,500	87	• Knight Trading Group, Inc. 39,600	548
• Wright Medical Group, Inc. 10,100	296	McGrath Rent Corp. 5,000	142
	<b>10,780</b>	⑧ MDC Holdings, Inc. 11,330	763
<b>Household Products 0.4%</b>		• Metris Cos., Inc. 22,000	104
• Estee Lauder Cos., Inc., Class A 5,500	205	• Portfolio Recovery Associates, Inc. 12,800	331
• Playtex Products, Inc. 32,900	198	Raymond James Financial, Inc. 6,500	265
	<b>403</b>	The Chicago Mercantile Exchange 9,100	618
<b>Insurance 0.7%</b>			<b>3,508</b>
• American Medical Security Corp. 8,400	192	<b>Non-Durables &amp; Entertainment 2.3%</b>	
Hooper Holmes, Inc. 86,650	451	• A.T. Cross Co. 38,900	239
Horace Mann Educators Corp. 15,000	199	• Centillum Communications, Inc. 16,400	88
	<b>842</b>	• Champs Entertainment, Inc. 16,000	126
<b>Media 2.4%</b>		Darden Restaurants, Inc. 14,500	304
• Carmike Cinemas, Inc. 6,400	205	IHOP Corp. 9,000	334
• Emmis Communications Corp. 14,100	313	• Jakks Pacific, Inc. 12,000	156
• Insight Communications Co., Inc. 22,000	213	Landry's Restaurants, Inc. 14,600	365
• Journal Communications, Inc., Class A 8,500	151	• Marvel Enterprises, Inc. 13,300	392
• Journal Register Co. 11,700	234	Movado Group, Inc. 3,000	72
McClatchy Co., Class A 4,000	259	Oneida Ltd. 20,000	95
Meredith Corp. 2,300	112	• Rubio's Restaurant, Inc. 9,100	46
• Metro Goldwyn Mayer, Inc. 19,035	304	Topps, Inc. 14,200	145
• Network Equipment Technologies, Inc. 34,900	365	Tupperware Corp. 15,700	236
Readers Digest Association, Inc. 18,300	269		<b>2,598</b>
• Regent Communications, Inc. 17,000	102	<b>Non-Ferrous Metals 1.3%</b>	
Valassis Communications, Inc. 9,400	243	• Brush Engineered Materials, Inc. 20,000	255
	<b>2,770</b>	• Century Aluminum Co. 33,500	551
		• Phelps Dodge Corp. 6,200	383
		• Titanium Metals Corp. 9,050	333
			<b>1,522</b>

**Schwab Small-Cap MarketMasters Fund™**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Oil: Domestic 4.8%</b>			
• Comstock Resources, Inc. 14,900	222	Lennox International, Inc. 12,100	200
• Core Laboratories N.V. 25,500	390	• Lone Star Technologies, Inc. 17,100	238
• Global Industry Ltd. 155,500	718	• Magnetek, Inc. 14,300	87
• Gulfmark Offshore, Inc. 14,400	201	• Material Sciences Corp. 2,800	26
• Nuevo Energy Co. 10,900	214	• Merix Corp. 15,300	272
• Patterson Energy, Inc. 15,700	449	• Metron Technology N.V. 15,100	65
• Pioneer Natural Resources Co. 14,700	389	• Modtech Holdings, Inc. 10,000	78
Pogo Producing Co. 8,600	360	• Norstan, Inc. 18,600	53
• Pride International, Inc. 34,300	562	• Oceaneering International, Inc. 30,700	708
• Quicksilver Resources, Inc. 2,200	56	⑨ Pall Corp. 31,950	748
Spinnaker Exploration Co. 28,200	722	Regal Beloit Corp. 15,000	305
• Transocean, Inc. 17,800	342	• Spectrum Control, Inc. 35,000	273
• Varco International, Inc. 15,100	266	Steelcase, Inc. 48,500	570
• W-H Energy Services, Inc. 14,600	229	TB Wood's Corp. 200	2
• Westport Resources Corp. 17,000	407	• Terex Corp. 2,600	59
	<b>5,527</b>	• The Fairchild Corp. Class A 8,300	41
		• The Shaw Group, Inc. 8,400	115
<b>Optical &amp; Photo 0.3%</b>		Timken Co. 22,500	377
• Lexar Media, Inc. 12,700	291	York International Corp. 8,600	342
• Zygo Corp. 6,200	93		<b>9,113</b>
	<b>384</b>	<b>Railroad &amp; Shipping 0.4%</b>	
<b>Paper &amp; Forest Products 0.3%</b>		• Omi Corp. 22,200	150
Longview Fibre Co. 20,300	218	• Sharper Image Corp. 1,300	37
• Lydall, Inc. 12,900	154	• Stelmar Shipping Ltd. 15,000	296
	<b>372</b>		<b>483</b>
<b>Producer Goods &amp; Manufacturing 7.9%</b>		<b>Retail 4.2%</b>	
⑤ Baldor Electric Co. 41,600	886	• Alloy Online, Inc. 30,600	137
• BE Aerospace, Inc. 14,400	81	• American Eagle Outfitters, Inc. 18,300	293
• Butler Manufacturing Co. 1,000	18	• Bombay Co., Inc. 1,200	16
Circor International, Inc. 15,000	309	Brown Group, Inc. 5,000	173
• Comfort Systems USA, Inc. 12,600	52	• Burlington Coat Factory Warehouse Corp. 15,000	322
Dover Corp. 7,000	273	• Casual Male Retail Group, Inc. 13,200	117
• DT Industries, Inc. 20,000	21	• Charlotte Russe Holding, Inc. 14,100	190
• ③ Flowserve Corp. 46,700	955	• Coldwater Creek, Inc. 22,500	278
• Gardner Denver, Inc. 7,300	151	Dillard Department Stores, Inc. 14,000	226
• GrafTech International Ltd. 14,800	154	• Gadzooks, Inc. 10,000	67
• GSI Lumonics, Inc. 26,600	290	• InterTan, Inc. 19,800	208
• Hexcel Corp. 24,900	170	J.C. Penny Co., Inc. 21,400	506
• ② Ionics, Inc. 34,700	989	• Linens 'n Things, Inc. 12,200	360
JLG Industries, Inc. 17,200	205	Longs Drug Stores Co. 19,000	426

See financial notes. 45

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Petco Animal Supplies, Inc. 5,300	176
• Saks, Inc. 30,000	417
Sea Containers Ltd., Class A 17,200	264
Shopko Stores, Inc. 8,700	135
Talbots, Inc. 9,500	312
• Wetseal, Inc., Class A 14,100	155
	<b>4,778</b>

**Steel 0.1%**

• Oregon Steel Mills, Inc. 26,400	<b>94</b>
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**Telephone 0.6%**

• Carrier Access Corp. 32,500	328
• General Communication, Inc. 18,800	185
• Globecom Systems, Inc. 4,600	19
Inter-Tel, Inc., Class A 4,000	101
• ITXC Corp. 18,000	62
	<b>695</b>

**Travel & Recreation 1.7%**

• Alliance Gaming Corp. 11,000	267
Carnival Corp. 7,400	258
• Dick's Sporting Goods, Inc. 4,500	207
• Orient Express Hotels Ltd. 17,800	312
• Rent Way, Inc. 23,200	139
• Starwood Hotel & Resorts Worldwide, Inc. 6,800	229
Station Casinos, Inc. 11,500	342
• Vail Resorts, Inc. 17,500	235
	<b>1,989</b>

**Trucking & Freight 0.7%**

Arkansas Best Corp. 10,800	357
• Covenant Transportation, Inc., Class A 10,000	191
• Yellow Freight Systems, Inc. 7,600	250
	<b>798</b>

**Utilities: Electric & Gas 0.3%**

Williams Cos., Inc. 35,000	<b>357</b>
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Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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**Short-Term Investments 0.1% of Net Assets****U.S. Government Securities 0.1%**

▲ U.S. Treasury Bills		
0.88%, 12/18/03	10	10
0.93%, 12/18/03	100	100
		<b>110</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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**Other Investments 4.2% of Net Assets****Other Investment Companies 4.2%**

▲ Provident Institutional Funds— TempFund 4,819,758	<b>4,820</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.



Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$114,760
Receivables:	
Fund shares sold	82
Dividends	31
Due from brokers for futures	1
Investments sold	830
Prepaid expenses	+ 7
<b>Total assets</b>	<b>115,711</b>

**Liabilities**

Payables:	
Fund shares redeemed	61
Investments bought	545
Investment adviser and administrator fees	7
Transfer agency and shareholder service fees	2
Accrued expenses	+ 49
<b>Total liabilities</b>	<b>664</b>

**Net Assets**

<b>Total assets</b>	115,711
<b>Total liabilities</b>	- 664
<b>Net assets</b>	<b>\$115,047</b>

**Net Assets by Source**

Capital received from investors	116,619
Net realized capital losses	(22,963)
Net unrealized capital gains	21,391

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$115,047		10,380		\$11.08

Unless stated, all numbers x 1,000.

The fund paid \$93,404 for these securities. Not counting short-term obligations and government securities, the fund paid \$81,741 for securities during the report period and received \$91,202 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had five open S&P 500 futures contracts due to expire on December 19, 2003, with an aggregate net contract value of \$1,312 and a net unrealized gain of \$35.

**Federal Tax Data**

<b>Portfolio cost</b>	\$94,209
<b>Net unrealized gains and losses:</b>	
Gains	\$24,205
Losses	+ (3,654)
	<b>\$20,551</b>

**Undistributed earnings:**

Ordinary income	\$—
Long-term capital gains	\$—

<b>Capital losses utilized</b>	\$3,062
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**Unused capital losses:**

Expires 10/31 of:	Loss amount:
2009	\$12,029
2010	+ 10,153
	<b>\$22,182</b>

**Reclassifications:**

Net investment income not yet distributed	\$886
Reclassified as:	
Capital received from investors	(\$886)

See financial notes. 47

## Schwab Small-Cap MarketMasters Fund™

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$515
Interest	+ 2
<b>Total investment income</b>	<b>517</b>

#### Net Realized Gains and Losses

Net realized gains on investments sold	2,908
Net realized gains on futures contracts	+ 62
<b>Net realized gains</b>	<b>2,970</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	38,968
Net unrealized losses on futures contracts	+ (24)
<b>Net unrealized gains</b>	<b>38,944</b>

#### Expenses

Investment adviser and administrator fees	1,177
Transfer agent and shareholder service fees	226
Trustees' fees	5
Custodian and portfolio accounting fees	115
Professional fees	31
Registration fees	14
Shareholder reports	47
Other expenses	+ 16
Total expenses	<u>1,631</u>
Expense reduction	+ (228)
<b>Net expenses</b>	<b><u>1,403</u></b>

#### Increase in Net Assets from Operations

Total investment income	517
Net expenses	<u>1,403</u>
Net investment loss	(886)
Net realized gains	2,970
Net unrealized gains	<u>+ 38,944</u>
Increase in net assets from operations	\$41,028

Unless stated, all numbers x 1,000.

An additional \$5 was withheld for foreign taxes.

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% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment advisor (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 1.55% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$41,914.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03		11/1/01–10/31/02	
Net investment income or loss		(\$886)		\$63
Net realized gains or losses		2,970		(9,332)
Net unrealized gains or losses	+	38,944		(7,786)
<b>Increase or decrease in net assets from operations</b>		<b>41,028</b>		<b>(17,055)</b>

**Distributions Paid**

Dividends from net investment income		3		332
Distributions from net realized gains	+	—		307
<b>Total distributions paid</b>		<b>\$3</b>		<b>\$639</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	1,528	\$14,258	1,228	\$11,362
Shares reinvested	0*	3	63	639
Shares redeemed	+	(2,500)	(2,698)	(24,170)
<b>Net transactions in fund shares</b>		<b>(972)</b>		<b>(12,169)</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	11,352	\$81,486	12,759	\$111,349
Total increase or decrease +	(972)	33,561	(1,407)	(29,863)
<b>End of period</b>	<b>10,380</b>	<b>\$115,047</b>	<b>11,352</b>	<b>\$81,486</b>

\*Amount was less than 500 shares.

Unless stated, all numbers x 1,000.

The tax-basis components of distributions are:

**Current period**

Ordinary income	\$3
Long-term capital gains	\$—

**Prior period**

Ordinary income	\$332
Long-term capital gains	\$307

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 \$— and \$3 at the end of the current and prior period, respectively.

# Schwab International MarketMasters Fund™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	8.74	10.80	15.53	14.84	10.58
Income or loss from investment operations:					
Net investment income	0.03	0.10	0.73	0.53	0.11
Net realized and unrealized gains or losses	3.18	(1.43)	(3.90)	2.49	4.28
Total income or loss from investment operations	3.21	(1.33)	(3.17)	3.02	4.39
Less distributions:					
Dividends from net investment income	(0.00) <sup>1</sup>	(0.07)	(0.77)	(0.49)	(0.13)
Distributions from net realized gains	–	(0.66)	(0.79)	(1.84)	–
Total distributions	–	(0.73)	(1.56)	(2.33)	(0.13)
Net asset value at end of period	11.95	8.74	10.80	15.53	14.84
Total return (%)	36.74	(13.65)	(22.41)	18.61	41.92
<b>Ratios/Supplemental Data (%)</b>					
Ratio to average net assets:					
Net operating expenses	1.65	0.93 <sup>2,3</sup>	0.50 <sup>3</sup>	0.50 <sup>3,4</sup>	0.50 <sup>3</sup>
Gross operating expenses	1.92	1.32 <sup>3</sup>	0.88 <sup>3</sup>	0.90 <sup>3</sup>	0.97 <sup>3</sup>
Net investment income	0.33	0.60	5.13	1.94	0.94
Portfolio turnover rate	99	158	51	80	249
Net assets, end of period (\$ x 1,000,000)	302	206	215	278	104

<sup>1</sup> Per-share amount was less than \$0.01.

<sup>2</sup> The ratio of net operating expenses would have been 0.99% if certain non-routine expenses (proxy fees) had been included.

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

<sup>4</sup> The ratio of net operating expenses would have been 0.51% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ◆ American Depositary Receipt
- ▲ Collateral for open futures contracts

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>93.1% Foreign Common Stock</b>	234,812	281,310
<b>0.2% Common Stock</b>	315	469
<b>0.2% Short-Term Investments</b>	510	510
<b>7.2% Other Investments</b>	21,761	21,761
<b>100.7% Total Investments</b>	<b>257,398</b>	<b>304,050</b>
<b>(0.7%) Other Assets and Liabilities, Net</b>		(2,061)
<b>100.0% Total Net Assets</b>		<b>301,989</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Foreign Common Stocks** 93.1% of Net Assets**Australia 2.5%**

AMP Ltd.	7,900	37
AMP Ltd. Rights	7,900	1
Commonwealth Bank of Australia	16,350	319
⑨ John Fairfax Holdings Ltd.	1,194,000	3,067
Jubilee Mines NL	386,653	1,164
Macquarie Bank Ltd.	42,800	1,058
Portman Ltd.	979,832	1,119
Sigma Co. Ltd.	33,400	159
Toll Holdings Ltd.	87,500	519
		<b>7,443</b>

**Security and Number of Shares**

Mkt. Value  
(\$ x 1,000)

**Austria 0.3%**

Erste Bank der Oesterreichischen Sparkassen AG	8,350	<b>923</b>
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**Belgium 0.3%**

Interbrew SA	34,600	<b>810</b>
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**Brazil 1.7%**

Banco Bradesco SA	26,624,000	112
Banco Itau SA Preferred	988,600	81
Companhia de Bebidas das Americas	2,370,000	507
Confecoos Guararapes SA	17,505	69
◆ Eregli Demir Ve Celik Fabrik	16,578,700	349
Gerdau SA	30,420	443
◆ Petroleo Brasileiro SA	6,800	160
Sadia SA	1,016,727	1,070
◆ Telemig Celular Participacoes ADR	33,224	1,058
◆ Telesp Celular Participacoes SA	51,900	296
Usiminas SA	142,766	1,142
		<b>5,287</b>

**Canada 2.8%**

Bennett Environmental, Inc.	56,080	1,050
Bombardier, Inc., Class B	24,300	109
• CanWest Global Communications Corp.	25,100	238
Cinram International, Inc.	49,850	1,039
• Cognos, Inc.	13,000	449
• Corus Entertainment, Inc.	17,300	354
Encana Corp.	21,400	735
• Hip Interactive Corp	110,104	326
Home Capital Group, Inc., Class B	21,089	465
• MacDonald, Dettwiler and Associates Ltd.	12,650	218
Manulife Financial Corp.	20,800	631
Petro Canada	15,700	633
Peyto Energy Trust	69,984	1,200
• Precision Drilling Corp.	7,700	303

See financial notes. 51

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Research in Motion Ltd. 11,600	513
• Shoppers Drug Mart Corp. 14,350	315
	<b>8,578</b>
<b>China 0.3%</b>	
Huaneng Power International, Inc. 600,400	<b>936</b>
<b>Czech Republic 0.2%</b>	
• Unipetrol A/S 220,470	<b>503</b>
<b>Denmark 0.9%</b>	
A P Moller - Maersk A/S 36	283
GN Store Nord A/S 155,069	1,006
Novo Nordisk A/S 9,900	356
• TopDanmark Development A/S 21,500	1,069
	<b>2,714</b>
<b>Estonia 0.1%</b>	
Hansabank Ltd. 7,900	<b>180</b>
<b>Finland 0.8%</b>	
Metso Oyj 171,100	1,918
Nokian Renkaat Oyj 4,900	366
	<b>2,284</b>
<b>France 7.9%</b>	
③ Aventis SA 59,700	3,161
Banque National de Paris 39,800	2,091
Bonduelle 2,900	230
Camaieu 4,502	340
Carrefour SA 16,290	855
• Christian Dior SA 22,000	1,226
• Dassault Systemes SA 14,700	624
Ipsos 12,548	1,059
• JC Decaux SA 47,200	695
Klepierre 6,800	363
M6 Metropole Television 7,000	199
• Michelin (C.G.D.E.), Class B 33,500	1,314
Mr. Bricolage SA 5,600	161
• Neopost SA 54,500	2,706
• Orpea 12,100	193
• Pernod-Ricard 18,375	1,773

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Publicis Groupe SA 72,000	2,252
Rhodia SA 46,310	234
Rodriguez Group 3,700	251
• Sanofi-Synthelabo SA 10,800	669
④ Vivendi Universal SA 171,100	3,594
	<b>23,990</b>

**Germany 8.6%**

Allianz AG 19,170	2,055
Altana AG 11,700	737
AWD Holding AG 39,408	1,100
• Bayerische Motoren-Werke AG 73,500	2,944
• DAB Bank AG 107,873	859
DaimlerChrysler AG 4,600	172
③ Deutsche Boerse AG 68,600	3,814
• Deutsche Telekom AG 53,400	841
Funkwerk AG 21,105	650
GfK AG 30,279	759
⑦ Henkel KGaA 45,800	3,188
Henkel KGaA - VORZUG 15,600	1,147
• Hypo Real Estate Holding AG 2,200	38
• Infineon Technologies AG 4,500	66
• Linde AG 18,900	867
Muenchener Rueckversicherungs-Gesellschaft AG 12,000	1,431
• Muenchener Rueckversicherungs-Gesellschaft AG Rights 12,000	99
Puma AG 3,180	464
• SAP AG 10,100	1,469
• SBS Broadcasting SA 30,164	855
• SGL Carbon AG 52,278	982
Stada Arzneimittel AG 7,250	376
United Internet AG 51,226	1,075
	<b>25,988</b>

**Greece 0.8%**

Coca-Cola Hellenic Bottling Co. SA 34,100	661
Folli-Follie SA 11,100	260
Germanos SA 47,075	1,018
◆ Stet Hellas Telecommunications SA 43,512	493
	<b>2,432</b>

Schwab International MarketMasters Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Hong Kong 2.9%</b>		<b>Israel 1.0%</b>	
Anhui Conch Cement Co. Ltd. 884,000	1,007	• M-Systems Flash Disk Pioneers Ltd. 52,104	1,032
Cheung Kong Holdings Ltd. 8,400	70	◆• Orbotech Ltd. 60,000	1,425
China Insurance International Holdings Co. Ltd. 260,000	174	◆ Teva Pharmaceutical Industries Ltd. 9,600	546
China Petroleum and Chemical Corp. (Sinopec) 604,000	200		<b>3,003</b>
Citic Pacific Ltd. 54,800	128		
CNOOC Ltd. 154,100	291	<b>Italy 1.7%</b>	
• Convenience Retail Asia Ltd. 670,000	198	Banco Popolare di Verona e Novara Scrl 118,000	1,824
Denway Motors Ltd. 400,000	330	• Mediolanum SPA 19,925	139
• Dongfang Electrical Machinery Co. Ltd. 2,325,000	764	Merloni Elettrodomestici SPA 24,900	420
Esprit Holdings Ltd. 175,000	550	Saeco International Group SPA 34,500	144
Giordano International Ltd. 3,070,000	1,384	• San Paolo IMI SPA 224,000	2,521
Hong Kong & China Gas Co. Ltd. 91,600	127	• Telecom Italia SPA 60,470	105
HSBC Holdings PLC 50,500	761		<b>5,153</b>
Li & Fung Ltd. 364,200	612		
• PICC Property and Casualty Co. 36,000	8	<b>Japan 16.2%</b>	
Swire Pacific Ltd. Series A 4,800	29	Acom Co. Ltd 200	9
Techtronic Industries Co. Ltd. 817,000	2,251	Asahi Breweries Ltd. 4,300	36
	<b>8,884</b>	Askul Corp. 6,800	358
		◆ Belluna Co. Ltd. 5,885	234
<b>Hungary 0.0%</b>		Calsonic Kansei Corp. 58,000	442
Magyar Tavkozlesi Rt (Matav) 8,900	32	Canon, Inc. 26,600	1,287
◆ Magyar Tavkozlesi Rt (Matav) SP 700	13	Cawachi Ltd. 3,400	241
	<b>45</b>	• Chiyoda Corp. 212,000	1,383
		Credit Saison Co. Ltd. 4,600	96
<b>India 0.5%</b>		• Cyber Agent Ltd. 122	254
◆ Doctor Reddy's Laboratories Ltd. 15,900	424	• Cyber Agent Ltd. W/I 122	233
◆ HDFC Bank Ltd. 6,500	168	Daiwa Securities Group, Inc. 257,000	1,880
◆ Infosys Technologies Ltd. 9,850	834	• E-System Corp. 309	469
	<b>1,426</b>	East Japan Railway Co. 65	294
		Fanuc Ltd. 15,000	902
<b>Indonesia 0.1%</b>		Fuji Television Network, Inc. 22	117
PT Unilever Indonesia Tbk 590,000	<b>224</b>	Geomatec Co. Ltd. 30,000	770
		Glory Ltd. 23,500	737
<b>Ireland 1.3%</b>		Goldcrest Co. Ltd. 26,200	1,192
Anglo Irish Bank Corp. PLC 60,900	731	Hino Motors Ltd. 80,300	459
Bank of Ireland 198,000	2,440	Honda Motor Co. Ltd. 34,500	1,362
Grafton Group PLC 30,100	187	Hoya Corp. 10,000	905
◆• Ryanair Holdings PLC 11,300	582	Index Corp. 110	739
	<b>3,940</b>	Japan Airlines System Corp. 46,000	132

See financial notes. 53

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Japan Aviation Electronics Industry, Ltd. 97,000	1,054	Sumitomo Trust and Banking Co. Ltd. 195,600	1,092
Japan Telecom Holdings Co. Ltd. 157	470	• Take and Give Needs Co. Ltd. 22	943
Japan Tobacco, Inc. 68	454	Takeda Chemical Industries Ltd. 73,000	2,583
Kappa Create Co. Ltd. 3,150	271	Tamron Co. Ltd. 34,000	1,902
• Kennedy-Wilson Japan 206	656	The Fuji Fire & Marine Insurance Co. Ltd. 16,300	42
Keyence Corp. 4,500	990	Tokyo Broadcasting System, Inc. 7,600	122
Koha Co. Ltd. 26,000	1,033	Tokyu Corp. 23,800	118
• Komatsu Electronic Metals Co. Ltd. 98,300	928	Uniden Corp. 60,000	1,141
Komeri Co. Ltd. 9,900	226	USS Co. Ltd. 4,290	305
• Makino Milling Machine Co. Ltd. 218,000	1,154	Yamanouchi Pharmaceutical Co. Ltd. 6,700	168
Meitec Corp. 63,100	2,256	Yamato Transport Co. Ltd. 12,400	165
Misumi Corp. 5,500	251		<b>48,887</b>
Nakanish, Inc. 3,000	155		
NEC Electronics Corp. 9,876	760	<b>Mexico 3.0%</b>	
Nikko Cordial Corp. 187,600	1,012	America Mobil SA de CV 345,100	410
Nintendo Co. Ltd. 6,100	471	• Consorcio ARA SA de CV 41,900	114
Nippon Broadcasting System, Inc. 1,200	51	• Corporacion Geo SA , Series B 225,379	1,210
Nippon Telegraph & Telephone Corp. 65	290	◆ Fomento Economico Mexicano SA de CV 44,400	1,586
Nippon Television Network Corp. 200	29	• Grupo Financiero BBVA Bancomer SA de CV 448,000	380
Nippon Thompson Co. Ltd. 174,000	1,159	Grupo Modelo SA de CV 149,900	377
Nissan Motor Co. Ltd. 108,700	1,218	◆ 5 Grupo Televisa SA de CV 85,800	3,325
Nitori Co. Ltd. 4,500	287	◆ Telefonos de Mexico SA 21,009	675
Nitto Denko Corp. 21,500	1,128	Wal-Mart de Mexico SA de CV, Series C 218,000	568
Nomura Holdings, Inc. 93,000	1,597	Wal-Mart de Mexico SA de CV, Series V 192,500	537
Okinawa Cellular Telephone Co. 53	344		<b>9,182</b>
Okura Industrial Co. Ltd. 81,000	715	<b>Netherlands 3.4%</b>	
Oracle Corp. Japan 10,600	622	AKZO Nobel N.V. 86,000	2,719
• Pasona, Inc. 133	955	• ASM Lithography Holding N.V. 50,500	877
Pioneer Corp. 22,000	548	• ASML Holding N.V. 5,300	93
Point , Inc. 1,200	28	Euronext N.V. 123,300	3,017
Promise Co. Ltd. 11,600	521	Fortis N.V. 67,920	1,207
Quin Land Co. Ltd. 4	48	• Qiagen N.V. 26,500	311
Round One Corp. 247	508	• Versatel Telecom International N.V. 701,964	1,616
• Round One Corp. W/I 247	528	Wolters Kluwer N.V. 30,700	431
Sankyo Aluminium Industry Co. Ltd. 319,000	1,181		<b>10,271</b>
Sawai Pharmaceutical Co. Ltd. 4,400	155		
Sharp Corp. 52,000	819		
SMC Corp. 7,500	903		



**Schwab International MarketMasters Fund™**

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Norway 0.8%</b>	
Ekornes ASA 39,242	655
Scibsted ASA 58,112	1,023
Tandberg Television ASA 96,114	361
Telenor ASA 61,000	332
	<b>2,371</b>
<b>Poland 0.2%</b>	
Bank Polska Kasa Opieki Grupa Pekao SA 15,600	446
Grupa Kety SA 10,708	316
	<b>762</b>
<b>Portugal 0.2%</b>	
Impresa Sociedade Gestora de Participacoes, SA 146,943	<b>606</b>
<b>Russia 0.5%</b>	
♦ Lukoil Holding Co. 4,600	372
♦ OAO Gazprom SP 500	12
♦ Uralsvyazinform 162,733	999
	<b>1,383</b>
<b>Singapore 2.5%</b>	
• Accord Customer Care Solutions Ltd. 2,667,000	996
Cosco Investments 2,963,600	1,064
DBS Group Holdings Ltd. 68,000	559
First Engineering Ltd. 2,342,800	1,184
Hyflux Ltd. 146,000	154
• Neptune Orient Lines Ltd. 774,900	988
Osim International Ltd. 244,000	149
Unisteel Technology Ltd. 265,000	201
United Overseas Bank Ltd. 238,000	1,859
Venture International 32,000	347
	<b>7,501</b>
<b>South Africa 0.3%</b>	
Edgars Consolidated Stores Ltd. 18,000	265
• MTN Group Ltd. 128,000	458
Nortel Healthcare Holdings Ltd. 383,600	245
	<b>968</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>South Korea 2.8%</b>	
• Kookmin Bank 11,100	405
Korea Electric Power Corp. 18,050	348
♦ KT Corp. 3,600	71
• Kumho Electric, Inc. 6,920	239
• Osung LST Co. Ltd. 101,942	926
POSCO 1,680	196
Samsung Electronics Co. 4,700	1,867
• Sekonix Co. Ltd. 29,240	689
SK Telecom Co. Ltd. 16,000	2,826
Sungshin Cement Co. Ltd. 46,890	1,022
	<b>8,589</b>
<b>Spain 1.2%</b>	
Antena 3 Television SA 192	6
Banco Popular Espanol SA 11,200	583
Grupo Ferrovial SA 10,400	297
Inditex SA 21,000	434
Prisa-Promotora de Informaciones SA 48,600	539
Prosegur Compania de Seguridad SA 13,600	221
• Repsol YPF 42,600	743
Telefonica SA 56,753	706
	<b>3,529</b>
<b>Sweden 1.2%</b>	
Atlas Copco AB, Series A 16,800	590
D. Carnegie & Co. AB 91,264	948
Ericsson Telefonab LM AB, Class B 692,800	1,190
♦ Ericsson Telefonab LM SP 12,000	205
Gunnebo AB 13,400	296
Lindex AB 11,934	349
Sandvik AB 3,200	95
	<b>3,673</b>
<b>Switzerland 7.7%</b>	
Actelion Holdings Ltd. 2,400	228
Adecco SA 18,300	1,079
Ciba Specialty Chemicals Holdings, Inc. 11,645	770
Clariant AG 49,170	692

See financial notes. 55

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Credit Suisse Group 78,900	2,780	Land and House Public Co. Ltd. 936,000	317
Givaudan AG 6,000	2,705	• Tisco Financial Public Co. Ltd. 225,300	188
Julius Baer Holding AG, Class B 1,490	483		<b>907</b>
• Logitech International SA 9,250	371	<b>Turkey 0.2%</b>	
Lonza Group AG 5,000	245	◆ Dogan Yayin Holding A/S 98,293,403	274
• Micronas Semiconductor Holding AG 4,200	175	Enka Insaat ve Sanayi A/S 6,883,000	241
② Nestle SA 19,207	4,229		<b>515</b>
Novartis AG 62,910	2,398	<b>United Kingdom 15.6%</b>	
Roche Holding AG Genusschein 7,700	637	3I Group PLC 47,500	500
Schweizerische Rueckversicherung 4,000	252	• Acambis PLC 53,500	326
Serono SA, Class B 721	498	Aegis Group PLC 1,090,000	1,845
• SEZ Holding AG 37,124	1,223	Associated British Ports Holdings PLC 303,500	2,189
Swatch Group AG 15,700	1,672	BAE Systems PLC 242,700	754
United Bank of Switzerland AG 45,025	2,765	BG Group PLC 345,200	1,574
	<b>23,202</b>	BHP Billiton PLC 162,000	1,272
<b>Taiwan 2.3%</b>		Bloomsbury Publishing PLC 106,540	474
Career Technology (MFG.) Co. Ltd. 570,000	772	British Sky Broadcasting Group PLC 192,547	2,091
◆ Chunghwa Telecom Co. Ltd. 24,800	384	Cadbury Schweppes PLC 357,500	2,292
• Eva Airways Corp. 924,015	392	• Cambridge Antibody Tech Group PLC 21,500	194
• Flexium Interconnect, Inc. 262,000	285	Capital Group PLC 113,800	477
Hon Hai Precision Industry Co. Ltd. 138,000	617	Carlton Communications PLC 94,300	346
King Yuan Electronics Co. Ltd. 413,000	371	Cattles PLC 59,500	322
Largan Precision Co. Ltd. 82,000	876	Compass Group PLC 249,600	1,439
MediaTek, Inc. 44,000	453	① Diageo PLC 382,500	4,498
Novatek Microelectronics Corp. Ltd. 197,000	620	• Enodis PLC 1,515,000	1,967
Optimax Technology Corp. 212,000	593	Enterprise Inns PLC 19,200	275
• Powertech Technology, Inc. 149,000	219	French Connection Group PLC 24,565	822
Premier Image Technology Corp. 264,000	435	Galen Holdings PLC 23,800	304
Quanta Computer, Inc. 26,400	72	⑥ GlaxoSmithKline PLC 152,400	3,264
◆ Taiwan Semiconductor Manufacturing Co. Ltd. 436,000	860	Granada PLC 497,400	990
	<b>6,949</b>	HBOS PLC 86,700	1,008
<b>Thailand 0.3%</b>		Imperial Chemical Industries PLC 311,060	1,023
Aeon Thana Sinsap (Thailand) Public Co. Ltd. 46,500	230	Kesa Electricals PLC 60,560	251
• Bangkok Bank Public Co. Ltd. 80,000	172	Kingfisher PLC 169,963	815
		Lloyds TSB Group PLC 137,920	958
		Man Group PLC 30,200	742

## Schwab International MarketMasters Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
MFI Furniture Group PLC 102,700	283
⑩ Michael Page Group PLC 971,400	3,033
Next PLC 22,900	458
• Orascom Telecommunications 9,000	44
Reckitt Benkiser PLC 47,697	1,004
Reed Elsevier PLC 238,000	1,850
Reuters Holdings Group PLC 20,400	89
RTL Group SA 4,060	226
Signet Group PLC 1,060,000	1,862
Standard Chartered PLC 92,700	1,483
Tesco PLC 580,100	2,326
Topps Tiles PLC 22,485	178
Vodafone Group PLC 25,000	52
• Wolfson Microelectronics PLC 63,151	254
	<b>47,272</b>

### Common Stock 0.2% of Net Assets

#### United States 0.2%

• Golden Telecom, Inc. 18,100	<b>469</b>
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Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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### Short-Term Investments 0.2% of Net Assets

#### U.S. Government Securities 0.2%

▲ U.S. Treasury Bills		
0.82%, 12/18/03	10	10
0.84%, 12/18/03	20	20
0.85%, 12/18/03	50	50
0.86%, 12/18/03	20	20
0.87%, 12/18/03	110	110
0.88%, 12/18/03	30	30
0.92%, 12/18/03	60	60
0.93%, 12/18/03	210	210
		<b>510</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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### Other Investments 7.2% of Net Assets

#### Other Investment Companies 6.9%

Provident Institutional Funds– TempCash 5,948,170	5,948
▲ Provident Institutional Funds– TempFund 14,989,116	14,989
	<b>20,937</b>

#### Other 0.3%

PNC Bank – Money Market Account 824,000	<b>824</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

In addition to the above, the fund held the following at 10/31/03. 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)
11/03/2003	U.S. Dollars	24	Australian Dollars	34	—
11/03/2003	Norway Krone	2,507	U.S. Dollars	358	(3)
11/03/2003	Canadian Dollars	86	U.S. Dollars	66	—
11/03/2003	Mexican Pesos	1,791	U.S. Dollars	162	—
11/03/2003	Swiss Francs	123	U.S. Dollars	93	—
11/03/2003	U.S. Dollars	391	European Euro	336	—
11/03/2003	U.S. Dollars	114	British Pounds	67	—
11/03/2003	Sweden Krona	3,147	U.S. Dollars	410	(7)
11/03/2003	European Euro	19	U.S. Dollars	22	—
11/03/2003	Singapore Dollars	271	U.S. Dollars	156	—
11/04/2003	Singapore Dollars	463	U.S. Dollars	267	1
11/04/2003	Swiss Francs	124	U.S. Dollars	93	—
11/04/2003	Canadian Dollars	80	U.S. Dollars	61	—
11/04/2003	Japanese Yen	43,361	U.S. Dollars	401	5
11/04/2003	U.S. Dollars	52	Swiss Francs	70	—
11/04/2003	U.S. Dollars	52	European Euro	46	—
11/04/2003	U.S. Dollars	82	British Pounds	48	—
11/04/2003	U.S. Dollars	88	Czech Koruna	2,409	—
11/05/2003	Australian Dollars	137	U.S. Dollars	96	(1)
11/05/2003	U.S. Dollars	31	Czech Koruna	857	—
11/05/2003	U.S. Dollars	43	Australian Dollars	62	(1)
11/05/2003	Japanese Yen	39,392	U.S. Dollars	363	4
11/05/2003	Swiss Francs	6	U.S. Dollars	5	—
11/05/2003	U.S. Dollars	54	European Euro	47	—
11/05/2003	U.S. Dollars	104	British Pounds	61	—
11/05/2003	U.S. Dollars	52	Poland Zloty	209	—
11/05/2003	Sweden Krona	69	U.S. Dollars	9	—
11/06/2003	Japanese Yen	11,656	U.S. Dollars	107	(1)
11/06/2003	U.S. Dollars	8	Japanese Yen	875	—
					(3)

Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$304,050
Foreign currency	325
Cash	267
Receivables:	
Fund shares sold	851
Dividends	381
Foreign tax reclaims	145
Investments sold	3,434
Due from brokers for futures	7
Unrealized appreciation on foreign currency contracts	10
Prepaid expenses	+ 11
<b>Total assets</b>	<b>309,481</b>

**Liabilities**

Payables:	
Fund shares redeemed	93
Investments bought	7,292
Investment adviser and administrator fees	16
Transfer agency and shareholder service fees	4
Unrealized depreciation on foreign currency contracts	13
Accrued expenses	+ 74
<b>Total liabilities</b>	<b>7,492</b>

**Net Assets**

<b>Total assets</b>	309,481
<b>Total liabilities</b>	- 7,492
<b>Net assets</b>	<b>\$301,989</b>

**Net Assets by Source**

Capital received from investors	354,469
Net investment income not yet distributed	493
Net realized capital losses	(99,813)
Net unrealized capital gains	46,840

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$301,989		25,276		\$11.95

Unless stated, all numbers x 1,000

The fund paid \$257,398 for these securities. Not counting short-term obligations and government securities, the fund paid \$227,042 for securities during the report period and received \$214,477 from securities it sold or that matured.

The fund paid \$325 for these currencies.

These derive from investments, foreign currency transactions and futures. As of the report date, the fund has twenty-eight open S&P 500 futures contracts due to expire on December 19, 2003, with an aggregate net contract value of \$7,347 and a net unrealized gain of \$143.

**Federal Tax Data**

<b>Portfolio cost</b>	\$260,151
<b>Net unrealized gains and losses:</b>	
Gains	\$49,615
Losses	+ (5,716)
	<b>\$43,899</b>

**Undistributed earnings:**

Ordinary income	\$1,008
Long-term capital gains	\$-

**Unused capital losses:**

Expires 10/31 of:	Loss amount:
2009	\$40,326
2010	53,351
2011	+ 3,747
	<b>\$97,424</b>

**Reclassifications:**

Net investment income not yet distributed	(243)
Reclassified as:	
Net realized capital gains	\$243

See financial notes. 59

## Schwab International MarketMasters Fund™

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$4,449
Interest	+ 4
<b>Total investment income</b>	<b>4,453</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	(6,348)
Net realized losses on foreign currency transactions	(448)
Net realized gains on futures sold	+ 715
<b>Net realized losses</b>	<b>(6,081)</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	80,131
Net unrealized gains on foreign currency transactions	40
Net unrealized gains on futures contracts	+ 158
<b>Net unrealized gains</b>	<b>80,329</b>

#### Expenses

Investment adviser and administrator fees	3,147
Transfer agent and shareholder service fees	562
Trustees' fees	6
Custodian and portfolio accounting fees	424
Professional fees	40
Registration fees	21
Shareholder reports	72
Other expenses	<div><div>+</div><div>37</div></div>
Total expenses	<div><div>4,309</div></div>
Expense reduction	<div><div>+</div><div>(596)</div></div>
<b>Net expenses</b>	<div><div><div>3,713</div></div></div>

#### Increase in Net Assets from Operations

Total investment income	4,453
Net expenses	— 3,713
Net investment income	<u>740</u>
Net realized losses	(6,081)
Net unrealized gains	+ 80,329
Increase in net assets from operations	<u>\$74,988</u>

Unless stated, all numbers x 1,000

An additional \$570 was withheld for foreign taxes.

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% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment advisor (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 1.65% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$74,248.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$740	\$1,366
Net realized losses	(6,081)	(53,129)
Net unrealized gains	+ 80,329	18,541
<b>Increase or decrease in net assets from operations</b>	<b>74,988</b>	<b>(33,222)</b>

**Distributions Paid**

Dividends from net investment income	14	1,423
Distributions from net realized gains	+ —	13,081
<b>Total distributions paid</b>	<b>\$14</b>	<b>\$14,504</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	6,539	\$66,048	7,580	\$77,749
Shares reinvested	2	13	1,338	14,503
Shares redeemed	+ (4,801)	(44,770)	(5,309)	(53,981)
<b>Net transactions in fund shares</b>	<b>1,740</b>	<b>\$21,291</b>	<b>3,609</b>	<b>\$38,271</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	23,536	\$205,724	19,927	\$215,179
Total increase or decrease +	1,740	96,265	3,609	(9,455)
<b>End of period</b>	<b>25,276</b>	<b>\$301,989</b>	<b>23,536</b>	<b>\$205,724</b>

Unless stated, all numbers x 1,000

The tax-basis components of distributions are:

<b>Current period</b>	
Ordinary income	\$14
Long-term capital gains	\$—
<b>Prior period</b>	
Ordinary income	\$1,423
Long-term capital gains	\$13,081

The fund charges 1.50% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	\$52
<b>Prior period</b>	\$61

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 \$493 and \$10 at the end of the current and prior period, respectively.

## Financial Notes

### Business Structure of the Funds

Each of the funds discussed in this report is a series of Schwab 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 current names and multi-manager strategy began on June 3, 2002.

#### 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 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™  
 Schwab U.S. MarketMasters Fund™  
 Schwab Balanced MarketMasters Fund™  
 Schwab Small-Cap MarketMasters Fund™  
 Schwab International MarketMasters Fund™  
 Schwab Core Equity Fund™  
 Schwab Dividend Equity Fund™  
 Schwab Small-Cap Equity Fund™  
 Schwab Hedged Equity Fund™  
 Communications Focus Fund  
 Financial Services Focus Fund  
 Health Care Focus Fund  
 Technology Focus Fund  
 Institutional Select S&P 500 Fund  
 Institutional Select Large-Cap Value Index Fund  
 Institutional Select Small-Cap Value Index Fund

**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 investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

**The funds 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.

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 Schwab Balanced MarketMasters Fund™ and Schwab International MarketMasters Fund™ invest in forward currency contracts in connection with the purchase and sale of portfolio securities to minimize the uncertainty of changes in future exchange rates.** “Forwards,” as they are known, are contracts to buy and sell a currency at a set price on a future date. Similar to futures, forwards are agreements directly between two parties, however forwards are not publicly traded.

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

**The funds may enter into repurchase agreements.**

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

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

**The funds may enter into swap agreements.** In these transactions, a fund and a counterparty agree to swap payments that are based on two different rates. The counterparty is typically a large financial institution, and the terms of the swap are specified in advance. For example, a fund may agree that for six months it will pay the counterparty the equivalent of the interest on a given amount invested at LIBOR (the London Interbank Offered Rate). In exchange, the counterparty might agree to pay a fund the equivalent of the same amount invested in a certain bond index during this same six month period.

Swap agreements carry certain risks. Because the net gains or losses stemming from a swap agreement depend on the movements of one rate relative to another, a fund could experience unanticipated losses if one or both rates failed to behave as expected. A fund also could lose money if a counterparty failed to honor the terms of a swap agreement.

The Credit Swap or “Credit Default Swap” is a bilateral financial contract in which one counterparty (the Protection Buyer) pays a periodic fee, typically expressed in basis points on the notional amount, in return for a Contingent Payment by the Protection Seller following a Credit Event of a Reference Entity. The definitions of a Credit Event and the settlement mechanism used to determine the Contingent

Payment are flexible and determined by negotiation between the counterparties at the inception of the transaction.

**The funds are authorized to write and purchase put and call options.** The risk in writing a call option is that a fund gives up the opportunity for profit if the market price of the security increases. The risk in writing a put option is that the funds may incur a loss if the market price of the security decreases and the option is exercised. The risk in purchasing an option is that a fund pays a premium whether or not the option is exercised. The funds also have the additional risk of being unable to enter into a closing transaction at an acceptable price if a liquid secondary market does not exist.

**The funds may enter into “TBA” (to be announced) purchase commitments to purchase securities for a fixed price at a future date, typically not exceeding 45 days.** TBAs may be considered securities in themselves, and involve a risk of loss if the value of the security to be purchased declines prior to settlement date. This risk is in addition to the risk of decline in a fund’s other assets.

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

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

The adviser is responsible for compensating each fund’s investment managers.

**The funds may engage in certain transactions involving affiliates.** Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the SchwabFunds®. 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 SchwabFunds®.

**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 trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

Fund	Amount Outstanding at 10/31/03 (\$ × 1,000)	Average Borrowing* (\$ × 1,000)	Weighted Average Interest Rate* (%)
<b>Schwab U.S. MarketMasters Fund™</b>	—	79	1.66
<b>Schwab Balanced MarketMasters Fund™</b>	—	284	1.63
<b>Schwab Small-Cap MarketMasters Fund™</b>	—	293	1.41
<b>Schwab International MarketMasters Fund™</b>	—	235	1.60

\* 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, 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 for which no quoted value is readily available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the funds' Board of Trustees.
- **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:** each open contract is valued at fair value using guidelines adopted by the funds' Board of Trustees, using a formula that varies with the specific terms of the agreement.
- **Options:** open contracts are valued at their last quoted sale price or in the case of swaptions (options on swaps) at fair value, that varies with the specific terms of the underlying swap agreement.
- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

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

**If a fund sells securities short,** it records the proceeds received as an asset and the obligation to buy back the securities as a liability. At the time a short sale is initiated, the asset and the liability are of equal value and effectively cancel each other out. Subsequently, the fund values the liability side of the transaction according to the market price of the securities sold short, and values the asset side according to the value of the proceeds. When the fund closes out a short position (buys the security), it records the outcome as a realized gain or loss. Interest accrued or dividends paid on securities sold short are recorded as an expense on the fund's records.

**Options** purchased are recorded as assets and written options are recorded as liabilities to the extent of premiums paid or received. Each fund will realize a gain or loss when the option transaction expires or closes. When an option is exercised, the proceeds on sales for a written call option, the purchase cost for a written put option or the cost of a security for a purchased put or call option is adjusted by the amount of the premium received or paid.

**Swap** premiums paid are recorded as assets and premiums received are recorded as liabilities.

**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 bought 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.

**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 auditors*

**To the Board of Trustees and Shareholders of:**

Schwab U.S. MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab 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 Schwab U.S. MarketMasters Fund™, Schwab Balanced MarketMasters Fund™, Schwab Small-Cap MarketMasters Fund™ and Schwab International MarketMasters Fund™ (four of the portfolios constituting Schwab Capital Trust) (hereafter collectively referred to as the “funds”) at October 31, 2003, and the results of each of their operations for the period then ended, 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 auditing standards generally accepted in the United States of America, which 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, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, CA

December 12, 2003

## Fund Trustees

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 SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

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

Each of the SchwabFunds (of which there were 49 as of 10/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

### Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03</i> : Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03</i> : Co-Chair, The Charles Schwab Corporation. <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01</i> : Director, The Charles Schwab Trust Company. <i>Until 1/99</i> : Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

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

<sup>2</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Schwab MarketMasters Funds™

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

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Dawn G. Lepore</b> <sup>1</sup> 3/21/54	Trustee:2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
<b>Jeffrey M. Lyons</b> <sup>1</sup> 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

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

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
<b>Tai-Chin Tung</b> 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
<b>Stephen B. Ward</b> 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

<sup>1</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

Schwab MarketMasters Funds™

Individuals Who Are Independent Trustees		
Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Non-Executive Chairman, Soletron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Networks (telecommunications); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).



## Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

**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."

**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.

## Notes

## Contact Schwab

SchwabFunds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies.

Actively managed funds include multi-manager stock funds, a fund that uses long-short strategies, and a range of taxable and tax-free bond funds. Index funds include large-cap, small-cap and international stock funds. The list at right shows all currently available SchwabFunds.

Whether you're an experienced investor or just starting out, SchwabFunds can help you achieve your financial goals. Please call 1-800-435-4000 for a free prospectus and brochure for any SchwabFund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

### Methods for Placing Orders

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

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

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

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

Automated touch-tone phone service at **1-800-272-4922**.

#### Mail

Write to SchwabFunds 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.

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

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

## The SchwabFunds Family®

### Stock Funds

Schwab S&P 500 Fund

Schwab 1000 Fund®

Schwab Small-Cap Index Fund®

Schwab Total Stock Market Index Fund®

Schwab International Index Fund®

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Schwab Focus Funds

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

Schwab MarketMasters Funds™

Schwab U.S. MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

### Asset Allocation Funds

Schwab MarketTrack Portfolios®

Schwab MarketTrack All Equity Portfolio™

Schwab MarketTrack Growth Portfolio™

Schwab MarketTrack Balanced Portfolio™

Schwab MarketTrack Conservative Portfolio™

### Bond Funds

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund™

Schwab Total Bond Market Fund™

Schwab GNMA Fund™

Schwab Short/Intermediate Tax-Free Bond Fund™

Schwab Long-Term Tax-Free Bond Fund™

Schwab California Short/Intermediate  
Tax-Free Bond Fund™

Schwab California Long-Term Tax-Free Bond Fund™

### Schwab Money Funds

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

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



**Investment Adviser**

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

**Distributor**

SchwabFunds®  
P.O. Box 3812, Englewood, CO 80155-3812

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# *Schwab MarketTrack Portfolios*<sup>®</sup>

## **Annual Report**

October 31, 2003

Schwab MarketTrack  
All Equity Portfolio<sup>™</sup>

Schwab MarketTrack  
Growth Portfolio<sup>™</sup>

Schwab MarketTrack  
Balanced Portfolio<sup>™</sup>

Schwab MarketTrack  
Conservative Portfolio<sup>™</sup>

*charles* **SCHWAB**

*Four portfolios that combine the power of indexing  
with the benefits of asset allocation.*

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### Management's Discussion . . . . . 2

The president of SchwabFunds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

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### Schwab MarketTrack All Equity Portfolio™

Ticker Symbol: **SWEGX**

The portfolio seeks high capital growth through an all-stock portfolio.

Performance and Fund Facts . . . . . 6

Financial Statements . . . . . 14

### Schwab MarketTrack Growth Portfolio™

Ticker Symbol: **SWHGX**

The portfolio seeks high capital growth with less volatility than an all-stock portfolio.

Performance and Fund Facts . . . . . 8

Financial Statements . . . . . 19

### Schwab MarketTrack Balanced Portfolio™

Ticker Symbol: **SWBGX**

The portfolio seeks both capital growth and income.

Performance and Fund Facts . . . . . 10

Financial Statements . . . . . 31

### Schwab MarketTrack Conservative Portfolio™

Ticker Symbol: **SWCGX**

The portfolio seeks income and more growth potential than an all-bond portfolio.

Performance and Fund Facts . . . . . 12

Financial Statements . . . . . 43

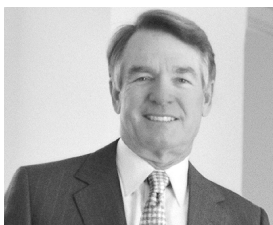
### Financial Notes . . . . . 55

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

## *From the Chairman*



**Charles R. Schwab**, Chairman

In the past few months, the mutual fund industry has been rocked by the discovery of improper practices and arrangements. Investors large and small have seen their confidence shaken, and understandably so.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. Many firms, including our own, have begun thorough investigations of their broker processes and procedures. We are continuing to scrutinize such transactions and arrangements, and are working closely with regulatory authorities. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management (“CSIM”), the investment advisor who manages the SchwabFunds®.

I fully believe that even a small number of irregularities is unacceptable. We have spent nearly 30 years building an ethical firm, and our business is founded on a commitment to doing what’s right for investors. That commitment leaves no room for any failures to follow company policies or industry regulations.

Given the importance of mutual funds to American investors, I can understand why investors find the recent news to be disturbing. At the same time, I would caution investors not to overreact. Before taking any action, investors should consider implications to their portfolio, tax situation and long-term financial goals.

Ultimately, mutual funds still offer all the features that have made them so popular—diversification, liquidity, convenience, low investment minimums, and professional management. For individual investors especially, mutual funds continue to be one of the most cost-effective investment vehicles available. To date, millions of Americans have relied on mutual funds as an important way to invest for retirement, their children’s education, and other financial goals. We see no reason why mutual funds cannot continue to do the same for millions more Americans in the years to come.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

## Management's Discussion

for the year ended October 31, 2003



**Randall W. Merk** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear SchwabFunds® Shareholders:

By now, many of you have read the significant media coverage regarding the mutual fund industry. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. CSIM, which is a separate Charles Schwab subsidiary, has been conducting its own review of the SchwabFunds policies and procedures regarding market timing and late trading. We have examined over two years of activity by CSIM personnel and have not found the types of improper market timing or late trading arrangements that you have been reading about. Our research is still ongoing, so some of these facts may change. Here are our key findings to date:

- **The Integrity of our Staff:** We have not found any indication that any CSIM employees, including portfolio managers and senior managers, have engaged in improper or inappropriate trading for their own account.
- **Market Timing & Late Trading:** We have not found any special arrangements with any shareholders to permit market timing or trading of SchwabFunds after market close.
- **Hedge Funds:** We have not found any special arrangements with hedge funds or other private investment vehicles that would permit them to trade in a way that was inconsistent with a fund's policies and procedures.

As part of the recent mutual fund investigations, requests for information were sent by the SEC to about 90 of the largest mutual fund companies. As the nation's 11th largest fund family with over \$140 billion under management, SchwabFunds also received a request from the SEC. We take these requests very seriously and are working closely with the regulators on this matter.

Charles Schwab founded his firm 30 years ago with a vision to create the most useful and ethical financial services firm in the world. We live by that philosophy every day and nothing means more to our business than the trust of our shareholders.

Your investment in SchwabFunds is an indication of the trust you place in us. As the managers of your money, we have a special obligation to live up to that trust. I want to thank you for investing with us, and want to assure you that we strive relentlessly to operate our business with the highest ethical standards and an unwavering commitment to serve you, our SchwabFunds shareholders.

Sincerely,







**Geri Hom**, a vice president and senior portfolio manager of the investment adviser, is responsible for the day-to-day management of the equity portions of the Schwab MarketTrack Portfolios®. Prior to joining the firm in 1995, she worked for nearly 15 years in equity management.

**Kimon Daifotis, CFA**, a vice president and senior portfolio manager of the investment adviser, is responsible for the day-to-day management of the bond and cash portions of the Schwab MarketTrack Portfolios. Prior to joining the firm in 1997, he worked for more than 18 years in research and asset management.

## The Economy and the Market

**The economy continued to gather strength during the report period, but improvement remained sluggish and uneven.** Although numerous factors had been indicating that the U.S. economy was in recovery when the report period began, many remained concerned about the slow pace of improvement, in particular the absence of job growth. However, the government reported an 8.2% increase in GDP for the third quarter of 2003, job growth for October 2003 was the largest since January 2003, and merger activity picked up—indications that the economy may have gained real strength during the report period.

**Government policies were strongly aimed at stimulating the economy.** The Federal Reserve (the Fed) cut short-term interest rates twice during the period—0.50% in November 2002 and 0.25% in June 2003—bringing the Fed funds target rate to a 45-year low of 1.00%. On the fiscal side, stimulus measures included tax cuts.

Consumer spending held up strongly throughout the economic downturn, bolstered in part by unprecedented activity in mortgage refinancing (as individuals took advantage of the opportunity to refinance at historically low rates). During the period, we also saw business capital spending show signs of life after declining for the past few years.

**Stock prices rose significantly over the period, even as skepticism lingered about the quality of the rally.** After more than two years of generally negative performance, U.S. equity markets reached an apparent bottom during the report period, then rose strongly, ending the period with significant gains. During the report period, the Nasdaq Composite Index rose 46%, while the S&P 500® Index rose nearly 21%.

One striking feature of the overall U.S. stock market during the report period is that stocks with more speculative characteristics tended to perform better than stocks with more demonstrable quality. For example, companies with low earnings or dividends generally outperformed companies with higher earnings or dividends. This held true for other measures of quality as well, such as debt to equity: those with higher levels of debt performed better than companies with lower levels of debt. Consistent with this trend, small-cap stocks (which tend to be more

*Even the worst-performing sectors in the economy posted a positive return, with formerly hard-hit sectors such as information technology leading the rebound.*

speculative) performed well during the period, and microcap stocks performed even better. Large-cap stocks lagged both groups, but still performed well.

Many market observers have asked why lower quality securities outperformed higher quality and whether it could continue. There are many possible answers, but we believe the more important point is that in the long run, quality has been shown to be a superior indicator of performance.

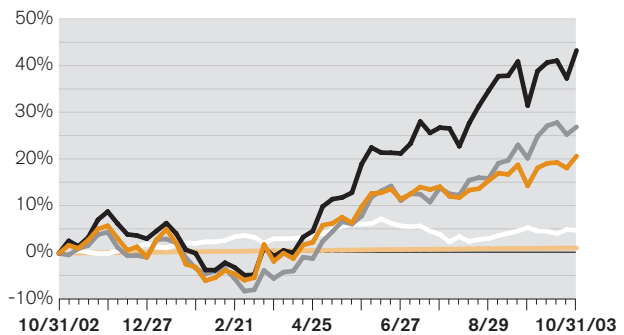
**Despite the dividend tax cut, dividend stocks underperformed the overall market during the period.** Congress passed the tax cut during the period as part of the government's economic stimulus efforts. The cut reduced the double taxation of corporate dividends, thus lowering the cost of capital and encouraging investment. Since companies that pay dividends are generally more established and less speculative, we see the underperformance of these stocks as being part of the larger market trend mentioned earlier.

**U.S. investors saw gains overseas, helped by currency trends.** Most foreign markets showed positive total returns for the period, and these returns were augmented by the fact that the United States dollar fell versus most major foreign currencies.

#### 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.

- 20.80% **S&P 500® Index:** measures U.S. large-cap stocks
- 43.37% **Russell 2000® Index:** measures U.S. small-cap stocks
- 27.03% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 4.91% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 1.15% **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 can't invest in them directly. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

## Performance at a Glance

Total return for the 12 months ended  
10/31/03

**Schwab MarketTrack  
All Equity Portfolio™** . . . . . **25.77%**  
Benchmark . . . . . **25.42%**

*Performance Details . . . . . page 6*

**Schwab MarketTrack  
Growth Portfolio™** . . . . . **21.18%**  
Benchmark . . . . . **21.26%**

*Performance Details . . . . . page 8*

**Schwab MarketTrack  
Balanced Portfolio™** . . . . . **17.12%**  
Benchmark . . . . . **17.31%**

*Performance Details . . . . . page 10*

**Schwab MarketTrack  
Conservative Portfolio™** . . . . . **12.98%**  
Benchmark . . . . . **13.45%**

*Performance Details . . . . . page 12*

## The Portfolios

All of the portfolios posted double-digit total returns for the report period. October 2003, the last month of the period, was an especially strong month for the broad U.S. stock market, and marked the seventh positive month of the last eight.

The S&P 500® Index closed above 1050 for the first time since May of 2002. Third-quarter earnings were 5% above consensus estimates for the 79% of the companies in the index that had reported their third-quarter earnings by the time this report was written. Telecom services, the weakest sector in the S&P 500, was up 3%. Information technology, which had been especially hard-hit in recent years, led all sectors in the S&P 500 during the period with a notable 41% total return.

Bonds were up modestly for the report period; the Lehman Aggregate Bond Index had a total return of nearly 5%. After trending down, interest rates spiked up sharply in June 2003, pushing down bond prices.

Of the four portfolios, it was the **Schwab MarketTrack All Equity Portfolio** that had the highest total return for the period. The fund's exposure to small-cap and international stocks, and its lack of exposure to the bond market, helped it outperform the S&P 500.

Exposure to small-cap and international stocks also contributed positively to the performance of the **Schwab MarketTrack Growth Portfolio**, helping it post a total return similar to that of the S&P 500 even though it had some bond market exposure.

Increasingly larger exposure to bonds meant progressively lower total returns for the **Schwab MarketTrack Balanced Portfolio** and the **Schwab MarketTrack Conservative Portfolio**. However, these portfolios did experience less volatility than either of the other two portfolios.

Past performance does not indicate future results.

Expenses may be partially absorbed by CSIM and Schwab. Without these reductions, the portfolios' total return 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.

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. Each portfolio's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. For more current performance information visit [www.schwab.com](http://www.schwab.com) or call 1-800-435-4000.

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

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

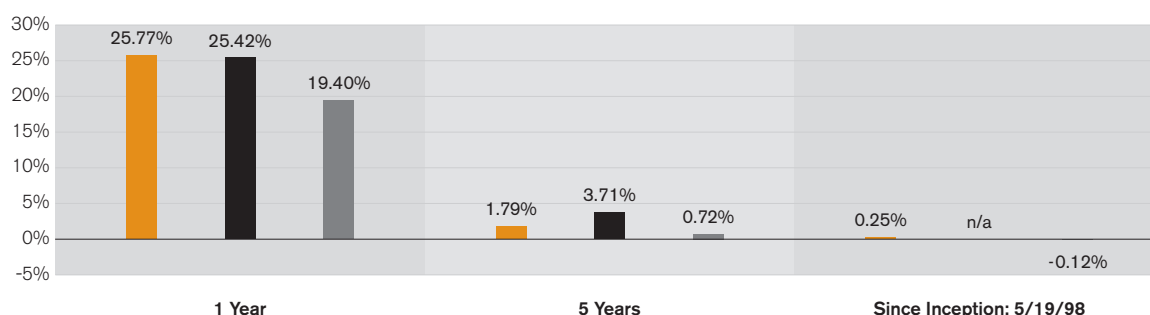
# Schwab MarketTrack All Equity Portfolio™

Performance as of 10/31/03

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

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

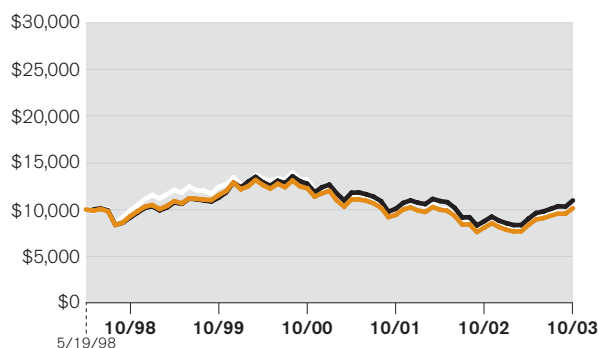
■ **Portfolio**  
■ **Benchmark: All Equity Composite Index**  
■ **Fund Category: Morningstar Large-Cap Blend**



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

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

■ \$10,140 **Portfolio**  
■ \$10,967 **All Equity Composite Index**  
■ \$10,150 **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. The portfolio's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

<sup>2</sup> The All Equity Composite Index is composed of Morningstar category averages and is calculated using the following portion allocations: 45% large-cap stocks, 25% small-cap stocks and 30% foreign stocks. Source: Morningstar, Inc.

## Schwab MarketTrack All Equity Portfolio™

### Fund Facts as of 10/31/03

#### Portfolio Category<sup>1</sup>

Investment Style			Market Cap
Value	Blend	Growth	
			Large
			Medium
			Small

#### Top Holdings<sup>2</sup>

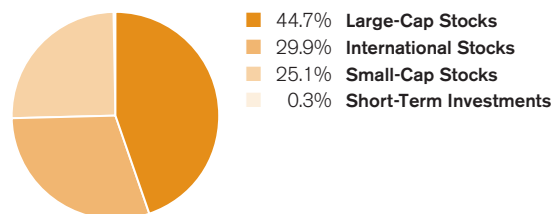
Security	% of Net Assets
① Schwab S&P 500 Fund Select Shares*	44.8%
② Schwab International Index Fund® Select Shares	29.9%
③ Schwab Small-Cap Index Fund® Select Shares	25.0%
<b>Total</b>	<b>99.7%</b>

#### Statistics

<b>Number of Holdings</b>	5
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$53,008
<b>Price/Earnings Ratio (P/E)</b>	30.4
<b>Price/Book Ratio (P/B)</b>	2.5
<b>Portfolio Turnover Rate</b>	10%

#### Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the portfolio based on a ten-factor model for value and growth characteristics. The portfolio's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the portfolio's holdings as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

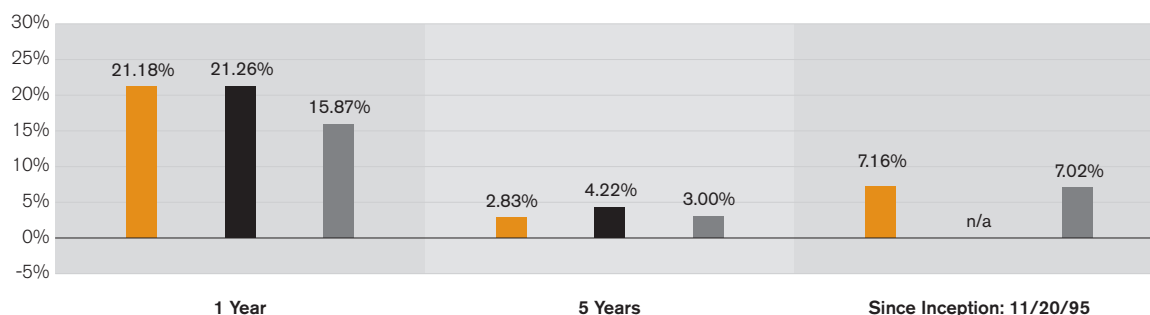
# Schwab MarketTrack Growth Portfolio™

Performance as of 10/31/03

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

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

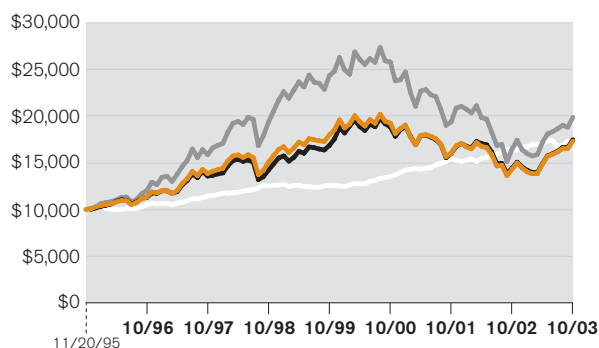
■ **Portfolio**  
■ **Benchmark: Growth Composite Index**  
■ **Fund Category: Morningstar Moderate Allocation**



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

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

■ \$17,338 **Portfolio**  
■ \$17,489 **Growth Composite Index**  
■ \$19,879 **S&P 500 Index**  
■ \$17,171 **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. The portfolio's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

<sup>2</sup> The Growth Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 40% large-cap stocks, 20% small-cap stocks, 20% foreign stocks, 15% bonds and 5% cash. Source: Morningstar, Inc.

## Schwab MarketTrack Growth Portfolio™

### Fund Facts as of 10/31/03

#### Portfolio Category<sup>1</sup>



#### Statistics

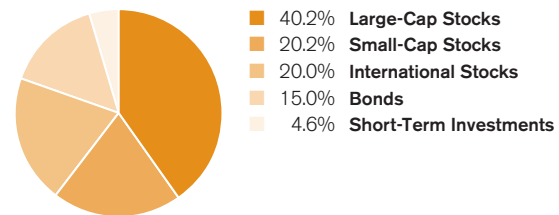
<b>Number of Holdings</b>	506
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$47,303
<b>Price/Earnings Ratio (P/E)</b>	31.9
<b>Price/Book Ratio (P/B)</b>	2.4
<b>Portfolio Turnover Rate</b>	9%

#### Top Holdings<sup>2</sup>

Security	% of Net Assets
① Schwab S&P 500 Fund Select Shares*	23.9%
② Schwab Small-Cap Index Fund® Select Shares	20.2%
③ Schwab International Index Fund® Select Shares	20.0%
④ Schwab Total Bond Market Fund™	14.9%
⑤ General Electric Co.	0.5%
⑥ Microsoft Corp.	0.5%
⑦ Wal-Mart Stores, Inc.	0.4%
⑧ Pfizer, Inc.	0.4%
⑨ Citigroup, Inc.	0.4%
⑩ Exxon Mobil Corp.	0.4%
<b>Total</b>	<b>81.6%</b>

#### Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the portfolio based on a ten-factor model for value and growth characteristics. The portfolio's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the portfolio's holdings as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

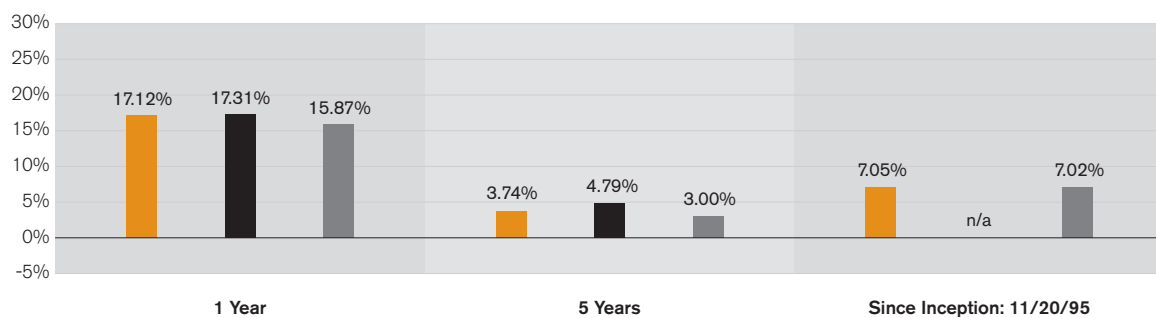
# Schwab MarketTrack Balanced Portfolio™

Performance as of 10/31/03

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

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

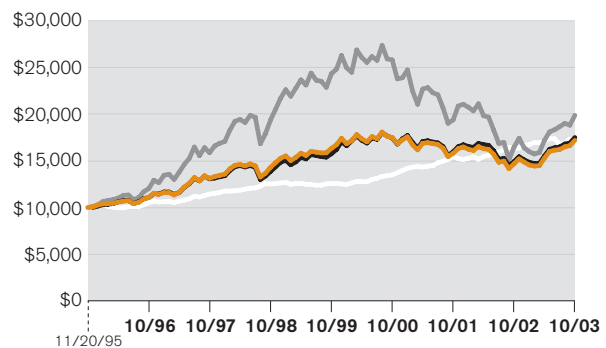
■ **Portfolio**  
■ **Benchmark: Balanced Composite Index**  
■ **Fund Category: Morningstar Moderate Allocation**



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

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

■ \$17,193 **Portfolio**  
■ \$17,500 **Balanced Composite Index**  
■ \$19,879 **S&P 500 Index**  
■ \$17,171 **Lehman Brothers U.S. Aggregate Bond Index**



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

<sup>2</sup> The Balanced Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 30% large-cap stocks, 15% small-caps stocks, 15% foreign stocks, 35% bonds and 5% cash. Source: Morningstar, Inc.



## Schwab MarketTrack Balanced Portfolio™

### Fund Facts as of 10/31/03

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

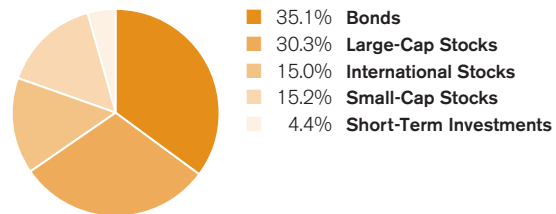
Security	% of Net Assets
1 Schwab Total Bond Market Fund™	35.0%
2 Schwab S&P 500 Fund Select Shares®	18.0%
3 Schwab Small-Cap Index Fund® Select Shares	15.2%
4 Schwab International Index Fund® Select Shares	15.0%
5 General Electric Co.	0.4%
6 Microsoft Corp.	0.4%
7 Wal-Mart Stores, Inc.	0.3%
8 Pfizer, Inc.	0.3%
9 Citigroup, Inc.	0.3%
10 Exxon Mobil Corp.	0.3%
<b>Total</b>	<b>85.2%</b>

#### Statistics

Number of Holdings	505
Portfolio Turnover Rate	17%

#### Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

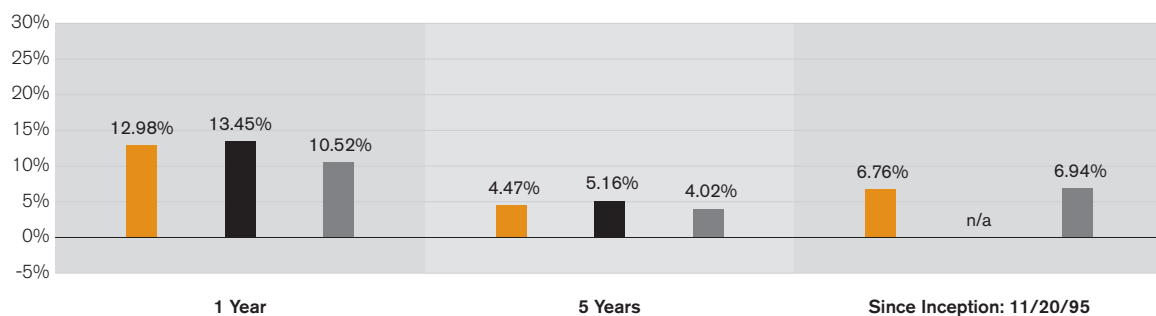
# Schwab MarketTrack Conservative Portfolio™

Performance as of 10/31/03

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

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

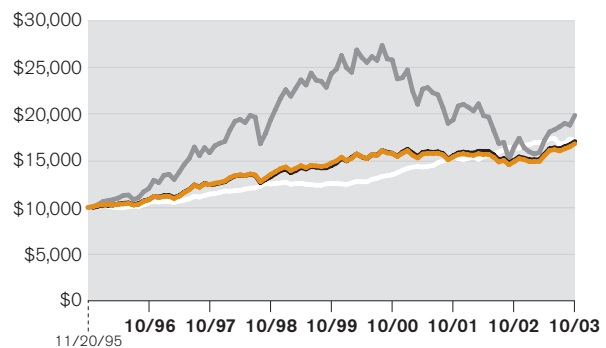
■ **Portfolio**  
■ **Benchmark: Conservative Composite Index**  
■ **Fund Category: Morningstar Conservative Allocation**



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

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

■ \$16,837 **Portfolio**  
■ \$17,069 **Conservative Composite Index**  
■ \$19,879 **S&P 500 Index**  
■ \$17,171 **Lehman Brothers U.S. Aggregate Bond Index**



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

<sup>2</sup> The Conservative Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 20% large-cap stocks, 10% small-cap stocks, 10% foreign stocks, 55% bonds and 5% cash. Source: Morningstar, Inc.

## Schwab MarketTrack Conservative Portfolio™

### Fund Facts as of 10/31/03

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

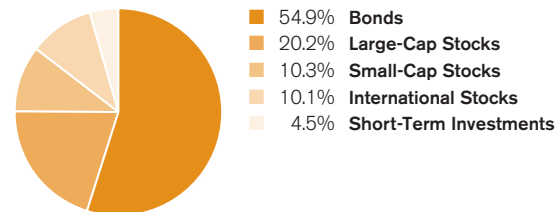
Security	% of Net Assets
1 Schwab Total Bond Market Fund™	54.8%
2 Schwab S&P 500 Fund Select Shares®	15.1%
3 Schwab Small-Cap Index Fund® Select Shares	10.3%
4 Schwab International Index Fund® Select Shares	10.1%
5 General Electric Co.	0.2%
6 Microsoft Corp.	0.2%
7 Wal-Mart Stores, Inc.	0.1%
8 Pfizer, Inc.	0.1%
9 Citigroup, Inc.	0.1%
10 Exxon Mobil Corp.	0.1%
<b>Total</b>	<b>91.1%</b>

#### Statistics

Number of Holdings	507
Portfolio Turnover Rate	17%

#### Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Schwab MarketTrack All Equity Portfolio <sup>TM</sup>

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	7.60	9.06	12.06	11.48	9.28
Income or loss from investment operations:					
Net investment income	0.09	0.05	0.22	0.04	0.03
Net realized and unrealized gains or losses	1.85	(1.32)	(2.99)	0.69	2.22
Total income or loss from investment operations	1.94	(1.27)	(2.77)	0.73	2.25
Less distributions:					
Dividends from net investment income	(0.09)	(0.05)	(0.22)	(0.05)	(0.05)
Distributions from net realized gains	(0.02)	(0.14)	(0.01)	(0.10)	—
Total distributions	(0.11)	(0.19)	(0.23)	(0.15)	(0.05)
Net asset value at end of period	9.43	7.60	9.06	12.06	11.48
Total return (%)	25.77	(14.40)	(23.27)	6.37	24.34
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses <sup>1</sup>	0.50	0.50	0.50	0.56 <sup>2</sup>	0.54
Gross operating expenses	0.76	0.77	0.77	0.84	0.97
Net investment income	1.10	0.58	1.93	0.05	0.13
Portfolio turnover rate	10	15	5	3	6
Net assets, end of period (\$ x 1,000,000)	427	353	405	441	203

<sup>1</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>2</sup> The ratio of net operating expenses would have been 0.57% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top holding
- ▲ Collateral for open futures contracts
- Issuer is affiliated with the fund's adviser

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Market Value</b> (\$x1,000)
<b>99.7% Other Investment Companies</b>	476,972	425,833
<b>0.2% Short-Term Investment</b>	976	976
<b>0.0% U.S. Treasury Obligation</b>	100	100
<b>99.9% Total Investments</b>	<b>478,048</b>	<b>426,909</b>
<b>0.1% Other Assets and Liabilities, Net</b>		352
<b>100.0% Total Net Assets</b>		<b>427,261</b>

<b>Security and Number of Shares</b>	<b>Mkt. Value</b> (\$ x 1,000)
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**Other Investment Companies**  
 99.7% of net assets

■② Schwab International Index Fund®, Select Shares® 10,006,225	127,579
■① Schwab S&P 500 Fund™, Select Shares 11,654,990	191,258
■③ Schwab Small-Cap Index Fund®, Select Shares 5,862,799	106,996
	<b>425,833</b>

<b>Security</b> <b>Rate, Maturity Date</b>	<b>Face Value</b> (\$ x 1,000)	<b>Mkt. Value</b> (\$ x 1,000)
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**Short-Term Investment**  
 0.2% of net assets

Bank One, Grand Cayman Time Deposit 0.50%, 11/01/03	976	<b>976</b>
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**U.S. Treasury Obligation**  
 0.0% of net assets

▲ U.S. Treasury Bill 0.93%, 12/18/03	100	<b>100</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

## Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$426,909
Receivables:	
Fund shares sold	181
Investments sold	641
Due from brokers for futures	2
Prepaid expenses	+ 8
<b>Total assets</b>	<b>427,741</b>

**Liabilities**

Payables:	
Fund shares redeemed	370
Investment adviser and administrator fees	5
Transfer agent and shareholder service fees	6
Accrued expenses	+ 99
<b>Total liabilities</b>	<b>480</b>

**Net Assets**

<b>Total assets</b>	427,741
<b>Total liabilities</b>	- 480
<b>Net assets</b>	<b>\$427,261</b>

**Net Assets by Source**

Capital received from investors	512,596
Distributions in excess of net investment income	(1,522)
Net realized capital losses	(32,727)
Net unrealized capital losses	(51,086)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$427,261		45,330		\$9.43

Unless stated, all numbers x 1,000.

The fund paid \$478,048 for these securities. Not counting short-term obligations and government securities, the fund paid \$36,480 for securities during the report period and received \$46,556 from securities it sold or that matured.

Percent of fund shares of other Schwab funds owned as of the end of the report period:

<b>Schwab Equity Index Funds</b>	
S&P 500 Fund	2.6%
Small-Cap Index Fund®	6.5%
International Index Fund®	11.4%

These derive from investments and futures. As of the report date, the fund had six open S&P 500 futures contracts due to expire on December 18, 2003, with an aggregate contract value of \$1,574 and net unrealized gains of \$53.

**Federal Tax Data**

<b>Portfolio Cost</b>	\$486,118
<b>Net unrealized gains and losses:</b>	
Gains	\$7,551
Losses	+ (66,760)
	<b>(\$59,209)</b>

**As of December 31, 2002:**

<b>Undistributed earnings:</b>	
Ordinary income	\$39
Long-term capital gains	\$-

<b>Unused capital losses:</b>	
Expires 12/31 of:	Loss amount:
2011	\$11,058

<b>Deferred capital losses</b>	\$13,545
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## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$5,996
Interest	+ 9
<b>Total investment income</b>	<b>6,005</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(10,273)
Net realized gains on futures contracts	+ 176
<b>Net realized losses</b>	<b>(10,097)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	94,347
Net unrealized gains on futures contracts	+ 78
<b>Net unrealized gains</b>	<b>94,425</b>

**Expenses**

Investment adviser and administrator fees	1,647
Transfer agent and shareholder service fees	936
Trustees' fees	7
Custodian fees	35
Portfolio accounting fees	55
Professional fees	33
Registration fees	23
Shareholder reports	104
Other expenses	+ 7
Total expenses	2,847
Expense reduction	- 975
<b>Net expenses</b>	<b>1,872</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	6,005
<b>Net expenses</b>	- 1,872
<b>Net investment income</b>	<b>4,133</b>
<b>Net realized losses</b>	(10,097)
<b>Net unrealized gains</b>	+ 94,425
<b>Increase in net assets from operations</b>	<b>\$88,461</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of 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% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 0.50% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$84,328.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$4,133	\$2,413
Net realized losses	(10,097)	(13,794)
Net unrealized gains or losses	+ 94,425	(51,352)
<b>Increase or decrease in net assets from operations</b>	<b>88,461</b>	<b>(62,733)</b>

**Distributions Paid**

Dividends from net investment income	3,978	2,429
Distributions from net realized gains	+ 837	6,416
<b>Total distributions paid</b>	<b>\$4,815</b>	<b>\$8,845</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	7,189	\$58,084	10,638	\$96,109
Shares reinvested	618	4,696	910	8,668
Shares redeemed	+ (8,992)	(72,607)	(9,783)	(85,204)
<b>Net transactions in fund shares</b>	<b>(1,185)</b>	<b>(\$9,827)</b>	<b>1,765</b>	<b>\$19,573</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	46,515	\$353,442	44,750	\$405,447
Total increase or decrease	+ (1,185)	73,819	1,765	(52,005)
<b>End of period</b>	<b>45,330</b>	<b>\$427,261</b>	<b>46,515</b>	<b>\$353,442</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$3,978
Long-term capital gains	\$837

**Prior period:**

Ordinary Income	\$2,484
Long-term capital gains	\$6,361

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 \$1,522 and \$1,677 at the end of the current period and the prior period, respectively.



# Schwab MarketTrack Growth Portfolio <sup>TM</sup>

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	12.05	13.88	17.22	16.37	13.96
Income or loss from investment operations:					
Net investment income	0.18	0.19	0.41	0.22	0.18
Net realized and unrealized gains or losses	2.33	(1.62)	(3.22)	0.94	2.48
Total income or loss from investment operations	2.51	(1.43)	(2.81)	1.16	2.66
Less distributions:					
Dividends from net investment income	(0.20)	(0.24)	(0.44)	(0.18)	(0.22)
Distributions from net realized gains	–	(0.16)	(0.09)	(0.13)	(0.03)
Total distributions	(0.20)	(0.40)	(0.53)	(0.31)	(0.25)
Net asset value at end of period	14.36	12.05	13.88	17.22	16.37
Total return (%)	21.18	(10.78)	(16.71)	7.08	19.24
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses <sup>1</sup>	0.50	0.50	0.50	0.56 <sup>2</sup>	0.58
Gross operating expenses	0.74	0.75	0.74	0.82	0.91
Net investment income	1.48	1.35	2.58	1.32	1.21
Portfolio turnover rate	9	21	10	12	7
Net assets, end of period (\$ x 1,000,000)	578	510	511	566	428

<sup>1</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>2</sup> The ratio of net operating expenses would have been 0.57% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>79.0% Other Investment Companies</b>	449,560	456,627
<b>16.3% Common Stock</b>	68,910	94,102
<b>4.6% Short-Term Investments</b>	26,359	26,359
<b>99.9% Total Investments</b>	<b>544,829</b>	<b>577,088</b>
<b>0.1% Other Assets and Liabilities, Net</b>		625
<b>100.0% Total Net Assets</b>		<b>577,713</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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**Common Stock** 16.3% of net assets**Aerospace / Defense 0.3%**

The Boeing Co.	8,078	311
Crane Co.	300	9
General Dynamics Corp.	2,000	167
Goodrich Corp.	1,100	30
Lockheed Martin Corp.	4,300	199
Northrop Grumman Corp.	1,796	161
Raytheon Co.	3,900	103
Rockwell Automation, Inc.	1,900	59
Rockwell Collins, Inc.	1,900	52
Textron, Inc.	1,500	75
United Technologies Corp.	4,600	390
		<b>1,556</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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**Air Transportation 0.2%**

Delta Air Lines, Inc.	1,300	17
FedEx Corp.	2,920	221
Sabre Holdings Corp.	1,283	28
Southwest Airlines Co.	7,480	145
United Parcel Service, Inc., Class B	10,818	785
		<b>1,196</b>

**Alcoholic Beverages 0.1%**

Adolph Coors Co., Class B	400	22
Anheuser-Busch Cos., Inc.	8,200	404
Brown-Forman Corp., Class B	602	51
		<b>477</b>

**Apparel 0.1%**

Jones Apparel Group, Inc.	1,200	41
Liz Claiborne, Inc.	1,200	44
Nike, Inc., Class B	2,500	160
Reebok International Ltd.	500	20
VF Corp.	1,200	51
		<b>316</b>

**Automotive Products / Motor Vehicles 0.2%**

Cooper Tire & Rubber Co.	700	14
Cummins, Inc.	200	9
Dana Corp.	1,578	26
Danaher Corp.	1,400	116
Delphi Corp.	5,743	51
Eaton Corp.	700	70
Ford Motor Co.	18,103	220
General Motors Corp.	5,425	232
Genuine Parts Co.	1,800	57
• Goodyear Tire & Rubber Co.	1,600	11
Harley-Davidson, Inc.	3,000	142
• Navistar International Corp.	700	28
Visteon Corp.	1,558	10
		<b>986</b>

**Banks 1.3%**

AmSouth Bancorp.	3,900	92
Bank of America Corp.	14,548	1,102
The Bank of New York Co., Inc.	7,300	228
Bank One Corp.	10,875	462

See financial notes. 21

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Veritas Software Corp. 4,200	152	• Sealed Air Corp. 882	47
Waste Management, Inc. 6,117	159		<b>126</b>
• Yahoo!, Inc. 6,300	275		
	<b>3,641</b>		
<b>Chemicals 0.2%</b>		<b>Electronics 1.0%</b>	
Air Products & Chemicals, Inc. 2,300	104	• ADC Telecommunications, Inc. 6,000	15
Dow Chemical Co. 8,694	328	• Advanced Micro Devices, Inc. 2,840	43
E.I. du Pont de Nemours & Co. 9,592	388	• Agilent Technologies, Inc. 4,437	110
Eastman Chemical Co. 800	26	• Altera Corp. 3,680	74
Ecolab, Inc. 2,800	75	• American Power Conversion Corp. 1,725	35
Great Lakes Chemical Corp. 600	13	• Analog Devices, Inc. 3,400	151
• Hercules, Inc. 900	9	• Andrew Corp. 850	11
Monsanto Co. 2,093	52	• Applied Materials, Inc. 16,200	379
PPG Industries, Inc. 1,500	87	• Applied Micro Circuits Corp. 2,862	17
Praxair, Inc. 1,600	111	• Broadcom Corp., Class A 2,900	93
Rohm & Haas Co. 2,205	87	• CIENA Corp. 3,200	20
Sigma-Aldrich Corp. 600	32	Intel Corp. 63,000	2,082
	<b>1,312</b>	ITT Industries, Inc. 900	61
<b>Construction 0.1%</b>		• Jabil Circuit, Inc. 1,998	56
Centex Corp. 600	59	• JDS Uniphase Corp. 12,589	45
Fluor Corp. 500	19	• KLA-Tencor Corp. 1,800	103
KB Home 400	27	Linear Technology Corp. 3,000	128
Masco Corp. 4,700	129	• LSI Logic Corp. 3,000	28
Pulte Homes, Inc. 700	61	• Lucent Technologies, Inc. 40,092	128
The Sherwin-Williams Co. 1,200	40	Maxim Integrated Products, Inc. 3,100	154
The Stanley Works 600	20	• Micron Technology, Inc. 5,400	77
Vulcan Materials Co. 800	35	Molex, Inc. 1,875	59
	<b>390</b>	Motorola, Inc. 21,931	297
<b>Consumer Durables 0.0%</b>		• National Semiconductor Corp. 1,700	69
Black & Decker Corp. 900	43	• Novellus Systems, Inc. 1,325	55
Leggett & Platt, Inc. 2,000	42	• Nvidia Corp. 1,400	25
Maytag Corp. 900	23	PerkinElmer, Inc. 1,000	18
Newell Rubbermaid, Inc. 2,745	63	• PMC — Sierra, Inc. 1,600	29
Whirlpool Corp. 800	56	• Power-One, Inc. 400	4
	<b>227</b>	• QLogic Corp. 869	49
<b>Containers 0.0%</b>		Qualcomm, Inc. 7,600	361
Ball Corp. 400	23	• Sanmina — SCI Corp. 5,000	53
Bemis Co. 500	23	Scientific-Atlanta, Inc. 1,600	47
• Pactiv Corp. 1,500	33	• Solectron Corp. 7,900	44
		Symbol Technologies, Inc. 1,908	24
		Tektronix, Inc. 900	23
		• Tellabs, Inc. 4,000	30
		• Teradyne, Inc. 1,700	39

## Schwab MarketTrack Growth Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Texas Instruments, Inc. 16,800	486	<b>Healthcare / Drugs &amp; Medicine 2.1%</b>	
• Thermo Electron Corp. 1,300	28	Abbott Laboratories 15,300	652
• Thomas & Betts Corp. 481	8	Allergan, Inc. 1,300	98
• Waters Corp. 1,300	41	AmerisourceBergen Corp. 1,000	57
• Xilinx, Inc. 3,200	101	• Amgen, Inc. 12,488	771
	<b>5,700</b>	• Anthem, Inc. 1,351	92
<b>Energy: Raw Materials 0.2%</b>		Applied Biosystems Group – Applera Corp. 2,000	46
Anadarko Petroleum Corp. 2,418	105	Bausch & Lomb, Inc. 600	29
Apache Corp. 1,654	115	Baxter International, Inc. 5,600	149
Baker Hughes, Inc. 2,960	84	Becton Dickinson & Co. 2,600	95
• BJ Services Co. 1,500	49	• Biogen, Inc. 1,500	61
Burlington Resources, Inc. 1,905	93	Biomet, Inc. 2,475	89
Devon Energy Corp. 2,300	112	• Boston Scientific Corp. 4,074	276
EOG Resources, Inc. 1,128	47	Bristol-Myers Squibb Co. 19,000	482
Halliburton Co. 4,158	99	C.R. Bard, Inc. 400	32
• Noble Corp. 1,300	45	Cardinal Health, Inc. 4,400	261
Occidental Petroleum Corp. 3,600	127	• Chiron Corp. 1,800	98
• Rowan Cos., Inc. 600	14	Eli Lilly & Co. 10,900	726
Schlumberger Ltd. 5,700	268	• Express Scripts, Inc. 800	44
	<b>1,158</b>	• Forest Laboratories, Inc. 3,400	170
<b>Food &amp; Agriculture 0.6%</b>		• Genzyme Corp. – General Division 2,100	96
Archer-Daniels-Midland Co. 6,532	94	Guidant Corp. 3,000	153
Campbell Soup Co. 4,200	109	HCA, Inc. 5,000	191
The Coca-Cola Co. 23,800	1,104	Health Management Associates, Inc., Class A 2,400	53
Coca-Cola Enterprises, Inc. 4,000	81	• Humana, Inc. 1,400	28
ConAgra Foods, Inc. 4,900	117	Johnson & Johnson 28,854	1,452
General Mills, Inc. 3,576	160	• King Pharmaceuticals, Inc. 2,133	29
H.J. Heinz Co. 3,400	120	Manor Care, Inc. 1,100	37
Hershey Foods Corp. 1,200	93	McKesson Corp. 2,654	80
Kellogg Co. 3,900	129	• Medco Health Solutions, Inc. 2,641	88
McCormick & Co., Inc. 1,400	42	• Medimmune, Inc. 2,400	64
The Pepsi Bottling Group, Inc. 2,832	63	Medtronic, Inc. 11,800	538
PepsiCo, Inc. 16,860	806	Merck & Co., Inc. 21,600	956
Sara Lee Corp. 7,600	151	⑧ Pfizer, Inc. 75,376	2,382
Supervalu, Inc. 1,400	35	• Quest Diagnostics 1,101	75
Sysco Corp. 6,600	222	Schering-Plough Corp. 14,100	215
Wm. Wrigley Jr. Co. 2,200	124	• St. Jude Medical, Inc. 1,750	102
	<b>3,450</b>	Stryker Corp. 1,892	154
<b>Gold 0.0%</b>		• Tenet Healthcare Corp. 4,650	64
Newmont Mining Corp. 3,801	166	UnitedHealth Group, Inc. 5,700	290

See financial notes. 23

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Watson Pharmaceuticals, Inc. 1,000	39	Safeco Corp. 1,100	40
• WellPoint Health Networks, Inc. 1,400	125	St. Paul Cos., Inc. 2,250	86
Wyeth 13,100	578	Torchmark Corp. 1,100	48
• Zimmer Holdings, Inc. 2,300	147	Travelers Property Casualty Corp., Class B 9,699	159
	<b>12,164</b>	UnumProvident Corp. 2,349	38
		XL Capital Ltd., Class A 1,200	83
			<b>4,551</b>
<b>Household Products 0.4%</b>		<b>Media 0.6%</b>	
Alberto-Culver Co., Class B 600	38	Clear Channel Communications, Inc. 6,017	246
Avon Products, Inc. 2,400	163	• Comcast Corp., Class A 21,843	741
Clorox Co. 2,200	100	Dow Jones & Co., Inc. 800	42
Colgate-Palmolive Co. 5,300	282	Gannett Co., Inc. 2,700	227
The Gillette Co. 10,200	325	Knight-Ridder, Inc. 900	66
International Flavors & Fragrances, Inc. 1,100	36	The McGraw-Hill Cos., Inc. 2,000	134
Procter & Gamble Co. 12,600	1,239	Meredith Corp. 500	24
	<b>2,183</b>	New York Times Co., Class A 1,700	81
		R.R. Donnelley & Sons Co. 1,200	31
		• Time Warner, Inc. 44,150	675
		Tribune Co. 3,100	152
		• Univision Communications, Inc., Class A 3,104	105
		Viacom, Inc., Class B 16,981	677
		The Walt Disney Co. 20,319	460
			<b>3,661</b>
<b>Insurance 0.8%</b>		<b>Miscellaneous 0.1%</b>	
ACE Ltd. 2,500	90	3M Co. 7,600	<b>599</b>
Aetna, Inc. 1,424	82		
AFLAC, Inc. 5,200	190	<b>Miscellaneous Finance 1.3%</b>	
The Allstate Corp. 7,000	277	American Express Co. 12,400	582
AMBAC Financial Group, Inc. 1,015	72	The Bear Stearns Cos., Inc. 882	67
American International Group, Inc. 25,251	1,536	Capital One Financial Corp. 2,100	128
AON Corp. 2,625	57	■ The Charles Schwab Corp. 13,042	177
Chubb Corp. 1,700	114	Charter One Financial, Inc. 2,315	74
CIGNA Corp. 1,400	80	⑨ Citigroup, Inc. 49,792	2,360
Cincinnati Financial Corp. 1,800	74	Countrywide Financial Corp. 1,400	147
Hartford Financial Services Group, Inc. 2,700	148	Fannie Mae 9,400	674
Jefferson-Pilot Corp. 1,412	67	Federated Investors, Inc., Class B 1,100	30
John Hancock Financial Services, Inc. 2,977	105	Franklin Resources, Inc. 2,500	118
Lincoln National Corp. 1,900	76	Freddie Mac 6,900	387
Loews Corp. 2,000	86		
Marsh & McLennan Cos., Inc. 5,200	222		
MBIA, Inc. 1,350	80		
Metlife, Inc. 7,310	230		
MGIC Investment Corp. 900	46		
Principal Financial Group, Inc. 3,465	109		
The Progressive Corp. 2,100	155		
Prudential Financial, Inc. 5,200	201		

## Schwab MarketTrack Growth Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Golden West Financial Corp. 1,400	141
Goldman Sachs Group, Inc. 4,579	430
Janus Capital Group, Inc. 2,200	31
Lehman Brothers Holdings, Inc. 2,400	173
MBNA Corp. 12,550	311
Merrill Lynch & Co., Inc. 9,000	533
Moody's Corp. 1,500	87
Morgan Stanley 10,600	582
• Provident Financial Corp. 2,900	32
SLM Corp. 4,500	176
T. Rowe Price Group, Inc. 1,200	49
Washington Mutual, Inc. 8,882	389
	<b>7,678</b>

## Non-Durables &amp; Entertainment 0.2%

• American Greetings Corp., Class A 300	6
Darden Restaurants, Inc. 1,800	38
• Electronic Arts, Inc. 1,333	132
Fortune Brands, Inc. 1,400	91
Hasbro, Inc. 1,650	36
International Game Technology 3,400	111
Mattel, Inc. 4,150	80
McDonald's Corp. 12,700	318
• Starbucks Corp. 3,560	113
Tupperware Corp. 400	6
Wendy's International, Inc. 1,000	37
• Yum! Brands, Inc. 3,120	107
	<b>1,075</b>

## Non-Ferrous Metals 0.1%

Alcoa, Inc. 8,472	267
Engelhard Corp. 1,300	37
Freeport-McMoran Copper & Gold, Inc., Class B 1,700	66
• Phelps Dodge Corp. 810	50
	<b>420</b>

## Oil: Domestic 0.1%

Amerada Hess Corp. 1,000	52
Ashland, Inc. 800	30
ConocoPhillips 6,546	374
Kerr-McGee Corp. 869	36
Marathon Oil Corp. 3,100	92

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Nabors Industries Ltd. 1,400	53
Sunoco, Inc. 900	39
• Transocean, Inc. 2,945	56
Unocal Corp. 2,400	76
	<b>808</b>

## Oil: International 0.5%

ChevronTexaco Corp. 10,327	767
⑩ Exxon Mobil Corp. 64,258	2,351
	<b>3,118</b>

## Optical &amp; Photo 0.0%

• Corning, Inc. 12,300	135
Eastman Kodak Co. 3,100	76
	<b>211</b>

## Paper &amp; Forest Products 0.1%

Boise Cascade Corp. 600	17
Georgia-Pacific Corp. 2,228	59
International Paper Co. 4,846	191
Kimberly-Clark Corp. 5,060	267
• Louisiana-Pacific Corp. 600	11
MeadWestvaco Corp. 1,970	51
Temple-Inland, Inc. 600	32
Weyerhaeuser Co. 2,300	139
	<b>767</b>

## Producer Goods &amp; Manufacturing 0.8%

• American Standard Cos., Inc. 700	67
Avery Dennison Corp. 1,200	63
Caterpillar, Inc. 3,300	242
Cooper Industries Ltd., Class A 900	48
Deere & Co. 2,300	139
Dover Corp. 2,000	78
Emerson Electric Co. 4,000	227
⑤ General Electric Co. 97,000	2,814
Honeywell International, Inc. 8,437	258
Illinois Tool Works, Inc. 3,000	221
Ingersoll-Rand Co., Class A 1,650	100
Johnson Controls, Inc. 800	86
• Millipore Corp. 400	17
Pall Corp. 1,000	23
Parker Hannifin Corp. 1,150	59

See financial notes. 25

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Snap-On, Inc. 600	18
W.W. Grainger, Inc. 900	41
	<b>4,501</b>

**Railroad & Shipping 0.1%**

Burlington Northern Santa Fe Corp. 3,800	110
CSX Corp. 2,200	70
Norfolk Southern Corp. 3,600	73
Union Pacific Corp. 2,500	156
	<b>409</b>

**Real Property 0.1%**

Apartment Investment & Management Co., Class A 900	37
Equity Office Properties Trust 3,900	109
Equity Residential 2,600	76
Plum Creek Timber Co., Inc. 1,700	45
ProLogis 1,700	50
Simon Property Group, Inc. 1,700	77
	<b>394</b>

**Retail 1.2%**

Albertson's, Inc. 3,538	72
• Autonation, Inc. 3,000	56
• AutoZone, Inc. 800	77
• Bed, Bath & Beyond, Inc. 2,800	118
• Best Buy Co., Inc. 3,150	184
• Big Lots, Inc. 1,100	16
Circuit City Stores, Inc. 2,000	19
• Costco Wholesale Corp. 4,400	156
CVS Corp. 3,900	137
Dillard's, Inc., Class A 500	8
Dollar General Corp. 3,303	74
Family Dollar Stores, Inc. 1,700	74
Federated Department Stores, Inc. 1,700	81
The Gap, Inc. 8,300	158
Home Depot, Inc. 22,300	827
J.C. Penney Co., Inc. Holding Co. 2,500	59
• Kohl's Corp. 3,200	179
• Kroger Co. 7,200	126
Limited Brands, Inc. 4,994	88
Lowe's Cos., Inc. 7,600	448
The May Department Stores Co. 2,800	78
Nordstrom, Inc. 1,300	40

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Office Depot, Inc. 3,700	55
RadioShack Corp. 1,900	57
• Safeway, Inc. 4,200	89
Sears, Roebuck & Co. 2,700	142
• Staples, Inc. 4,350	117
Target Corp. 8,800	350
Tiffany & Co. 1,400	66
TJX Cos., Inc. 5,200	109
• Toys 'R' Us, Inc. 2,600	34
⑦ Wal-Mart Stores, Inc. 42,300	2,494
Walgreen Co. 9,900	345
Winn-Dixie Stores, Inc. 1,500	12
	<b>6,945</b>

**Steel 0.0%**

Allegheny Technologies, Inc. 735	6
Nucor Corp. 900	49
United States Steel Corp. 900	21
Worthington Industries, Inc. 900	13
	<b>89</b>

**Telephone 0.6%**

Alltel Corp. 3,100	147
AT&T Corp. 7,358	137
• AT&T Wireless Services, Inc. 26,561	193
• Avaya, Inc. 4,132	53
BellSouth Corp. 17,800	468
CenturyTel, Inc. 1,350	48
• Citizens Communications Co. 2,576	32
• Nextel Communications, Inc., Class A 9,800	237
• Qwest Communications International, Inc. 15,773	56
SBC Communications, Inc. 32,336	775
Sprint Corp. (FON Group) 8,600	138
• Sprint Corp. (PCS Group) 8,800	38
Verizon Communications, Inc. 26,958	906
	<b>3,228</b>

**Tobacco 0.2%**

Altria Group, Inc. 19,800	921
R.J. Reynolds Tobacco Holdings, Inc. 900	43
UST, Inc. 1,600	54
	<b>1,018</b>



# Schwab MarketTrack Growth Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Travel &amp; Recreation 0.1%</b>	
Brunswick Corp. 900	27
Carnival Corp. 6,100	213
Harrah's Entertainment, Inc. 1,300	56
Hilton Hotels Corp. 3,600	57
Marriott International, Inc., Class A 2,200	95
Starwood Hotels & Resorts Worldwide, Inc. 1,900	64
	<b>512</b>
<b>Trucking &amp; Freight 0.0%</b>	
Paccar, Inc. 1,050	83
Ryder Systems, Inc. 400	12
	<b>95</b>
<b>Utilities: Electric &amp; Gas 0.4%</b>	
• The AES Corp. 4,800	42
• Allegheny Energy, Inc. 1,070	11
Ameren Corp. 1,500	67
American Electric Power Co., Inc. 3,860	109
• Calpine Corp. 2,700	12
Centerpoint Energy, Inc. 2,949	29
Cinergy Corp. 1,600	58
• CMS Energy Corp. 1,000	8
Consolidated Edison, Inc. 2,100	85
Constellation Energy Group, Inc. 1,700	62
Dominion Resources, Inc. 2,978	183
DTE Energy Co. 1,400	52
Duke Energy Corp. 8,852	161
• Dynegy, Inc., Class A 3,100	12
• Edison International 3,200	63
El Paso Corp. 5,006	37
Entergy Corp. 2,400	129
Exelon Corp. 3,112	197
FirstEnergy Corp. 2,895	100
FPL Group, Inc. 1,900	121
KeySpan Corp. 1,300	46
Kinder Morgan, Inc. 1,107	59
Nicor, Inc. 500	17
NiSource, Inc. 2,646	55
Peoples Energy Corp. 200	8
• PG&E Corp. 3,600	88

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Pinnacle West Capital Corp. 800	29
PPL Corp. 1,800	72
Progress Energy, Inc. 2,475	107
Public Service Enterprise Group, Inc. 2,000	82
Sempra Energy 2,103	59
The Southern Co. 7,200	215
TECO Energy, Inc. 1,300	17
TXU Corp. 2,767	63
Williams Cos., Inc. 5,000	51
Xcel Energy, Inc. 3,850	63
	<b>2,569</b>

## Other Investment Companies 79.0% of net assets

■ ③ Schwab International Index Fund®, Select Shares® 9,064,806	115,576
■ ① Schwab S&P 500 Fund Select Shares 8,419,451	138,164
■ ② Schwab Small-Cap Index Fund®, Select Shares 6,384,931	116,525
■ ④ Schwab Total Bond Market Fund™ 8,352,184	86,362
	<b>456,627</b>

## Short-Term Investments 4.6% of net assets

■ Schwab Value Advantage Money Fund®, Investor Shares 25,952,297	25,952
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Security Rate, Maturity Date	Face Value (\$ x 1,000)
Bank One, Grand Cayman Time Deposit 0.50%, 11/01/03	407
	<b>407</b>
	<b>26,359</b>

**End of investments.** For totals, please see the first page of holdings for this fund.

## Schwab MarketTrack Growth Portfolio™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$577,088
Receivables:	
Fund shares sold	298
Dividends	141
Investments sold	699
Prepaid expenses	+ 14
<b>Total assets</b>	<b>578,240</b>

#### Liabilities

Payables:	
Fund shares redeemed	413
Investment adviser and administrator fees	6
Transfer agent and shareholder service fees	8
Accrued expenses	+ 100
<b>Total liabilities</b>	<b>527</b>

#### Net Assets

<b>Total assets</b>	578,240
<b>Total liabilities</b>	— 527
<b>Net assets</b>	<b>\$577,713</b>

#### Net Assets by Source

Capital received from investors	567,910
Net investment income not yet distributed	1,500
Net realized capital losses	(23,956)
Net unrealized capital gains	32,259

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$577,713		40,218		\$14.36

Unless stated, all numbers x 1,000.

The fund paid \$544,829 for these securities. Not counting short-term obligations and government securities, the fund paid \$43,899 for securities during the report period and received \$72,658 from securities it sold or that matured.

Percent of fund shares of other Schwab funds owned as of the end of the report period:

#### Schwab Equity Index Funds

S&P 500 Fund™	1.9%
Small-Cap Index Fund®	7.1%
International Index Fund®	10.3%

#### Schwab Bond Funds

Total Bond Market Fund™	8.2%
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#### Schwab Money Funds

Value Advantage Money Fund®	0.1%
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#### Federal Tax Data

<b>Portfolio Cost</b>	\$550,619
<b>Net unrealized gains and losses:</b>	
Gains	\$66,420
Losses	+ (39,951)
	<b>\$26,469</b>

#### Undistributed earnings:

Ordinary income	\$1,500
Long-term capital gains	\$—

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2010	\$1,799
2011	+ 16,367
	<b>\$18,166</b>

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$10,395
Interest	+ 6
<b>Total investment income</b>	<b>10,401</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(13,961)
Net realized gains received from underlying funds	+ 227
<b>Net realized losses</b>	<b>(13,734)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>107,668</b>
-------------------------------------	----------------

**Expenses**

Investment adviser and administrator fees	2,292
Transfer agent and shareholder service fees	1,310
Trustees' fees	8
Custodian fees	43
Portfolio accounting fees	77
Professional fees	34
Registration fees	24
Shareholder reports	85
Other expenses	+ 12
Total expenses	3,885
Expense reduction	- 1,265
<b>Net expenses</b>	<b>2,620</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	10,401
<b>Net expenses</b>	- 2,620
<b>Net investment income</b>	<b>7,781</b>
<b>Net realized losses</b>	(13,734)
<b>Net unrealized gains</b>	+ 107,668
<b>Increase in net assets from operations</b>	<b>\$101,715</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of 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% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 0.50% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$93,934.

## Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$7,781	\$7,322
Net realized losses	(13,734)	(5,594)
Net unrealized gains or losses	+ 107,668	(66,308)
<b>Increase or decrease in net assets from operations</b>	<b>101,715</b>	<b>(64,580)</b>

**Distributions Paid**

Dividends from net investment income	8,524	8,889
Distributions from net realized gains	+ —	5,834
<b>Total distributions paid</b>	<b>\$8,524</b>	<b>\$14,723</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	5,664	\$72,375	12,796	\$173,232
Shares reinvested	694	8,339	1,010	14,418
Shares redeemed	+ (8,438)	(105,988)	(8,337)	(109,730)
<b>Net transactions in fund shares</b>	<b>(2,080)</b>	<b>(\$25,274)</b>	<b>5,469</b>	<b>\$77,920</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	42,298	\$509,796	36,829	\$511,179
Total increase or decrease	+ (2,080)	67,917	5,469	(1,383)
<b>End of period</b>	<b>40,218</b>	<b>\$577,713</b>	<b>42,298</b>	<b>\$509,796</b>

Unless stated, all numbers x 1,000.

**Unaudited**

For corporations, 57% of the fund's dividends for the report period qualify for the dividends-received deduction.

The tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$8,524
Long-term capital gains	\$—

**Prior period:**

Ordinary Income	\$8,889
Long-term capital gains	\$5,834

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 \$1,500 and \$2,243 at the end of the current period and prior period, respectively.

# Schwab MarketTrack Balanced Portfolio™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	12.05	13.47	15.53	14.85	13.39
Income or loss from investment operations:					
Net investment income	0.25	0.32	0.45	0.36	0.29
Net realized and unrealized gains or losses	1.77	(1.22)	(1.92)	0.69	1.57
Total income or loss from investment operations	2.02	(0.90)	(1.47)	1.05	1.86
Less distributions:					
Dividends from net investment income	(0.29)	(0.40)	(0.49)	(0.28)	(0.33)
Distributions from net realized gains	–	(0.12)	(0.10)	(0.09)	(0.07)
Total distributions	(0.29)	(0.52)	(0.59)	(0.37)	(0.40)
Net asset value at end of period	13.78	12.05	13.47	15.53	14.85
Total return (%)	17.12	(7.08)	(9.72)	7.11	14.18
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses <sup>1</sup>	0.50	0.50	0.50	0.56 <sup>2</sup>	0.58
Gross operating expenses	0.74	0.74	0.74	0.82	0.91
Net investment income	1.98	2.35	3.31	2.46	2.25
Portfolio turnover rate	17	31	21	18	7
Net assets, end of period (\$ x 1,000,000)	516	462	497	510	403

<sup>1</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>2</sup> The ratio of net operating expenses would have been 0.57% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>83.2% Other Investment Companies</b>	410,881	429,355
<b>12.2% Common Stock</b>	46,840	63,227
<b>4.4% Short-Term Investment</b>	22,735	22,735
<b>99.8% Total Investments</b>	<b>480,456</b>	<b>515,317</b>
<b>0.2% Other Assets and Liabilities, Net</b>		1,050
<b>100.0% Total Net Assets</b>		<b>516,367</b>

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

**Common Stock** 12.2% of net assets**Aerospace / Defense 0.2%**

The Boeing Co.	5,484	211
Crane Co.	200	6
General Dynamics Corp.	1,300	109
Goodrich Corp.	700	19
Lockheed Martin Corp.	2,900	134
Northrop Grumman Corp.	1,128	101
Raytheon Co.	2,600	69
Rockwell Automation, Inc.	1,200	37
Rockwell Collins, Inc.	1,200	33
Textron, Inc.	1,000	50
United Technologies Corp.	3,000	254
		<b>1,023</b>

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

**Air Transportation 0.2%**

Delta Air Lines, Inc.	900	12
FedEx Corp.	1,960	148
Sabre Holdings Corp.	922	20
Southwest Airlines Co.	5,137	100
United Parcel Service, Inc., Class B	7,385	536
		<b>816</b>

**Alcoholic Beverages 0.1%**

Adolph Coors Co., Class B	200	11
Anheuser-Busch Cos., Inc.	5,400	266
Brown-Forman Corp., Class B	402	34
		<b>311</b>

**Apparel 0.0%**

Jones Apparel Group, Inc.	800	27
Liz Claiborne, Inc.	800	29
Nike, Inc., Class B	1,700	109
Reebok International Ltd.	300	12
VF Corp.	800	34
		<b>211</b>

**Automotive Products / Motor Vehicles 0.1%**

Cooper Tire & Rubber Co.	400	8
Cummins, Inc.	300	14
Dana Corp.	1,085	18
Danaheer Corp.	900	74
Delphi Corp.	3,884	34
Eaton Corp.	500	50
Ford Motor Co.	12,185	148
General Motors Corp.	3,650	156
Genuine Parts Co.	1,150	37
• Goodyear Tire & Rubber Co.	1,000	7
Harley-Davidson, Inc.	2,000	95
• Navistar International Corp.	400	16
Visteon Corp.	1,047	7
		<b>664</b>

**Banks 0.9%**

AmSouth Bancorp.	2,600	61
Bank of America Corp.	9,780	741
The Bank of New York Co., Inc.	4,900	153
Bank One Corp.	7,557	321

See financial notes. 33

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Veritas Software Corp. 2,600	94	• Sealed Air Corp. 621	33
Waste Management, Inc. 4,112	107		<b>91</b>
• Yahoo!, Inc. 4,200	184		
	<b>2,457</b>		
<b>Chemicals 0.2%</b>		<b>Electronics 0.7%</b>	
Air Products & Chemicals, Inc. 1,500	68	• ADC Telecommunications, Inc. 5,000	13
Dow Chemical Co. 6,049	228	• Advanced Micro Devices, Inc. 2,040	31
E.I. du Pont de Nemours & Co. 6,484	262	• Agilent Technologies, Inc. 2,917	73
Eastman Chemical Co. 600	19	• Altera Corp. 2,546	51
Ecolab, Inc. 2,000	54	• American Power Conversion Corp. 1,175	24
Great Lakes Chemical Corp. 400	9	• Analog Devices, Inc. 2,300	102
• Hercules, Inc. 700	7	• Andrew Corp. 1,025	13
Monsanto Co. 1,427	36	• Applied Materials, Inc. 10,900	255
PPG Industries, Inc. 1,200	69	• Applied Micro Circuits Corp. 1,928	11
Praxair, Inc. 1,000	70	• Broadcom Corp., Class A 2,000	64
Rohm & Haas Co. 1,421	56	• CIENA Corp. 2,100	13
Sigma-Aldrich Corp. 500	26	Intel Corp. 42,300	1,398
	<b>904</b>	ITT Industries, Inc. 600	41
<b>Construction 0.1%</b>		• Jabil Circuit, Inc. 1,341	37
Centex Corp. 400	39	• JDS Uniphase Corp. 8,464	30
Fluor Corp. 500	18	• KLA-Tencor Corp. 1,200	69
KB Home 300	21	Linear Technology Corp. 2,000	85
Masco Corp. 3,000	82	• LSI Logic Corp. 2,000	18
Pulte Homes, Inc. 400	35	• Lucent Technologies, Inc. 26,905	86
The Sherwin-Williams Co. 1,100	37	Maxim Integrated Products, Inc. 2,100	104
The Stanley Works 600	20	• Micron Technology, Inc. 3,600	52
Vulcan Materials Co. 700	31	Molex, Inc. 1,250	39
	<b>283</b>	Motorola, Inc. 14,770	200
<b>Consumer Durables 0.0%</b>		• National Semiconductor Corp. 1,100	45
Black & Decker Corp. 600	29	• Novellus Systems, Inc. 900	37
Leggett & Platt, Inc. 1,300	27	• Nvidia Corp. 900	16
Maytag Corp. 600	15	PerkinElmer, Inc. 600	11
Newell Rubbermaid, Inc. 1,872	43	• PMC – Sierra, Inc. 1,100	20
Whirlpool Corp. 500	35	• Power-One, Inc. 240	2
	<b>149</b>	• QLogic Corp. 585	33
<b>Containers 0.0%</b>		Qualcomm, Inc. 5,100	242
Ball Corp. 400	22	• Sanmina – SCI Corp. 3,400	36
Bemis Co. 300	14	Scientific-Atlanta, Inc. 1,000	30
• Pactiv Corp. 1,000	22	• Solectron Corp. 5,300	29
		Symbol Technologies, Inc. 1,284	16
		Tektronix, Inc. 500	13
		• Tellabs, Inc. 2,700	20
		• Teradyne, Inc. 1,100	25



## Schwab MarketTrack Balanced Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Texas Instruments, Inc. 11,300	327	<b>Healthcare / Drugs &amp; Medicine 1.6%</b>	
• Thermo Electron Corp. 900	20	Abbott Laboratories 10,200	435
• Thomas & Betts Corp. 381	7	Allergan, Inc. 900	68
• Waters Corp. 900	28	AmerisourceBergen Corp. 700	40
• Xilinx, Inc. 2,100	67	• Amgen, Inc. 8,340	515
	<b>3,833</b>	• Anthem, Inc. 926	63
<b>Energy: Raw Materials 0.2%</b>		Applied Biosystems Group — Applera Corp. 1,400	32
Anadarko Petroleum Corp. 1,510	66	Bausch & Lomb, Inc. 400	19
Apache Corp. 1,024	71	Baxter International, Inc. 3,800	101
Baker Hughes, Inc. 2,250	64	Becton Dickinson & Co. 1,800	66
• BJ Services Co. 1,000	33	• Biogen, Inc. 1,000	40
Burlington Resources, Inc. 1,410	68	Biomet, Inc. 1,575	56
Devon Energy Corp. 1,500	73	• Boston Scientific Corp. 2,774	188
EOG Resources, Inc. 759	32	Bristol-Myers Squibb Co. 12,800	325
Halliburton Co. 2,974	71	C.R. Bard, Inc. 300	24
• Noble Corp. 900	31	Cardinal Health, Inc. 2,975	177
Occidental Petroleum Corp. 2,400	85	• Chiron Corp. 1,200	66
• Rowan Cos., Inc. 600	14	Eli Lilly & Co. 7,400	493
Schlumberger Ltd. 3,900	183	• Express Scripts, Inc. 500	27
	<b>791</b>	• Forest Laboratories, Inc. 2,400	120
<b>Food &amp; Agriculture 0.4%</b>		• Genzyme Corp. — General Division 1,400	64
Archer-Daniels-Midland Co. 4,446	64	Guidant Corp. 2,000	102
Campbell Soup Co. 2,800	72	HCA, Inc. 3,400	130
The Coca-Cola Co. 16,100	747	Health Management Associates, Inc., Class A 1,600	35
Coca-Cola Enterprises, Inc. 2,700	54	• Humana, Inc. 800	16
ConAgra Foods, Inc. 3,300	79	Johnson & Johnson 19,272	970
General Mills, Inc. 2,392	107	• King Pharmaceuticals, Inc. 1,388	19
H.J. Heinz Co. 2,300	81	Manor Care, Inc. 500	17
Hershey Foods Corp. 800	62	McKesson Corp. 1,773	54
Kellogg Co. 2,700	89	• Medco Health Solutions, Inc. 1,784	59
McCormick & Co., Inc. 900	27	• Medimmune, Inc. 1,400	37
The Pepsi Bottling Group, Inc. 1,826	41	Medtronic, Inc. 7,800	355
PepsiCo, Inc. 11,370	544	Merck & Co., Inc. 14,500	642
Sara Lee Corp. 5,100	102	⑧ Pfizer, Inc. 50,586	1,599
Supervalu, Inc. 900	23	• Quest Diagnostics 735	50
Sysco Corp. 4,400	148	Schering-Plough Corp. 9,500	145
Wm. Wrigley Jr. Co. 1,600	90	• St. Jude Medical, Inc. 1,060	62
	<b>2,330</b>	Stryker Corp. 1,273	103
<b>Gold 0.0%</b>		• Tenet Healthcare Corp. 3,150	43
Newmont Mining Corp. 2,554	112	UnitedHealth Group, Inc. 4,000	204

See financial notes. 35

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Watson Pharmaceuticals, Inc. 600	24	Travelers Property Casualty Corp., Class B 6,500	106
• WellPoint Health Networks, Inc. 1,000	89	UnumProvident Corp. 1,657	27
Wyeth 8,800	388	XL Capital Ltd., Class A 800	56
• Zimmer Holdings, Inc. 1,500	96		<b>3,093</b>
	<b>8,158</b>		
<b>Household Products 0.3%</b>		<b>Media 0.5%</b>	
Alberto-Culver Co., Class B 400	25	Clear Channel Communications, Inc. 4,080	167
Avon Products, Inc. 1,500	102	• Comcast Corp., Class A 14,661	497
Clorox Co. 1,600	73	Dow Jones & Co., Inc. 600	31
Colgate-Palmolive Co. 3,600	192	Gannett Co., Inc. 1,700	143
The Gillette Co. 6,700	214	Knight-Ridder, Inc. 600	44
International Flavors & Fragrances, Inc. 800	26	The McGraw-Hill Cos., Inc. 1,200	80
Procter & Gamble Co. 8,500	835	Meredith Corp. 300	15
	<b>1,467</b>	New York Times Co., Class A 1,100	52
		R.R. Donnelley & Sons Co. 800	21
<b>Insurance 0.6%</b>		• Time Warner, Inc. 29,650	453
ACE Ltd. 1,700	61	Tribune Co. 1,900	93
Aetna, Inc. 1,034	59	• Univision Communications, Inc., Class A 2,048	70
AFLAC, Inc. 3,600	131	Viacom, Inc., Class B 11,418	455
The Allstate Corp. 4,700	186	The Walt Disney Co. 13,717	311
AMBAC Financial Group, Inc. 684	48		<b>2,432</b>
American International Group, Inc. 16,942	1,031		
AON Corp. 1,725	38	<b>Miscellaneous 0.1%</b>	
Chubb Corp. 1,100	73	3M Co. 5,200	<b>410</b>
CIGNA Corp. 1,000	57		
Cincinnati Financial Corp. 1,200	49	<b>Miscellaneous Finance 1.0%</b>	
Hartford Financial Services Group, Inc. 1,800	99	American Express Co. 8,300	389
Jefferson-Pilot Corp. 1,050	50	The Bear Stearns Cos., Inc. 602	46
John Hancock Financial Services, Inc. 2,004	71	Capital One Financial Corp. 1,500	91
Lincoln National Corp. 1,300	52	■ The Charles Schwab Corp. 8,783	119
Loews Corp. 1,200	52	Charter One Financial, Inc. 1,620	52
Marsh & McLennan Cos., Inc. 3,600	154	⑨ Citigroup, Inc. 33,476	1,587
MBIA, Inc. 1,050	63	Countrywide Financial Corp. 800	84
Metlife, Inc. 4,986	157	Fannie Mae 6,300	452
MGIC Investment Corp. 700	36	Federated Investors, Inc., Class B 700	19
Principal Financial Group, Inc. 2,329	73	Franklin Resources, Inc. 1,700	81
The Progressive Corp. 1,500	111	Freddie Mac 4,500	253
Prudential Financial, Inc. 3,500	135	Golden West Financial Corp. 900	90
Safeco Corp. 800	29	Goldman Sachs Group, Inc. 3,079	289
St. Paul Cos., Inc. 1,424	54	Janus Capital Group, Inc. 1,400	20
Torchmark Corp. 800	35	Lehman Brothers Holdings, Inc. 1,600	115

## Schwab MarketTrack Balanced Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
MBNA Corp. 8,268	205
Merrill Lynch & Co., Inc. 6,100	361
Moody's Corp. 1,000	58
Morgan Stanley 7,010	385
• Provident Financial Corp. 1,900	21
SLM Corp. 3,000	117
T. Rowe Price Group, Inc. 800	33
Washington Mutual, Inc. 5,974	261
	<b>5,128</b>
<b>Non-Durables &amp; Entertainment 0.1%</b>	
• American Greetings Corp., Class A 400	9
Darden Restaurants, Inc. 1,350	28
• Electronic Arts, Inc. 896	89
Fortune Brands, Inc. 1,000	65
Hasbro, Inc. 1,275	28
International Game Technology 2,000	65
Mattel, Inc. 2,825	55
McDonald's Corp. 8,600	215
• Starbucks Corp. 2,440	77
Tupperware Corp. 200	3
Wendy's International, Inc. 800	30
• Yum! Brands, Inc. 2,060	70
	<b>734</b>
<b>Non-Ferrous Metals 0.1%</b>	
Alcoa, Inc. 5,648	178
Engelhard Corp. 800	23
Freeport-McMoran Copper & Gold, Inc., Class B 1,100	43
• Phelps Dodge Corp. 540	33
	<b>277</b>
<b>Oil: Domestic 0.1%</b>	
Amerada Hess Corp. 600	31
Ashland, Inc. 500	18
ConocoPhillips 4,324	247
Kerr-McGee Corp. 621	26
Marathon Oil Corp. 2,100	62
• Nabors Industries Ltd. 1,000	38
Sunoco, Inc. 600	26
• Transocean, Inc. 2,016	39
Unocal Corp. 1,600	51
	<b>538</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Oil: International 0.4%</b>	
ChevronTexaco Corp. 6,895	512
⑩ Exxon Mobil Corp. 43,120	1,578
	<b>2,090</b>
<b>Optical &amp; Photo 0.0%</b>	
• Corning, Inc. 8,300	91
Eastman Kodak Co. 2,000	49
	<b>140</b>
<b>Paper &amp; Forest Products 0.1%</b>	
Boise Cascade Corp. 400	11
Georgia-Pacific Corp. 1,496	39
International Paper Co. 3,166	125
Kimberly-Clark Corp. 3,380	179
• Louisiana-Pacific Corp. 700	13
MeadWestvaco Corp. 1,279	33
Temple-Inland, Inc. 400	22
Weyerhaeuser Co. 1,400	84
	<b>506</b>
<b>Producer Goods &amp; Manufacturing 0.6%</b>	
• American Standard Cos., Inc. 500	48
Avery Dennison Corp. 700	37
Caterpillar, Inc. 2,300	169
Cooper Industries Ltd., Class A 600	32
Deere & Co. 1,500	91
Dover Corp. 1,400	55
Emerson Electric Co. 2,800	159
⑤ General Electric Co. 65,200	1,891
Honeywell International, Inc. 5,700	174
Illinois Tool Works, Inc. 2,000	147
Ingersoll-Rand Co., Class A 1,100	66
Johnson Controls, Inc. 500	54
• Millipore Corp. 200	9
Pall Corp. 800	19
Parker Hannifin Corp. 700	36
Snap-On, Inc. 350	10
W.W. Grainger, Inc. 600	27
	<b>3,024</b>

See financial notes. 37

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Railroad &amp; Shipping 0.1%</b>	
Burlington Northern Santa Fe Corp. 2,500	72
CSX Corp. 1,500	48
Norfolk Southern Corp. 2,500	50
Union Pacific Corp. 1,700	107
	<b>277</b>
<b>Real Property 0.0%</b>	
Apartment Investment & Management Co., Class A 600	24
Equity Office Properties Trust 2,600	73
Equity Residential 1,700	50
Plum Creek Timber Co., Inc. 1,200	32
ProLogis 1,200	35
Simon Property Group, Inc. 1,100	50
	<b>264</b>
<b>Retail 0.9%</b>	
Albertson's, Inc. 2,671	54
• Autonation, Inc. 2,000	37
• AutoZone, Inc. 500	48
• Bed, Bath & Beyond, Inc. 1,800	76
• Best Buy Co., Inc. 2,100	122
• Big Lots, Inc. 700	11
Circuit City Stores, Inc. 1,400	13
• Costco Wholesale Corp. 3,000	106
CVS Corp. 2,600	91
Dillard's, Inc., Class A 700	11
Dollar General Corp. 2,202	49
Family Dollar Stores, Inc. 1,100	48
Federated Department Stores, Inc. 1,400	67
The Gap, Inc. 5,662	108
Home Depot, Inc. 15,100	560
J.C. Penney Co., Inc. Holding Co. 1,700	40
• Kohl's Corp. 2,200	123
• Kroger Co. 5,300	93
Limited Brands, Inc. 3,388	60
Lowe's Cos., Inc. 5,000	295
The May Department Stores Co. 2,100	59
Nordstrom, Inc. 900	27
• Office Depot, Inc. 2,500	37
RadioShack Corp. 1,300	39

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Safeway, Inc. 2,800	59
Sears, Roebuck & Co. 1,800	95
• Staples, Inc. 3,050	82
Target Corp. 5,800	231
Tiffany & Co. 950	45
TJX Cos., Inc. 3,600	76
• Toys 'R' Us, Inc. 1,200	16
⑦ Wal-Mart Stores, Inc. 28,400	1,674
Walgreen Co. 6,600	230
Winn-Dixie Stores, Inc. 1,200	10
	<b>4,692</b>
<b>Steel 0.0%</b>	
Allegheny Technologies, Inc. 492	4
Nucor Corp. 600	33
United States Steel Corp. 500	12
Worthington Industries, Inc. 300	4
	<b>53</b>
<b>Telephone 0.4%</b>	
Alltel Corp. 2,100	99
AT&T Corp. 4,941	92
• AT&T Wireless Services, Inc. 17,825	129
• Avaya, Inc. 2,775	36
BellSouth Corp. 12,200	321
CenturyTel, Inc. 900	32
• Citizens Communications Co. 1,732	22
• Nextel Communications, Inc., Class A 6,800	165
• Qwest Communications International, Inc. 10,622	37
SBC Communications, Inc. 21,788	522
Sprint Corp. (FON Group) 5,800	93
• Sprint Corp. (PCS Group) 5,900	26
Verizon Communications, Inc. 17,836	599
	<b>2,173</b>
<b>Tobacco 0.1%</b>	
Altria Group, Inc. 13,200	614
R.J. Reynolds Tobacco Holdings, Inc. 600	29
UST, Inc. 1,100	37
	<b>680</b>

# Schwab MarketTrack Balanced Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Travel &amp; Recreation 0.1%</b>	
Brunswick Corp. 600	18
Carnival Corp. 4,100	143
Harrah's Entertainment, Inc. 900	39
Hilton Hotels Corp. 2,500	40
Marriott International, Inc., Class A 1,500	65
Starwood Hotels & Resorts Worldwide, Inc. 1,200	40
	<b>345</b>

<b>Trucking &amp; Freight 0.0%</b>	
Paccar, Inc. 700	55
Ryder Systems, Inc. 400	12
	<b>67</b>

<b>Utilities: Electric &amp; Gas 0.3%</b>	
• The AES Corp. 3,200	28
• Allegheny Energy, Inc. 720	8
Ameren Corp. 900	40
American Electric Power Co., Inc. 2,580	73
• Calpine Corp. 1,800	8
Centerpoint Energy, Inc. 1,924	19
Cinergy Corp. 1,000	36
• CMS Energy Corp. 700	6
Consolidated Edison, Inc. 1,500	61
Constellation Energy Group, Inc. 1,000	36
Dominion Resources, Inc. 2,167	133
DTE Energy Co. 1,000	37
Duke Energy Corp. 5,952	108
• Dynegy, Inc., Class A 2,100	8
• Edison International 2,200	43
El Paso Corp. 3,222	24
Entergy Corp. 1,500	81
Exelon Corp. 2,162	137
FirstEnergy Corp. 2,030	70
FPL Group, Inc. 1,300	83
KeySpan Corp. 900	31
Kinder Morgan, Inc. 745	40
Nicor, Inc. 300	10
NiSource, Inc. 1,351	28
Peoples Energy Corp. 200	8
• PG&E Corp. 2,400	59

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Pinnacle West Capital Corp. 600	22
PPL Corp. 1,000	40
Progress Energy, Inc. 1,593	69
Public Service Enterprise Group, Inc. 1,500	61
Sempra Energy 1,360	38
The Southern Co. 4,500	134
TECO Energy, Inc. 900	12
TXU Corp. 2,122	48
Williams Cos., Inc. 3,000	31
Xcel Energy, Inc. 2,085	34
	<b>1,704</b>

## Other Investment Companies

83.2% of net assets

■ ④ Schwab International Index Fund®, Select Shares® 6,068,707	77,376
■ ② Schwab S&P 500 Fund, Select Shares 5,656,804	92,828
■ ③ Schwab Small-Cap Index Fund®, Select Shares 4,289,107	78,276
■ ① Schwab Total Bond Market Fund™ 17,492,671	180,875
	<b>429,355</b>

## Short-Term Investment

4.4% of net assets

■ Schwab Value Advantage Money Fund®, Investor Shares 22,735,356	<b>22,735</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

## Schwab MarketTrack Balanced Portfolio™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$515,317
Receivables:	
Fund shares sold	387
Dividends	107
Investments sold	1,002
Prepaid expenses	+ 24
<b>Total assets</b>	<b>516,837</b>

#### Liabilities

Cash Overdraft	39
Payables:	
Fund shares redeemed	340
Investment adviser and administrator fees	6
Transfer agent and shareholder service fees	7
Accrued expenses	+ 78
<b>Total liabilities</b>	<b>470</b>

#### Net Assets

<b>Total assets</b>	516,837
<b>Total liabilities</b>	- 470
<b>Net assets</b>	<b>\$516,367</b>

#### Net Assets by Source

Capital received from investors	499,538
Net investment income not yet distributed	3,839
Net realized capital losses	(21,871)
Net unrealized capital gains	34,861

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$516,367		37,478		\$13.78

Unless stated, all numbers x 1,000.

The fund paid \$480,456 for these securities. Not counting short-term obligations and government securities, the fund paid \$76,793 for securities during the report period and received \$90,708 from securities it sold or that matured.

Percent of fund shares of other Schwab funds owned as of the end of the report period:

#### Schwab Equity Index Funds

S&P 500 Fund	1.2%
Small-Cap Index Fund®	4.8%
International Index Fund®	6.9%

#### Schwab Bond Funds

Total Bond Market Fund™	17.3%
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#### Schwab Money Funds

Value Advantage Money Fund®	0.1%
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#### Federal Tax Data

<b>Portfolio Cost</b>	\$490,162
<b>Net unrealized gains and losses:</b>	
Gains	\$49,976
Losses	+ (24,821)
	<b>\$25,155</b>

#### Undistributed earnings:

Ordinary income	\$3,839
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2010	\$303
2011	+ 11,862
	<b>\$12,165</b>

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$11,868
Interest	+ 5
<b>Total investment income</b>	<b>11,873</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(9,665)
Net realized gains received from underlying funds	+ 483
<b>Net realized losses</b>	<b>(9,182)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>75,317</b>
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**Expenses**

Investment adviser and administrator fees	2,103
Transfer agent and shareholder service fees	1,195
Trustees' fees	7
Custodian fees	42
Portfolio accounting fees	70
Professional fees	33
Registration fees	23
Shareholder reports	44
Other expenses	+ 10
Total expenses	3,527
Expense reduction	- 1,137
<b>Net expenses</b>	<b>2,390</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	11,873
<b>Net expenses</b>	- 2,390
<b>Net investment income</b>	<b>9,483</b>
<b>Net realized losses</b>	(9,182)
<b>Net unrealized gains</b>	+ 75,317
<b>Increase in net assets from operations</b>	<b>\$75,618</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of 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% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 0.50% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$66,135.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$9,483	\$11,937
Net realized losses	(9,182)	(5,624)
Net unrealized gains or losses	+ 75,317	(44,321)
<b>Increase or decrease in net assets from operations</b>	<b>75,618</b>	<b>(38,008)</b>

**Distributions Paid**

Dividends from net investment income	11,180	14,684
Distributions from net realized gains	+ —	4,608
<b>Total distributions paid</b>	<b>\$11,180</b>	<b>\$19,292</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	6,802	\$85,681	9,389	\$123,245
Shares reinvested	904	10,796	1,388	18,646
Shares redeemed	+ (8,594)	(107,008)	(9,314)	(119,076)
<b>Net transactions in fund shares</b>	<b>(888)</b>	<b>(\$10,531)</b>	<b>1,463</b>	<b>\$22,815</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	38,366	\$462,460	36,903	\$496,945
Total increase or decrease	+ (888)	53,907	1,463	(34,485)
<b>End of period</b>	<b>37,478</b>	<b>\$516,367</b>	<b>38,366</b>	<b>\$462,460</b>

Unless stated, all numbers x 1,000.

**Unaudited**

For corporations, 33% of the fund's dividends for the report period qualify for the dividends-received deduction.

The tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$11,180
Long-term capital gains	\$—

**Prior period:**

Ordinary Income	\$15,072
Long-term capital gains	\$4,220

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

Includes distributable net investment income in the amount of \$3,839 and \$5,536 at the end of the current period and prior period, respectively.



# Schwab MarketTrack Conservative Portfolio<sup>TM</sup>

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	11.37	12.22	13.12	12.73	12.11
Income or loss from investment operations:					
Net investment income	0.29	0.40	0.49	0.47	0.41
Net realized and unrealized gains or losses	1.16	(0.78)	(0.80)	0.41	0.68
Total income or loss from investment operations	1.45	(0.38)	(0.31)	0.88	1.09
Less distributions:					
Dividends from net investment income	(0.29)	(0.41)	(0.50)	(0.46)	(0.40)
Distributions from net realized gains	–	(0.06)	(0.09)	(0.03)	(0.07)
Total distributions	(0.29)	(0.47)	(0.59)	(0.49)	(0.47)
Net asset value at end of period	12.53	11.37	12.22	13.12	12.73
Total return (%)	12.98	(3.29)	(2.39)	6.92	9.13
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses <sup>1</sup>	0.50	0.50	0.50	0.56 <sup>2</sup>	0.57
Gross operating expenses	0.75	0.76	0.77	0.84	0.92
Net investment income	2.44	3.17	3.85	3.58	3.28
Portfolio turnover rate	17	32	15	16	8
Net assets, end of period (\$ x 1,000,000)	289	263	211	194	167

<sup>1</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>2</sup> The ratio of net operating expenses would have been 0.57% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>90.3% Other Investment Companies</b>	245,779	260,507
<b>5.2% Common Stock</b>	12,278	14,920
<b>4.5% Short-Term Investments</b>	13,038	13,038
<b>100.0% Total Investments</b>	<b>271,095</b>	<b>288,465</b>
<b>0.0% Other Assets and Liabilities, Net</b>		137
<b>100.0% Total Net Assets</b>		<b>288,602</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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**Common Stock** 5.2% of net assets**Aerospace / Defense** 0.1%

The Boeing Co.	1,346	52
Crane Co.	150	4
General Dynamics Corp.	300	25
Goodrich Corp.	200	6
Lockheed Martin Corp.	700	33
Northrop Grumman Corp.	257	23
Raytheon Co.	600	16
Rockwell Automation, Inc.	300	9
Rockwell Collins, Inc.	300	8
Textron, Inc.	200	10
United Technologies Corp.	700	58
		<b>244</b>

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

**Air Transportation** 0.1%

Delta Air Lines, Inc.	200	2
FedEx Corp.	460	35
Sabre Holdings Corp.	244	5
Southwest Airlines Co.	1,218	24
United Parcel Service, Inc., Class B	1,762	128
		<b>194</b>

**Alcoholic Beverages** 0.0%

Adolph Coors Co., Class B	50	3
Anheuser-Busch Cos., Inc.	1,300	64
Brown-Forman Corp., Class B	75	6
		<b>73</b>

**Apparel** 0.0%

Jones Apparel Group, Inc.	200	7
Liz Claiborne, Inc.	200	7
Nike, Inc., Class B	400	26
Reebok International Ltd.	100	4
VF Corp.	200	8
		<b>52</b>

**Automotive Products / Motor Vehicles** 0.1%

Cooper Tire & Rubber Co.	100	2
Cummins, Inc.	100	5
Dana Corp.	292	5
Danaher Corp.	250	21
Delphi Corp.	868	8
Eaton Corp.	100	10
Ford Motor Co.	2,921	35
General Motors Corp.	825	35
Genuine Parts Co.	250	8
• Goodyear Tire & Rubber Co.	300	2
Harley-Davidson, Inc.	500	24
• Navistar International Corp.	100	4
Visteon Corp.	248	1
		<b>160</b>

**Banks** 0.4%

AmSouth Bancorp.	600	14
Bank of America Corp.	2,311	175
The Bank of New York Co., Inc.	1,200	37

See financial notes. 45

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Veritas Software Corp. 600	22	• Sealed Air Corp. 153	8
Waste Management, Inc. 907	23		<b>25</b>
• Yahoo!, Inc. 1,000	44		
	<b>572</b>		
<b>Chemicals 0.1%</b>		<b>Electronics 0.3%</b>	
Air Products & Chemicals, Inc. 300	14	• ADC Telecommunications, Inc. 1,000	3
Dow Chemical Co. 1,472	56	• Advanced Micro Devices, Inc. 560	8
E.I. du Pont de Nemours & Co. 1,525	62	• Agilent Technologies, Inc. 710	18
Eastman Chemical Co. 100	3	• Altera Corp. 510	10
Ecolab, Inc. 400	11	• American Power Conversion Corp. 225	5
Great Lakes Chemical Corp. 100	2	• Analog Devices, Inc. 600	27
• Hercules, Inc. 200	2	• Andrew Corp. 100	1
Monsanto Co. 332	8	• Applied Materials, Inc. 2,600	61
PPG Industries, Inc. 300	17	• Applied Micro Circuits Corp. 455	3
Praxair, Inc. 250	17	• Broadcom Corp., Class A 492	16
Rohm & Haas Co. 373	15	• CIENA Corp. 500	3
Sigma-Aldrich Corp. 100	5	Intel Corp. 9,950	329
	<b>212</b>	ITT Industries, Inc. 150	10
<b>Construction 0.0%</b>		• Jabil Circuit, Inc. 322	9
Centex Corp. 100	10	• JDS Uniphase Corp. 2,010	7
Fluor Corp. 100	4	• KLA-Tencor Corp. 300	17
KB Home 100	7	Linear Technology Corp. 500	21
Masco Corp. 700	19	• LSI Logic Corp. 500	5
Pulte Homes, Inc. 100	9	• Lucent Technologies, Inc. 7,019	22
The Sherwin-Williams Co. 300	10	Maxim Integrated Products, Inc. 500	25
The Stanley Works 100	3	• Micron Technology, Inc. 900	13
Vulcan Materials Co. 200	9	Molex, Inc. 250	8
	<b>71</b>	Motorola, Inc. 3,666	50
<b>Consumer Durables 0.0%</b>		• National Semiconductor Corp. 300	12
Black & Decker Corp. 100	5	• Novellus Systems, Inc. 250	10
Leggett & Platt, Inc. 300	6	• Nvidia Corp. 200	4
Maytag Corp. 100	3	PerkinElmer, Inc. 200	4
Newell Rubbermaid, Inc. 436	10	• PMC – Sierra, Inc. 300	5
Whirlpool Corp. 100	7	• Power-One, Inc. 57	—
	<b>31</b>	• QLogic Corp. 138	8
<b>Containers 0.0%</b>		Qualcomm, Inc. 1,200	57
Ball Corp. 100	6	• Sanmina – SCI Corp. 800	8
Bemis Co. 100	5	Scientific-Atlanta, Inc. 200	6
• Pactiv Corp. 300	6	• Solectron Corp. 1,000	6
		Symbol Technologies, Inc. 303	4
		Tektronix, Inc. 200	5
		• Tellabs, Inc. 600	4
		• Teradyne, Inc. 300	7

## Schwab MarketTrack Conservative Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Texas Instruments, Inc. 2,700	78	<b>Healthcare / Drugs &amp; Medicine 0.7%</b>	
• Thermo Electron Corp. 200	4	Abbott Laboratories 2,400	102
• Thomas & Betts Corp. 100	2	Allergan, Inc. 200	15
• Waters Corp. 200	6	AmerisourceBergen Corp. 200	11
• Xilinx, Inc. 500	16	• Amgen, Inc. 1,952	121
	<b>917</b>	• Anthem, Inc. 200	14
<b>Energy: Raw Materials 0.1%</b>		Applied Biosystems Group – Applera Corp. 300	7
Anadarko Petroleum Corp. 367	16	Bausch & Lomb, Inc. 100	5
Apache Corp. 231	16	Baxter International, Inc. 900	24
Baker Hughes, Inc. 470	13	Becton Dickinson & Co. 400	15
• BJ Services Co. 200	7	• Biogen, Inc. 200	8
Burlington Resources, Inc. 300	15	Biomet, Inc. 450	16
Devon Energy Corp. 400	19	• Boston Scientific Corp. 634	43
EOG Resources, Inc. 180	8	Bristol-Myers Squibb Co. 3,000	76
Halliburton Co. 714	17	C.R. Bard, Inc. 100	8
• Noble Corp. 200	7	Cardinal Health, Inc. 700	42
Occidental Petroleum Corp. 600	21	• Chiron Corp. 300	16
• Rowan Cos., Inc. 100	2	Eli Lilly & Co. 1,725	115
Schlumberger Ltd. 900	42	• Express Scripts, Inc. 100	5
	<b>183</b>	• Forest Laboratories, Inc. 600	30
<b>Food &amp; Agriculture 0.2%</b>		• Genzyme Corp. – General Division 325	15
Archer-Daniels-Midland Co. 1,014	15	Guidant Corp. 500	26
Campbell Soup Co. 700	18	HCA, Inc. 800	31
The Coca-Cola Co. 3,800	176	Health Management Associates, Inc., Class A 400	9
Coca-Cola Enterprises, Inc. 700	14	• Humana, Inc. 200	4
ConAgra Foods, Inc. 800	19	Johnson & Johnson 4,592	231
General Mills, Inc. 582	26	• King Pharmaceuticals, Inc. 366	5
H.J. Heinz Co. 600	21	Manor Care, Inc. 100	3
Hershey Foods Corp. 200	16	McKesson Corp. 422	13
Kellogg Co. 600	20	• Medco Health Solutions, Inc. 422	14
McCormick & Co., Inc. 200	6	• Medimmune, Inc. 400	11
The Pepsi Bottling Group, Inc. 500	11	Medtronic, Inc. 1,900	87
PepsiCo, Inc. 2,660	127	Merck & Co., Inc. 3,400	150
Sara Lee Corp. 1,200	24	⑧ Pfizer, Inc. 11,907	376
Supervalu, Inc. 200	5	• Quest Diagnostics 189	13
Sysco Corp. 1,000	34	Schering-Plough Corp. 2,300	35
Wm. Wrigley Jr. Co. 300	17	• St. Jude Medical, Inc. 300	17
	<b>549</b>	Stryker Corp. 301	24
<b>Gold 0.0%</b>		• Tenet Healthcare Corp. 750	10
Newmont Mining Corp. 643	28	UnitedHealth Group, Inc. 950	48

See financial notes. 47

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Watson Pharmaceuticals, Inc. 200	8	St. Paul Cos., Inc. 356	14
• WellPoint Health Networks, Inc. 200	18	Torchmark Corp. 200	9
Wyeth 2,000	88	Travelers Property Casualty Corp., Class B 1,500	25
• Zimmer Holdings, Inc. 300	19	UnumProvident Corp. 346	6
	<b>1,928</b>	XL Capital Ltd., Class A 200	14
			<b>724</b>
<b>Household Products 0.1%</b>		<b>Media 0.2%</b>	
Alberto-Culver Co., Class B 100	6	Clear Channel Communications, Inc. 967	39
Avon Products, Inc. 350	24	• Comcast Corp., Class A 3,463	117
Clorox Co. 300	14	Dow Jones & Co., Inc. 100	5
Colgate-Palmolive Co. 800	42	Gannett Co., Inc. 400	34
The Gillette Co. 1,600	51	Knight-Ridder, Inc. 100	7
International Flavors & Fragrances, Inc. 200	7	The McGraw-Hill Cos., Inc. 300	20
Procter & Gamble Co. 2,000	197	Meredith Corp. 100	5
	<b>341</b>	New York Times Co., Class A 200	10
		R.R. Donnelley & Sons Co. 200	5
<b>Insurance 0.3%</b>		• Time Warner, Inc. 7,050	108
ACE Ltd. 400	14	Tribune Co. 500	25
Aetna, Inc. 222	13	• Univision Communications, Inc., Class A 519	18
AFLAC, Inc. 800	29	Viacom, Inc., Class B 2,660	106
The Allstate Corp. 1,100	43	The Walt Disney Co. 3,227	73
AMBAC Financial Group, Inc. 162	11		<b>572</b>
American International Group, Inc. 3,979	242	<b>Miscellaneous 0.0%</b>	
AON Corp. 475	10	3M Co. 1,200	<b>95</b>
Chubb Corp. 300	20	<b>Miscellaneous Finance 0.4%</b>	
CIGNA Corp. 200	11	American Express Co. 2,000	94
Cincinnati Financial Corp. 300	12	The Bear Stearns Cos., Inc. 145	11
Hartford Financial Services Group, Inc. 400	22	Capital One Financial Corp. 300	18
Jefferson-Pilot Corp. 225	11	■ The Charles Schwab Corp. 2,125	29
John Hancock Financial Services, Inc. 473	17	Charter One Financial, Inc. 346	11
Lincoln National Corp. 300	12	⑨ Citigroup, Inc. 7,882	374
Loews Corp. 300	13	Countrywide Financial Corp. 200	21
Marsh & McLennan Cos., Inc. 800	34	Fannie Mae 1,525	109
MBIA, Inc. 200	12	Federated Investors, Inc., Class B 200	6
Metlife, Inc. 1,178	37	Franklin Resources, Inc. 400	19
MGIC Investment Corp. 150	8	Freddie Mac 1,100	62
Principal Financial Group, Inc. 550	17	Golden West Financial Corp. 250	25
The Progressive Corp. 350	26	Goldman Sachs Group, Inc. 728	68
Prudential Financial, Inc. 900	35		
Safeco Corp. 200	7		

## Schwab MarketTrack Conservative Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Janus Capital Group, Inc. 400	6	• Transocean, Inc. 474	9
Lehman Brothers Holdings, Inc. 400	29	Unocal Corp. 400	13
MBNA Corp. 1,957	48		<b>122</b>
Merrill Lynch & Co., Inc. 1,400	83	<b>Oil: International 0.2%</b>	
Moody's Corp. 200	12	ChevronTexaco Corp. 1,643	122
Morgan Stanley 1,630	89	⑩ Exxon Mobil Corp. 10,168	372
• Provident Financial Corp. 400	4		<b>494</b>
SLM Corp. 750	29	<b>Optical &amp; Photo 0.0%</b>	
T. Rowe Price Group, Inc. 200	8	• Corning, Inc. 1,900	21
Washington Mutual, Inc. 1,431	63	Eastman Kodak Co. 500	12
	<b>1,218</b>		<b>33</b>
<b>Non-Durables &amp; Entertainment 0.1%</b>		<b>Paper &amp; Forest Products 0.0%</b>	
• American Greetings Corp., Class A 100	2	Boise Cascade Corp. 100	3
Darden Restaurants, Inc. 300	6	Georgia-Pacific Corp. 379	10
• Electronic Arts, Inc. 212	21	International Paper Co. 789	31
Fortune Brands, Inc. 200	13	Kimberly-Clark Corp. 756	40
Hasbro, Inc. 325	7	• Louisiana-Pacific Corp. 100	2
International Game Technology 456	15	MeadWestvaco Corp. 394	10
Mattel, Inc. 650	13	Temple-Inland, Inc. 100	5
McDonald's Corp. 2,000	50	Weyerhaeuser Co. 350	21
• Starbucks Corp. 560	18		<b>122</b>
Tupperware Corp. 100	2	<b>Producer Goods &amp; Manufacturing 0.3%</b>	
Wendy's International, Inc. 200	7	• American Standard Cos., Inc. 100	10
• Yum! Brands, Inc. 480	16	Avery Dennison Corp. 200	10
	<b>170</b>	Caterpillar, Inc. 550	40
<b>Non-Ferrous Metals 0.0%</b>		Cooper Industries Ltd., Class A 100	5
Alcoa, Inc. 1,312	41	Deere & Co. 400	24
Engelhard Corp. 200	6	Dover Corp. 300	12
Freeport-McMoran Copper & Gold, Inc., Class B 300	12	Emerson Electric Co. 600	34
• Phelps Dodge Corp. 135	8	⑤ General Electric Co. 15,350	445
	<b>67</b>	Honeywell International, Inc. 1,275	39
<b>Oil: Domestic 0.0%</b>		Illinois Tool Works, Inc. 500	37
Amerada Hess Corp. 100	5	Ingersoll-Rand Co., Class A 250	15
Ashland, Inc. 100	4	Johnson Controls, Inc. 150	16
ConocoPhillips 1,027	59	• Millipore Corp. 100	4
Kerr-McGee Corp. 136	6	Pall Corp. 200	5
Marathon Oil Corp. 500	15	Parker Hannifin Corp. 150	8
• Nabors Industries Ltd. 200	7	Snap-On, Inc. 100	3
Sunoco, Inc. 100	4	W.W. Grainger, Inc. 100	5
			<b>712</b>

See financial notes. 49

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Railroad &amp; Shipping 0.0%</b>			
Burlington Northern Santa Fe Corp. 600	17	• Safeway, Inc. 650	14
CSX Corp. 300	10	Sears, Roebuck & Co. 400	21
Norfolk Southern Corp. 600	12	• Staples, Inc. 750	20
Union Pacific Corp. 400	25	Target Corp. 1,400	56
	<b>64</b>	Tiffany & Co. 250	12
		TJX Cos., Inc. 800	17
		• Toys 'R' Us, Inc. 300	4
<b>Real Property 0.0%</b>		⑦ Wal-Mart Stores, Inc. 6,700	395
Apartment Investment & Management Co., Class A 100	4	Walgreen Co. 1,600	56
Equity Office Properties Trust 600	17	Winn-Dixie Stores, Inc. 300	2
Equity Residential 400	12		<b>1,111</b>
Plum Creek Timber Co., Inc. 300	8	<b>Steel 0.0%</b>	
ProLogis 300	9	Allegheny Technologies, Inc. 146	1
Simon Property Group, Inc. 300	13	Nucor Corp. 100	6
	<b>63</b>	United States Steel Corp. 100	2
		Worthington Industries, Inc. 100	1
			<b>10</b>
<b>Retail 0.4%</b>		<b>Telephone 0.2%</b>	
Albertson's, Inc. 652	13	Alltel Corp. 500	24
• Autonation, Inc. 500	9	AT&T Corp. 1,181	22
• AutoZone, Inc. 150	14	• AT&T Wireless Services, Inc. 4,265	31
• Bed, Bath & Beyond, Inc. 400	17	• Avaya, Inc. 418	5
• Best Buy Co., Inc. 450	26	BellSouth Corp. 2,900	76
• Big Lots, Inc. 200	3	CenturyTel, Inc. 250	9
Circuit City Stores, Inc. 300	3	• Citizens Communications Co. 410	5
• Costco Wholesale Corp. 700	25	• Nextel Communications, Inc., Class A 1,500	36
CVS Corp. 600	21	• Qwest Communications International, Inc. 2,524	9
Dillards, Inc., Class A 200	3	SBC Communications, Inc. 5,175	124
Dollar General Corp. 515	12	Sprint Corp. (FON Group) 1,300	21
Family Dollar Stores, Inc. 300	13	• Sprint Corp. (PCS Group) 1,400	6
Federated Department Stores, Inc. 300	14	Verizon Communications, Inc. 4,188	141
The Gap, Inc. 1,362	26		<b>509</b>
Home Depot, Inc. 3,600	133	<b>Tobacco 0.1%</b>	
J.C. Penney Co., Inc. Holding Co. 400	10	Altria Group, Inc. 3,100	144
• Kohl's Corp. 500	28	R.J. Reynolds Tobacco Holdings, Inc. 100	5
• Kroger Co. 1,200	21	UST, Inc. 300	10
Limited Brands, Inc. 818	14		<b>159</b>
Lowe's Cos., Inc. 1,200	71		
The May Department Stores Co. 500	14		
Nordstrom, Inc. 200	6		
• Office Depot, Inc. 600	9		
RadioShack Corp. 300	9		



# Schwab MarketTrack Conservative Portfolio™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Travel &amp; Recreation 0.0%</b>	
Brunswick Corp. 100	3
Carnival Corp. 1,000	35
Harrah's Entertainment, Inc. 200	9
Hilton Hotels Corp. 600	10
Marriott International, Inc., Class A 400	17
Starwood Hotels & Resorts Worldwide, Inc. 300	10
	<b>84</b>

## Trucking & Freight 0.0%

Paccar, Inc. 200	16
Ryder Systems, Inc. 100	3
	<b>19</b>

## Utilities: Electric & Gas 0.1%

• The AES Corp. 800	7
• Allegheny Energy, Inc. 170	2
Ameren Corp. 200	9
American Electric Power Co., Inc. 580	16
• Calpine Corp. 400	2
Centerpoint Energy, Inc. 474	5
Cinergy Corp. 300	11
• CMS Energy Corp. 200	2
Consolidated Edison, Inc. 300	12
Constellation Energy Group, Inc. 200	7
Dominion Resources, Inc. 515	32
DTE Energy Co. 200	7
Duke Energy Corp. 1,408	26
• Dynegy, Inc., Class A 500	2
• Edison International 500	10
El Paso Corp. 769	6
Entergy Corp. 350	19
Exelon Corp. 512	32
FirstEnergy Corp. 533	18
FPL Group, Inc. 300	19
KeySpan Corp. 200	7
Kinder Morgan, Inc. 176	9
Nicor, Inc. 100	3
NiSource, Inc. 376	8
• PG&E Corp. 600	15
Pinnacle West Capital Corp. 100	4

Security and Number of Shares	Mkt. Value (\$ x 1,000)
PPL Corp. 300	12
Progress Energy, Inc. 354	15
Public Service Enterprise Group, Inc. 300	12
Sempra Energy 297	8
The Southern Co. 1,100	33
TECO Energy, Inc. 200	3
TXU Corp. 400	9
Williams Cos., Inc. 700	7
Xcel Energy, Inc. 510	8
	<b>397</b>

## Other Investment Companies

90.3% of net assets

■ 4 Schwab International Index Fund®, Select Shares® 2,285,605	29,142
■ 2 Schwab S&P 500 Fund, Select Shares 2,650,069	43,488
■ 3 Schwab Small-Cap Index Fund®, Select Shares 1,621,064	29,584
■ 1 Schwab Total Bond Market Fund™ 15,308,841	158,293
	<b>260,507</b>

## Short-Term Investments

4.5% of net assets

■ Schwab Value Advantage Money Fund®, Investor Shares 12,984,216	12,984
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Security Rate, Maturity Date	Face Value (\$ x 1,000)	
Brown Brothers Harriman, Grand Cayman Time Deposit 0.50%, 11/01/03	54	54
		<b>13,038</b>

**End of investments.** For totals, please see the first page of holdings for this fund.

## Schwab MarketTrack Conservative Portfolio™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$288,465
Receivables:	
Fund shares sold	149
Dividends	38
Investments sold	151
Prepaid expenses	+ 13
<b>Total assets</b>	<b>288,816</b>

#### Liabilities

Payables:	
Fund shares redeemed	155
Investment adviser and administrator fees	3
Transfer agent and shareholder service fees	4
Accrued expenses	+ 52
<b>Total liabilities</b>	<b>214</b>

#### Net Assets

<b>Total assets</b>	288,816
<b>Total liabilities</b>	— 214
<b>Net assets</b>	<b>\$288,602</b>

#### Net Assets by Source

Capital received from investors	277,228
Net investment income not yet distributed	503
Net realized capital losses	(6,499)
Net unrealized capital gains	17,370

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$288,602		23,031		\$12.53

Unless stated, all numbers x 1,000.

The fund paid \$271,095 for these securities. Not counting short-term obligations and government securities, the fund paid \$43,037 for securities during the report period and received \$44,044 from securities it sold or that matured.

Percent of fund shares of other Schwab funds owned as of the end of the report period:

#### Schwab Equity Index Funds

S&P 500 Fund	0.6%
Small-Cap Index Fund®	1.8%
International Index Fund®	2.6%

#### Schwab Bond Funds

Total Bond Market Fund™	15.1%
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#### Schwab Money Funds

Value Advantage Money Fund®	Less than 0.1%
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#### Federal Tax Data

<b>Portfolio Cost</b>	\$272,787
<b>Net unrealized gains and losses:</b>	
Gains	\$20,564
Losses	+ (4,886)
	<b>\$15,678</b>

#### Undistributed earnings:

Ordinary income	\$503
Long-term capital gains	\$—

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2010	\$892
2011	+ 3,915
	<b>\$4,807</b>

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$8,023
Interest	+ 3
<b>Total investment income</b>	<b>8,026</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(3,087)
Net realized gains received from underlying funds	+ 425
<b>Net realized losses</b>	<b>(2,662)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>29,372</b>
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**Expenses**

Investment adviser and administrator fees	1,200
Transfer agent and shareholder service fees	682
Trustees' fees	7
Custodian fees	31
Portfolio accounting fees	40
Professional fees	34
Registration fees	20
Shareholder reports	25
Other expenses	+ 7
Total expenses	2,046
Expense reduction	- 682
<b>Net expenses</b>	<b>1,364</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	8,026
<b>Net expenses</b>	- 1,364
<b>Net investment income</b>	<b>6,662</b>
<b>Net realized losses</b>	(2,662)
<b>Net unrealized gains</b>	+ 29,372
<b>Increase in net assets from operations</b>	<b>\$33,372</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of 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% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 0.50% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$26,710.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$6,662	\$7,614
Net realized losses	(2,662)	(1,948)
Net unrealized gains or losses	+ 29,372	(15,307)
<b>Increase or decrease in net assets from operations</b>	<b>33,372</b>	<b>(9,641)</b>

**Distributions Paid**

Dividends from net investment income	6,687	7,675
Distributions from net realized gains	+ —	1,042
<b>Total distributions paid</b>	<b>\$6,687</b>	<b>\$8,717</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,632	\$54,499	10,860	\$128,363
Shares reinvested	548	6,370	710	8,460
Shares redeemed	+ (5,315)	(62,339)	(5,685)	(66,334)
<b>Net transactions in fund shares</b>	<b>(135)</b>	<b>(\$1,470)</b>	<b>5,885</b>	<b>\$70,489</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	23,166	\$263,387	17,281	\$211,256
Total increase or decrease	+ (135)	25,215	5,885	52,131
<b>End of period</b>	<b>23,031</b>	<b>\$288,602</b>	<b>23,166</b>	<b>\$263,387</b>

Unless stated, all numbers are x 1,000.

**Unaudited**

For corporations, 5% of the fund's dividends for the current report period qualify for the dividends-received deduction.

The fund also designates \$193 of the distribution paid from net investment income during the current fiscal year 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 2004 of the amounts for use in preparing their 2003 income tax returns.

The tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$6,687
Long-term capital gains	\$—

**Prior period:**

Ordinary Income	\$7,675
Long-term capital gains	\$1,042

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 \$503 and \$528 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 investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

**The funds 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.

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. The fund records the change in market value of futures, and also the change in the amount of margin deposit required ("variation margin").

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

### The 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 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™**

Schwab U.S. MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Communications Focus Fund™

Financial Services Focus Fund™

Health Care Focus Fund™

Technology Focus Fund™

Institutional Select S&P 500 Fund™

Institutional Select Large-Cap Value Index Fund™

Institutional Select Small-Cap Value Index Fund™

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

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

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

**The funds may engage in certain transactions involving related parties.** For instance, a fund may own shares of The Charles Schwab Corporation if that company is included in its index.

Pursuant to an exemptive order issued by the SEC, the funds may invest in other related funds. The percentages of fund shares of other related funds owned are shown in each fund's Statement of Assets and Liabilities.

The funds may make direct transactions with certain other SchwabFunds® 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 SchwabFunds®. 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 SchwabFunds.

**Trustees may include people who are officers and/or directors of the investment adviser or Schwab.**

Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund's Statement of Operations.

**The funds may borrow money from banks and custodians.** The funds may obtain temporary bank loans through the trusts to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

Fund	Amount Outstanding at 10/31/03 (\$ × 1,000)	Average Borrowing* (\$ × 1,000)	Weighted average Interest Rate* (%)
<b>MarketTrack Growth Portfolio™</b>	—	206	1.65
<b>MarketTrack Balanced Portfolio™</b>	39	341	1.71
<b>MarketTrack Conservative Portfolio™</b>	—	98	1.56

\*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 washsales.

**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 for which no market quotations are readily available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the fund's Board of Trustees.
- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.

- **Underlying funds:** Valued at their respective net asset values as determined by those funds, in accordance with the 1940 Act for a given day.
- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

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

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

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

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

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

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

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



## Report of independent auditors

**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 (four of the portfolios constituting Schwab Capital Trust)(hereafter collectively referred to as the “funds”) at October 31, 2003, and the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which 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, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

**PricewaterhouseCoopers LLP**

San Francisco, CA

December 12, 2003

## Fund Trustees

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 SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

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

Each of the SchwabFunds (of which there were 49 as of 10/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

### Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03:</i> Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03:</i> Co-Chair, The Charles Schwab Corporation. <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01:</i> Director, The Charles Schwab Trust Company. <i>Until 1/99:</i> Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

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

<sup>2</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

**Schwab MarketTrack Portfolios®**

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

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Dawn G. Lepore</b> <sup>1</sup> 3/21/54	Trustee:2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
<b>Jeffrey M. Lyons</b> <sup>1</sup> 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

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

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
<b>Tai-Chin Tung</b> 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
<b>Stephen B. Ward</b> 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

<sup>1</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Non-Executive Chairman, Solelectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Networks (telecommunications); Public Governor, Member, executive executive committee, Pacific Stock & Options Exchange. Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, School of Business, University of California, Berkeley.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

## Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

**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."

**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.

## Notes

## Contact Schwab

SchwabFunds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies.

Actively managed funds include multi-manager stock funds, a fund that uses long-short strategies, and a range of taxable and tax-free bond funds. Index funds include large-cap, small-cap and international stock funds. The list at right shows all currently available SchwabFunds.

Whether you're an experienced investor or just starting out, SchwabFunds can help you achieve your financial goals. Please call 1-800-435-4000 for a free prospectus and brochure for any SchwabFund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

### Methods for Placing Orders

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

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

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

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

Automated touch-tone phone service at **1-800-272-4922**.

#### Mail

Write to SchwabFunds 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.

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

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

## The SchwabFunds Family®

### Stock Funds

Schwab S&P 500 Fund

Schwab 1000 Fund®

Schwab Small-Cap Index Fund®

Schwab Total Stock Market Index Fund®

Schwab International Index Fund®

Schwab Core Equity Fund™

Schwab Dividend Equity Fund™

Schwab Small-Cap Equity Fund™

Schwab Hedged Equity Fund™

Schwab Focus Funds

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

Schwab MarketMasters Funds™

Schwab U.S. MarketMasters Fund™

Schwab Small-Cap MarketMasters Fund™

Schwab International MarketMasters Fund™

Schwab Balanced MarketMasters Fund™

### Asset Allocation Funds

Schwab MarketTrack Portfolios®

Schwab MarketTrack All Equity Portfolio™

Schwab MarketTrack Growth Portfolio™

Schwab MarketTrack Balanced Portfolio™

Schwab MarketTrack Conservative Portfolio™

### Bond Funds

Schwab YieldPlus Fund®

Schwab Short-Term Bond Market Fund™

Schwab Total Bond Market Fund™

Schwab GNMA Fund™

Schwab Short/Intermediate Tax-Free Bond Fund™

Schwab Long-Term Tax-Free Bond Fund™

Schwab California Short/Intermediate  
Tax-Free Bond Fund™

Schwab California Long-Term Tax-Free Bond Fund™

### Schwab Money Funds

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

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



**Investment Adviser**

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

**Distributor**

SchwabFunds®  
P.O. Box 3812, Englewood, CO 80155-3812

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# *Institutional Select<sup>®</sup> Funds*

## **Annual Report**

October 31, 2003

Institutional Select<sup>®</sup>

S&P 500 Fund

Institutional Select<sup>®</sup>

Large-Cap Value Index Fund

Institutional Select<sup>®</sup>

Small-Cap Value Index Fund

*charles* **SCHWAB**

*Three funds designed to capture the performance  
of specific segments of the U.S. stock market.*

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The president of SchwabFunds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

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### Institutional Select® S&P 500 Fund

Ticker Symbol: **ISLCX**

The fund seeks high total return by tracking the performance of the S&P 500® Index.<sup>1</sup>

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### Institutional Select® Large-Cap Value Index Fund

Ticker Symbol: **ISLVX**

The fund seeks high total return by tracking the performance of the S&P 500/Barra Value Index.<sup>1</sup>

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### Institutional Select® Small-Cap Value Index Fund

Ticker Symbol: **ISSVX**

The fund seeks high total return by tracking the performance of the S&P Small Cap 600/Barra Value Index.<sup>1</sup>

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

<sup>1</sup> Standard & Poor's®, S&P®, S&P 500®, Standard & Poor's 500®, 500®, S&P 500/Barra Value Index and S&P Small Cap 600/Barra Value Index 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.

## *From the Chairman*



**Charles R. Schwab**, Chairman

In the past few months, the mutual fund industry has been rocked by the discovery of improper practices and arrangements. Investors large and small have seen their confidence shaken, and understandably so.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. Many firms, including our own, have begun thorough investigations of their broker processes and procedures. We are continuing to scrutinize such transactions and arrangements, and are working closely with regulatory authorities. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management (“CSIM”), the investment advisor who manages the SchwabFunds®.

I fully believe that even a small number of irregularities is unacceptable. We have spent nearly 30 years building an ethical firm, and our business is founded on a commitment to doing what’s right for investors. That commitment leaves no room for any failures to follow company policies or industry regulations.

Given the importance of mutual funds to American investors, I can understand why investors find the recent news to be disturbing. At the same time, I would caution investors not to overreact. Before taking any action, investors should consider implications to their portfolio, tax situation and long-term financial goals.

Ultimately, mutual funds still offer all the features that have made them so popular—diversification, liquidity, convenience, low investment minimums, and professional management. For individual investors especially, mutual funds continue to be one of the most cost-effective investment vehicles available. To date, millions of Americans have relied on mutual funds as an important way to invest for retirement, their children’s education, and other financial goals. We see no reason why mutual funds cannot continue to do the same for millions more Americans in the years to come.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Schwab". The signature is written in a cursive, flowing style.

## Management's Discussion

for the year ended October 31, 2003



**Randall W. Merk** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear SchwabFunds® Shareholders:

By now, many of you have read the significant media coverage regarding the mutual fund industry. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. CSIM, which is a separate Charles Schwab subsidiary, has been conducting its own review of the SchwabFunds policies and procedures regarding market timing and late trading. We have examined over two years of activity by CSIM personnel and have not found the types of improper market timing or late trading arrangements that you have been reading about. Our research is still ongoing, so some of these facts may change. Here are our key findings to date:

- **The Integrity of our Staff:** We have not found any indication that any CSIM employees, including portfolio managers and senior managers, have engaged in improper or inappropriate trading for their own account.
- **Market Timing & Late Trading:** We have not found any special arrangements with any shareholders to permit market timing or trading of SchwabFunds after market close.
- **Hedge Funds:** We have not found any special arrangements with hedge funds or other private investment vehicles that would permit them to trade in a way that was inconsistent with a fund's policies and procedures.

As part of the recent mutual fund investigations, requests for information were sent by the SEC to about 90 of the largest mutual fund companies. As the nation's 11th largest fund family with over \$140 billion under management, SchwabFunds also received a request from the SEC. We take these requests very seriously and are working closely with the regulators on this matter.

Charles Schwab founded his firm 30 years ago with a vision to create the most useful and ethical financial services firm in the world. We live by that philosophy every day and nothing means more to our business than the trust of our shareholders.

Your investment in SchwabFunds is an indication of the trust you place in us. As the managers of your money, we have a special obligation to live up to that trust. I want to thank you for investing with us, and want to assure you that we strive relentlessly to operate our business with the highest ethical standards and an unwavering commitment to serve you, our SchwabFunds shareholders.

Sincerely,

A handwritten signature in black ink that reads "Randall W. Merk". The signature is written in a cursive, flowing style.



**Geri Hom**, a vice president and senior portfolio manager of the investment adviser, has overall responsibility for the management of the funds. Prior to joining the firm in 1995, she worked for nearly 15 years in equity management.

**Larry Mano**, a director and a portfolio manager, is responsible for the day-to-day management of the Large-Cap and Small-Cap funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.

## The Economy and the Market

**The economy continued to gather strength during the report period, but improvement remained sluggish and uneven.** Although numerous factors had been indicating that the U.S. economy was in recovery when the report period began, many remained concerned about the slow pace of improvement, in particular the absence of job growth. However, the government reported an 8.2% increase in GDP for the third quarter of 2003, job growth for October 2003 was the largest since January 2003, and merger activity picked up—indications that the economy may have gained real strength during the report period.

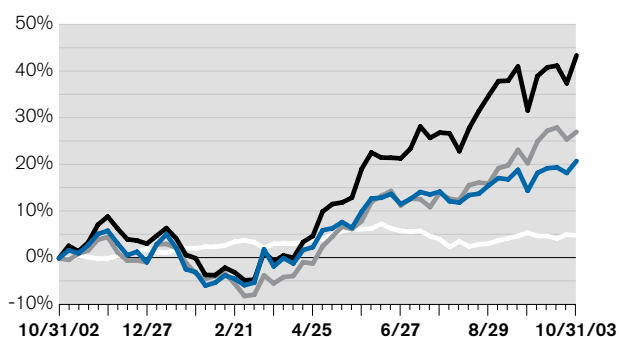
**Government policies were strongly aimed at stimulating the economy.** The Federal Reserve (the Fed) cut short-term interest rates twice during the period—0.50% in November 2002 and 0.25% in June 2003—bringing the Fed funds target rate to a 45-year low of 1.00%. On the fiscal side, stimulus measures included tax cuts.

Consumer spending held up strongly throughout the economic downturn, bolstered in part by unprecedented activity in mortgage refinancing (as individuals took advantage of the opportunity to refinance at historically low rates). During the period, we also saw business capital spending show signs of life after declining for the past few years.

### 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.

- 20.80% **S&P 500® Index:** measures U.S. large-cap stocks
- 43.37% **Russell 2000® Index:** measures U.S. small-cap stocks
- 27.03% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 4.91% **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 can't invest in them directly. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.

*Even the worst-performing sector in each fund posted a positive return, with formerly hard-hit sectors such as information technology leading the rebound.*

**Stock prices rose significantly over the period, even as skepticism lingered about the quality of the rally.** After more than two years of generally negative performance, U.S. equity markets reached an apparent bottom during the report period, then rose strongly, ending the period with significant gains. During the report period, the Nasdaq Composite Index rose 46%, while the S&P 500® Index rose nearly 21%.

One striking feature of the overall U.S. stock market during the report period is that stocks with more speculative characteristics tended to perform better than stocks with more demonstrable quality. For example, companies with low earnings or dividends generally outperformed companies with higher earnings or dividends. This held true for other measures of quality as well, such as debt to equity: those with higher levels of debt performed better than companies with lower levels of debt. Consistent with this trend, small-cap stocks (which tend to be more speculative) performed well during the period, and microcap stocks performed even better. Large-cap stocks lagged both groups, but still performed well.

Many market observers have asked why lower quality securities outperformed higher quality and whether it could continue. There are many possible answers, but we believe the more important point is that in the long run, quality has been shown to be a superior indicator of performance.

**Despite the dividend tax cut, dividend stocks underperformed the overall market during the period.** Congress passed the tax cut during the period as part of the government's economic stimulus efforts. The cut reduced the double taxation of corporate dividends, thus lowering the cost of capital and encouraging investment. Since companies that pay dividends are generally more established and less speculative, we see the underperformance of these stocks as being part of the larger market trend mentioned earlier.

## Performance at a Glance

Total return for the 12 months ended  
10/31/03

**Institutional Select®  
S&P 500 Fund** ..... **20.65%**  
Benchmark..... **20.80%**

*Performance Details* ..... *page 7*

**Institutional Select® Large-Cap  
Value Index Fund** ..... **24.40%**  
Benchmark..... **24.82%**

*Performance Details* ..... *page 9*

**Institutional Select® Small-Cap  
Value Index Fund** ..... **33.52%**  
Benchmark..... **34.25%**

*Performance Details* ..... *page 11*

## The Funds

All of the funds in this report posted double-digit total returns for the report period. October 2003, the last month of the period, was an especially strong month for the broad U.S. stock market and marked the seventh positive month of the last eight.

Signs of strength abounded, especially toward the end of the period. The S&P 500 Index closed above 1050 for the first time since May of 2002. Third-quarter earnings were 5% above consensus estimates for the 79% of the companies in the index that had reported their third-quarter earnings by the time this report was written.

Telecom services, the weakest sector in the S&P 500, was up 3%. Information technology, which had been especially hard-hit in recent years, led all sectors in the S&P 500 during the period with a notable 41% total return.

The **Institutional Select S&P 500 Fund** ended the report period up more than 20%. The fund met its goal of closely tracking its benchmark index. The fund was able to operate tax-efficiently, making no capital gains distribution for 2002.

Both the **Institutional Select Large-Cap Value Index Fund** and **Institutional Select Small-Cap Value Index Fund** benefited from the fact that the S&P 500/Barra Value Index and the S&P SmallCap 600/Barra Value Index outperformed the S&P 500 and S&P 600 indices, respectively. The difference was especially pronounced among large-caps (the growth portion of the S&P 500 was up 17% and the value portion up 25%). The small-cap fund also benefited from the fact that small-caps outperformed mid-

Past performance does not indicate future results.

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

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. Each fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. For more current performance information visit [www.schwab.com](http://www.schwab.com) or call 1-800-435-4000.

Small company stocks are subject to greater volatility than other asset categories.

*Factors that have been linked to superior long-term stock performance were not the factors that investors appeared to value most during the period.*

and large-caps during the period. Even the worst-performing small-cap sector, communications, had a double-digit return (about 14%), while technology rose a remarkable 70%. Historically, October has been a bad month for small-cap stocks. However, October 2003 saw small-caps gain 8% (as measured by the Schwab Small-Cap Index). Investors should note that the gains in small-caps were accompanied by high volatility: small-cap stock prices moved more than 1% a day on over 80% of the trading days during the period.

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



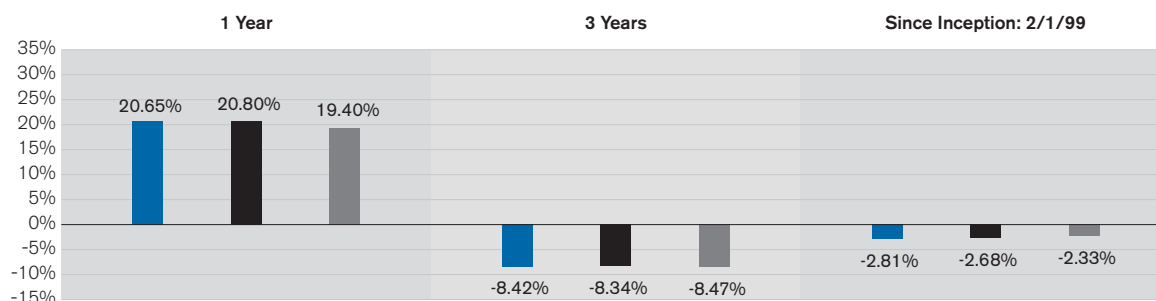
# Institutional Select® S&P 500 Fund

Performance as of 10/31/03

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

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

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

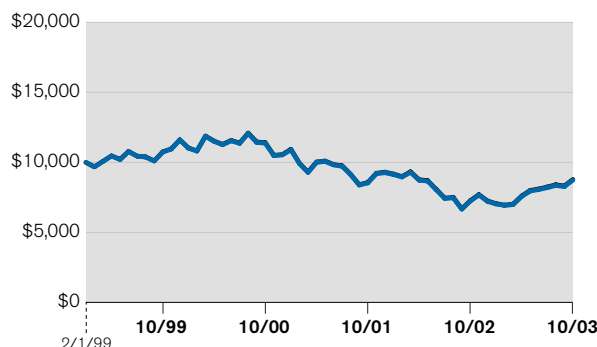


Total Returns After Tax	1 Year	3 Years	Since Inception
Pre-Liquidation (still own shares)	19.85%	-8.91%	-3.22%
Post-Liquidation (shares were sold)	13.27%	-6.84%	-2.41%

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

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

■ \$8,732 **Fund**  
 ■ \$8,789 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 10/31/03 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume

investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

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



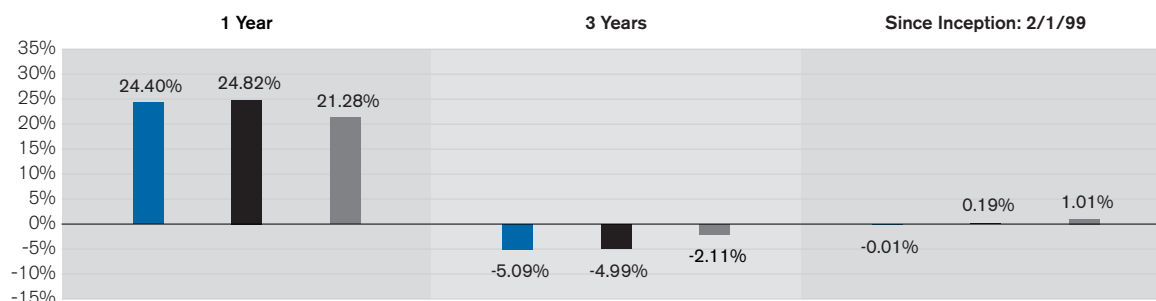
# Institutional Select<sup>®</sup> Large-Cap Value Index Fund

Performance as of 10/31/03

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

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

■ **Fund**  
 ■ **Benchmark: S&P 500/Barra Value Index**  
 ■ **Fund Category: Morningstar Large-Cap Value**

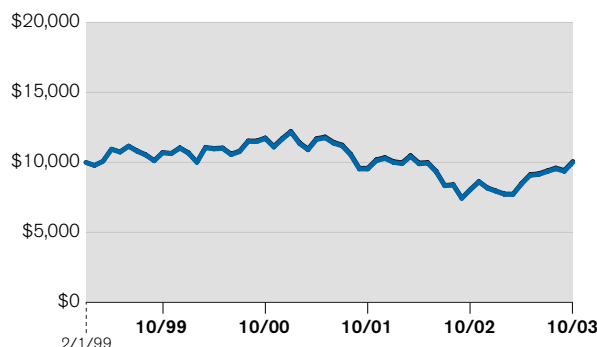


Total Returns After Tax	1 Year	3 Years	Since Inception
Pre-Liquidation (still own shares)	23.20%	-6.41%	-1.07%
Post-Liquidation (shares were sold)	15.63%	-4.58%	-0.46%

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

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

■ \$9,996 **Fund**  
 ■ \$10,075 **S&P 500/Barra Value Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 10/31/03 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume

investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

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

## Institutional Select® Large-Cap Value Index Fund

### Fund Facts as of 10/31/03

Fund Category<sup>1</sup>

Investment Style

Value

Blend

Growth

Large

Medium

Small

Market Cap

Statistics

Number of Holdings

344

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

\$58,250

Price/Earnings Ratio (P/E)

19.1

Price/Book Ratio (P/B)

2.2

Portfolio Turnover Rate

24%

Top Holdings<sup>2</sup>

Security

% of Net Assets

① Citigroup, Inc.

5.6%

② Exxon Mobil Corp.

5.6%

③ American International Group, Inc.

3.6%

④ Bank of America Corp.

2.6%

⑤ Wells Fargo & Co.

2.2%

⑥ Verizon Communications, Inc.

2.1%

⑦ SBC Communications, Inc.

1.8%

⑧ ChevronTexaco Corp.

1.8%

⑨ Comcast Corp., Class A

1.8%

⑩ J.P. Morgan Chase & Co.

1.7%

Total

28.8%

Sector Weightings % of Portfolio

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.

36.6%

Finance

15.9%

Consumer Non-Durables

11.3%

Technology

11.1%

Utilities

10.2%

Energy

7.4%

Materials & Services

2.5%

Capital Goods

1.9%

Consumer Durables

1.7%

Transportation

1.4%

Other

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.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

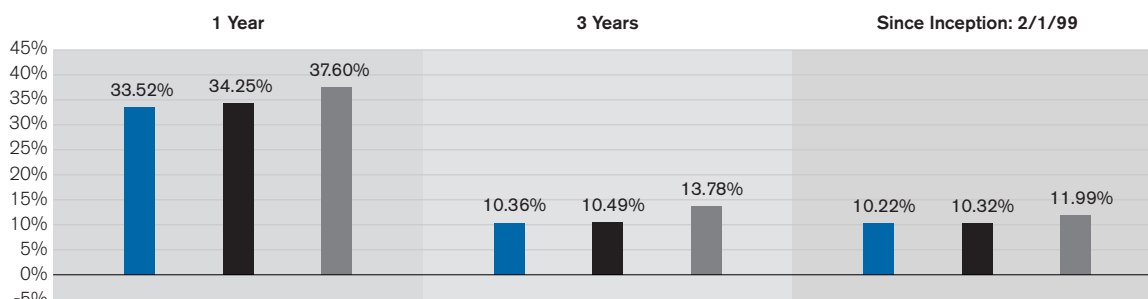
# Institutional Select® Small-Cap Value Index Fund

Performance as of 10/31/03

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

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

■ **Fund**  
 ■ **Benchmark: S&P SmallCap 600/Barra Value Index**  
 ■ **Fund Category: Morningstar Small-Cap Value**

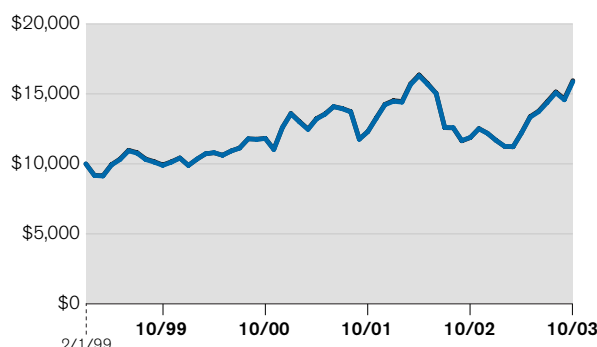


Total Returns After Tax	1 Year	3 Years	Since Inception
<b>Pre-Liquidation</b> (still own shares)	32.97%	8.14%	8.36%
<b>Post-Liquidation</b> (shares were sold)	21.67%	7.32%	7.43%

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

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

■ **\$15,876 Fund**  
 ■ **\$15,947 S&P SmallCap 600/Barra Value Index**



All figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption

of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 10/31/03 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume

investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

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

## Institutional Select® Small-Cap Value Index Fund

### Fund Facts as of 10/31/03

Fund Category <sup>1</sup>			Top Holdings <sup>2</sup>	
Investment Style			Security	% of Net Assets
Value	Blend	Growth		
			① Newfield Exploration Co.	1.1%
			② Raymond James Financial, Inc.	1.0%
			③ MDC Holdings, Inc.	1.0%
			④ Jefferies Group, Inc.	0.8%
			⑤ AnnTaylor Stores Corp.	0.8%
			⑥ Standard-Pacific Corp.	0.8%
			⑦ Whitney Holding Corp.	0.8%
			⑧ Briggs & Stratton Corp.	0.7%
			⑨ Cerner Corp.	0.7%
			⑩ The Timken Co.	0.7%
			<b>Total</b>	<b>8.4%</b>
Statistics			Sector Weightings % of Portfolio	
Number of Holdings			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.	
Weighted Average Market Cap (\$ x 1,000,000)				
Price/Earnings Ratio (P/E)				
Price/Book Ratio (P/B)				
Portfolio Turnover Rate				

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# *Institutional Select<sup>®</sup> S&P 500 Fund*

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	2/1/99 <sup>1</sup> – 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	7.00	8.36	11.26	10.74	10.00
Income or loss from investment operations:					
Net investment income	0.12	0.12	0.12	0.11	0.07
Net realized and unrealized gains or losses	1.30	(1.37)	(2.91)	0.52	0.67
Total income or loss from investment operations	1.42	(1.25)	(2.79)	0.63	0.74
Less distributions:					
Dividends from net investment income	(0.12)	(0.11)	(0.11)	(0.09)	—
Distributions from net realized gains	—	—	—	(0.02)	—
Total distributions	(0.12)	(0.11)	(0.11)	(0.11)	—
Net asset value at end of period	8.30	7.00	8.36	11.26	10.74
Total return (%)	20.65	(15.18)	(24.95)	5.86	7.40 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.15	0.15	0.15	0.15 <sup>3</sup>	0.13 <sup>4</sup>
Gross operating expenses	0.36	0.37	0.37	0.38	0.55 <sup>4</sup>
Net investment income	1.65	1.38	1.14	1.06	1.37 <sup>4</sup>
Portfolio turnover rate	4	12	13	6	1 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	272	203	261	382	238

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

<sup>2</sup> Not annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.16% if certain non-routine expenses (proxy fees) had been included.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts
- Issuer is related to the fund's adviser

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>99.9% Common Stock</b>	298,729	271,155
<b>0.0% U.S. Treasury Obligation</b>	80	80
<b>99.9% Total Investments</b>	<b>298,809</b>	<b>271,235</b>
<b>0.1% Other Assets and Liabilities, Net</b>		274
<b>100.0% Total Net Assets</b>		<b>271,509</b>

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

**Common Stock** 99.9% of net assets**Aerospace / Defense 1.6%**

The Boeing Co.	23,400	901
Crane Co.	1,500	42
General Dynamics Corp.	5,600	469
Goodrich Corp.	3,200	88
Lockheed Martin Corp.	12,500	580
Northrop Grumman Corp.	5,214	466
Raytheon Co.	11,400	302
Rockwell Automation, Inc.	5,100	158
Rockwell Collins, Inc.	4,700	129
Textron, Inc.	3,700	184
United Technologies Corp.	13,000	1,101
		<b>4,420</b>

**Air Transportation 1.3%**

Delta Air Lines, Inc.	3,200	41
FedEx Corp.	8,300	629
Sabre Holdings Corp.	3,918	86

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Southwest Airlines Co. 21,750	422
United Parcel Service, Inc., Class B 31,424	2,278
	<hr/> 3,456

**Alcoholic Beverages 0.5%**

Adolph Coors Co., Class B	1,000	56
Anheuser-Busch Cos., Inc.	23,300	1,148
Brown-Forman Corp., Class B	1,604	135
		<b>1,339</b>

**Apparel 0.3%**

Jones Apparel Group, Inc.	3,600	124
Liz Claiborne, Inc.	3,100	114
Nike, Inc., Class B	7,500	479
Reebok International Ltd.	1,500	59
VF Corp.	3,200	136
		<b>912</b>

**Automotive Products / Motor Vehicles 1.1%**

Cooper Tire & Rubber Co.	1,800	35
Cummins, Inc.	1,200	57
Dana Corp.	3,800	62
Danaher Corp.	4,200	348
Delphi Corp.	15,349	137
Eaton Corp.	2,100	210
Ford Motor Co.	50,911	617
General Motors Corp.	15,475	660
Genuine Parts Co.	4,800	153
• Goodyear Tire & Rubber Co.	4,700	32
Harley-Davidson, Inc.	8,600	408
• Navistar International Corp.	2,100	85
Visteon Corp.	3,669	24
		<b>2,828</b>

**Banks 7.7%**

AmSouth Bancorp.	9,600	227
Bank of America Corp.	41,600	3,150
The Bank of New York Co., Inc.	21,400	668
Bank One Corp.	31,800	1,350
BB&T Corp.	15,000	580
C Comerica, Inc.	5,100	263
Fifth Third Bancorp	16,069	931
First Tennessee National Corp.	3,600	163



**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
FleetBoston Financial Corp. 29,433	1,189	•Siebel Systems, Inc. 13,800	174
Huntington Bancshares, Inc. 6,283	136	•Sun Microsystems, Inc. 90,000	356
J.P. Morgan Chase & Co. 56,940	2,044	•Unisys Corp. 9,000	138
KeyCorp, Inc. 11,500	325	•Xerox Corp. 22,000	231
Marshall & Ilsley Corp. 6,228	223		<b>26,100</b>
Mellon Financial Corp. 12,000	358		
National City Corp. 16,900	552	<b>Business Services 3.9%</b>	
North Fork Bancorp., Inc. 4,500	175	•Allied Waste Industries, Inc. 5,800	65
Northern Trust Corp. 6,000	279	•Apollo Group, Inc., Class A 4,800	305
PNC Financial Services Group, Inc. 8,100	434	Automatic Data Processing, Inc. 16,600	627
Regions Financial Corp. 6,000	221	•Cendant Corp. 28,070	574
SouthTrust Corp. 9,300	296	Cintas Corp. 4,620	197
State Street Corp. 9,500	497	•Citrix Systems, Inc. 4,300	109
SunTrust Banks, Inc. 8,000	537	Computer Associates International, Inc. 15,900	374
Synovus Financial Corp. 8,300	229	•Computer Sciences Corp. 5,100	202
U.S. Bancorp 53,707	1,462	•Concord EFS, Inc. 13,700	146
Union Planters Corp. 5,650	188	•Convergys Corp. 4,525	73
Wachovia Corp. 37,400	1,716	Deluxe Corp. 1,700	69
Wells Fargo & Co. 47,113	2,653	•eBay, Inc. 18,182	1,017
Zions Bancorp. 2,400	147	Electronic Data Systems Corp. 13,200	283
	<b>20,993</b>	Equifax, Inc. 3,900	95
<b>Business Machines &amp; Software 9.6%</b>		First Data Corp. 20,700	739
Adobe Systems, Inc. 6,700	294	•Fiserv, Inc. 5,350	189
•Apple Computer, Inc. 10,100	231	H&R Block, Inc. 5,000	235
Autodesk, Inc. 3,000	58	IMS Health, Inc. 6,500	153
•BMC Software, Inc. 6,200	108	•Interpublic Group of Cos., Inc. 10,700	159
•Cisco Systems, Inc. 195,900	4,110	•Intuit, Inc. 5,883	294
•Compuware Corp. 10,500	59	•Mercury Interactive Corp. 2,500	116
•Comverse Technology, Inc. 4,900	88	•Monster Worldwide, Inc. 2,961	75
•Dell, Inc. 71,700	2,590	Omnicom Group, Inc. 5,500	439
•EMC Corp. 61,124	846	•Parametric Technology Corp. 7,100	22
•Gateway, Inc. 8,700	44	Paychex, Inc. 10,325	402
Hewlett-Packard Co. 85,001	1,896	•PeopleSoft, Inc. 10,500	218
⑨ International Business Machines Corp. 48,200	4,313	•Robert Half International, Inc. 4,600	109
•Lexmark International, Inc., Class A 3,600	265	•Sungard Data Systems, Inc. 8,013	225
▲② Microsoft Corp. 302,100	7,900	•Symantec Corp. 4,200	280
•NCR Corp. 2,600	93	Tyco International Ltd. 55,876	1,167
•Network Appliance, Inc. 9,500	235	•Veritas Software Corp. 11,900	430
•Novell, Inc. 10,100	59	Waste Management, Inc. 16,400	425
•Oracle Corp. 146,200	1,749	•Yahoo!, Inc. 18,100	791
Pitney Bowes, Inc. 6,400	263		<b>10,604</b>

See financial notes. 15

# Institutional Select® S&P 500 Fund

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

## Chemicals 1.4%

Air Products & Chemicals, Inc.	6,300	286
Dow Chemical Co.	25,760	971
E.I. du Pont de Nemours & Co.	27,982	1,131
Eastman Chemical Co.	2,200	72
Ecolab, Inc.	7,200	194
Great Lakes Chemical Corp.	1,400	30
•Hercules, Inc.	2,900	30
Monsanto Co.	7,117	178
PPG Industries, Inc.	4,600	265
Praxair, Inc.	4,500	313
Rohm & Haas Co.	6,363	250
Sigma-Aldrich Corp.	2,200	115
		<b>3,835</b>

## Construction 0.5%

Centex Corp.	2,000	195
Fluor Corp.	2,100	78
KB Home	1,500	103
Masco Corp.	13,200	363
Pulte Homes, Inc.	1,600	138
The Sherwin-Williams Co.	4,000	134
The Stanley Works	2,200	73
Vulcan Materials Co.	3,000	133
		<b>1,217</b>

## Consumer Durables 0.2%

Black & Decker Corp.	2,100	100
Leggett & Platt, Inc.	5,200	109
Maytag Corp.	2,000	51
Newell Rubbermaid, Inc.	7,667	175
Whirlpool Corp.	1,800	127
		<b>562</b>

## Containers 0.1%

Ball Corp.	1,600	90
Bemis Co.	1,400	65
•Pactiv Corp.	4,100	90
•Sealed Air Corp.	2,400	128
		<b>373</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

## Electronics 6.1%

•ADC Telecommunications, Inc.	22,100	56
•Advanced Micro Devices, Inc.	9,600	146
•Agilent Technologies, Inc.	12,884	321
•Altera Corp.	10,320	209
American Power Conversion Corp.	5,150	104
•Analog Devices, Inc.	10,200	452
•Andrew Corp.	4,200	55
•Applied Materials, Inc.	46,400	1,084
•Applied Micro Circuits Corp.	8,221	48
•Broadcom Corp., Class A	8,300	265
•CIENA Corp.	13,100	84
⑦ Intel Corp.	182,000	6,015
ITT Industries, Inc.	2,800	190
•Jabil Circuit, Inc.	5,414	151
•JDS Uniphase Corp.	39,628	141
•KLA-Tencor Corp.	5,300	304
Linear Technology Corp.	8,600	366
•LSI Logic Corp.	10,300	95
•Lucent Technologies, Inc.	116,145	372
Maxim Integrated Products, Inc.	8,900	442
•Micron Technology, Inc.	16,700	239
Molex, Inc.	5,300	166
Motorola, Inc.	64,726	876
•National Semiconductor Corp.	5,100	207
•Novellus Systems, Inc.	4,050	167
•Nvidia Corp.	4,100	73
PerkinElmer, Inc.	3,300	59
•PMC - Sierra, Inc.	4,600	84
•Power-One, Inc.	2,300	21
•QLogic Corp.	2,513	141
Qualcomm, Inc.	22,000	1,045
•Sanmina-SCI Corp.	14,200	150
Scientific-Atlanta, Inc.	4,300	127
•Soletron Corp.	22,900	127
Symbol Technologies, Inc.	6,136	77
Tektronix, Inc.	2,100	54
•Tellabs, Inc.	11,400	86
•Teradyne, Inc.	4,900	112
Texas Instruments, Inc.	48,300	1,397
•Thermo Electron Corp.	4,400	97

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Thomas & Betts Corp. 1,500	27	<b>Healthcare / Drugs &amp; Medicine 12.9%</b>	
• Waters Corp. 3,600	113	Abbott Laboratories 43,600	1,858
• Xilinx, Inc. 9,500	301	Allergan, Inc. 3,600	272
	<b>16,646</b>	AmerisourceBergen Corp. 3,100	176
<b>Energy: Raw Materials 1.3%</b>		• Amgen, Inc. 36,000	2,223
Anadarko Petroleum Corp. 7,121	311	• Anthem, Inc. 4,028	276
Apache Corp. 4,432	309	Applied Biosystems Group – Applera Corp. 5,600	129
Baker Hughes, Inc. 9,500	269	Bausch & Lomb, Inc. 1,700	82
• BJ Services Co. 4,400	144	Baxter International, Inc. 16,900	449
Burlington Resources, Inc. 5,800	282	Becton Dickinson & Co. 7,000	256
Devon Energy Corp. 6,400	310	• Biogen, Inc. 4,200	170
EOG Resources, Inc. 3,322	140	Biomet, Inc. 7,000	251
Halliburton Co. 12,200	291	• Boston Scientific Corp. 11,500	779
• Noble Corp. 3,500	120	Bristol-Myers Squibb Co. 54,100	1,372
Occidental Petroleum Corp. 10,600	374	C.R. Bard, Inc. 1,600	128
• Rowan Cos., Inc. 2,500	60	Cardinal Health, Inc. 12,700	754
Schlumberger Ltd. 16,500	775	• Chiron Corp. 5,400	295
	<b>3,385</b>	Eli Lilly & Co. 31,400	2,092
<b>Food &amp; Agriculture 3.6%</b>		• Express Scripts, Inc. 2,200	121
Archer-Daniels-Midland Co. 17,648	253	• Forest Laboratories, Inc. 10,200	510
Campbell Soup Co. 11,500	298	• Genzyme Corp. - General Division 6,100	280
The Coca-Cola Co. 68,500	3,178	Guidant Corp. 8,500	434
Coca-Cola Enterprises, Inc. 12,500	252	HCA, Inc. 14,200	543
ConAgra Foods, Inc. 14,900	355	Health Management Associates, Inc., Class A 6,400	142
General Mills, Inc. 10,500	471	• Humana, Inc. 4,200	85
H.J. Heinz Co. 9,600	339	⑩ Johnson & Johnson 83,068	4,181
Hershey Foods Corp. 3,600	278	• King Pharmaceuticals, Inc. 6,433	86
Kellogg Co. 11,500	381	Manor Care, Inc. 2,600	86
McCormick & Co., Inc. 3,999	119	McKesson Corp. 8,100	245
The Pepsi Bottling Group, Inc. 7,580	169	• Medco Health Solutions, Inc. 7,489	249
PepsiCo, Inc. 48,080	2,299	• Medimmune, Inc. 7,200	192
Sara Lee Corp. 21,500	429	Medtronic, Inc. 34,000	1,549
Supervalu, Inc. 3,500	88	Merck & Co., Inc. 62,500	2,766
Sysco Corp. 18,000	606	▲④ Pfizer, Inc. 217,597	6,876
Wm. Wrigley Jr. Co. 6,200	350	• Quest Diagnostics 3,137	212
	<b>9,865</b>	Schering-Plough Corp. 41,000	626
<b>Gold 0.2%</b>		• St. Jude Medical, Inc. 4,900	285
Newmont Mining Corp. 11,200	490	Stryker Corp. 5,620	456
		• Tenet Healthcare Corp. 12,700	175
		UnitedHealth Group, Inc. 16,600	845

See financial notes. 17

# Institutional Select® S&P 500 Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Watson Pharmaceuticals, Inc. 3,100	122
• WellPoint Health Networks, Inc. 4,000	356
Wyeth 37,300	1,646
• Zimmer Holdings, Inc. 6,300	402
	<b>35,032</b>
<b>Household Products 2.3%</b>	
Alberto-Culver Co., Class B 1,900	121
Avon Products, Inc. 6,800	462
Clorox Co. 6,000	272
Colgate-Palmolive Co. 14,900	793
The Gillette Co. 28,500	909
International Flavors & Fragrances, Inc. 2,700	89
Procter & Gamble Co. 36,200	3,558
	<b>6,204</b>
<b>Insurance 4.9%</b>	
ACE Ltd. 7,900	284
Aetna, Inc. 4,500	258
AFLAC, Inc. 14,300	522
The Allstate Corp. 19,700	778
AMBAC Financial Group, Inc. 3,133	222
⑧ American International Group, Inc. 72,800	4,428
AON Corp. 8,400	184
Chubb Corp. 5,100	341
CIGNA Corp. 4,000	228
Cincinnati Financial Corp. 4,500	184
Hartford Financial Services Group, Inc. 8,100	445
Jefferson-Pilot Corp. 3,900	186
John Hancock Financial Services, Inc. 8,181	289
Lincoln National Corp. 5,100	204
Loews Corp. 5,200	224
Marsh & McLennan Cos., Inc. 14,900	637
MBIA, Inc. 4,000	238
Metlife, Inc. 21,257	667
MGIC Investment Corp. 2,900	149
Principal Financial Group, Inc. 8,884	279
The Progressive Corp. 6,100	450
Prudential Financial, Inc. 15,300	591

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Safeco Corp. 4,000	147
St. Paul Cos., Inc. 6,500	248
Torchmark Corp. 3,300	145
Travelers Property Casualty Corp., Class B 27,900	457
UnumProvident Corp. 8,260	135
XL Capital Ltd., Class A 4,000	278
	<b>13,198</b>
<b>Media 3.8%</b>	
Clear Channel Communications, Inc. 17,295	706
• Comcast Corp., Class A 62,738	2,128
Dow Jones & Co., Inc. 2,500	130
Gannett Co., Inc. 7,600	639
Knight-Ridder, Inc. 2,400	176
The McGraw-Hill Cos., Inc. 5,300	355
Meredith Corp. 1,600	78
New York Times Co., Class A 4,200	200
R.R. Donnelley & Sons Co. 3,000	78
• Time Warner, Inc. 126,000	1,926
Tribune Co. 8,900	437
• Univision Communications, Inc., Class A 8,994	305
Viacom, Inc., Class B 48,945	1,951
The Walt Disney Co. 56,900	1,288
	<b>10,397</b>
<b>Miscellaneous 0.6%</b>	
3M Co. 21,800	<b>1,719</b>
<b>Miscellaneous Finance 8.2%</b>	
American Express Co. 36,000	1,689
The Bear Stearns Cos., Inc. 2,846	217
Capital One Financial Corp. 6,400	389
■ The Charles Schwab Corp. 37,838	513
Charter One Financial, Inc. 6,379	204
▲ ⑤ Citigroup, Inc. 143,900	6,821
Countrywide Financial Corp. 3,700	389
Fannie Mae 27,300	1,957
Federated Investors, Inc., Class B 2,800	77
Franklin Resources, Inc. 7,000	332

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Freddie Mac 19,400	1,089	Kerr-McGee Corp. 2,673	111
Golden West Financial Corp. 4,300	432	Marathon Oil Corp. 8,400	248
Goldman Sachs Group, Inc. 13,254	1,245	• Nabors Industries Ltd. 4,200	159
Janus Capital Group, Inc. 6,400	90	Sunoco, Inc. 2,200	96
Lehman Brothers Holdings, Inc. 6,900	497	• Transocean, Inc. 8,720	167
MBNA Corp. 35,550	880	Unocal Corp. 7,000	222
Merrill Lynch & Co., Inc. 26,200	1,551		<b>2,287</b>
Moody's Corp. 4,200	243	<b>Oil: International 3.3%</b>	
Morgan Stanley 30,300	1,663	ChevronTexaco Corp. 29,896	2,221
• Provident Financial Corp. 7,900	88	▲ 6 Exxon Mobil Corp. 185,520	6,787
SLM Corp. 12,600	493		<b>9,008</b>
T. Rowe Price Group, Inc. 3,600	148	<b>Optical &amp; Photo 0.2%</b>	
Washington Mutual, Inc. 26,000	1,138	• Corning, Inc. 37,000	406
	<b>22,145</b>	Eastman Kodak Co. 8,000	196
<b>Non-Durables &amp; Entertainment 1.1%</b>			<b>602</b>
• American Greetings Corp., Class A 1,700	36	<b>Paper &amp; Forest Products 0.8%</b>	
Darden Restaurants, Inc. 4,500	94	Boise Cascade Corp. 1,400	39
• Electronic Arts, Inc. 4,025	399	Georgia-Pacific Corp. 6,886	181
Fortune Brands, Inc. 4,200	274	International Paper Co. 13,439	529
Hasbro, Inc. 4,600	100	Kimberly-Clark Corp. 14,300	755
International Game Technology 9,600	315	• Louisiana-Pacific Corp. 3,000	57
Mattel, Inc. 12,200	236	MeadWestvaco Corp. 5,522	143
McDonald's Corp. 35,400	885	Temple-Inland, Inc. 1,400	76
• Starbucks Corp. 10,840	343	Weyerhaeuser Co. 6,000	361
Tupperware Corp. 1,600	24		<b>2,141</b>
Wendy's International, Inc. 3,000	111	<b>Producer Goods &amp; Manufacturing 4.8%</b>	
• Yum! Brands, Inc. 8,000	273	• American Standard Cos., Inc. 2,000	191
	<b>3,090</b>	Avery Dennison Corp. 3,100	163
<b>Non-Ferrous Metals 0.4%</b>		Caterpillar, Inc. 9,500	696
Alcoa, Inc. 23,504	742	Cooper Industries Ltd., Class A 2,500	132
Engelhard Corp. 3,600	103	Deere & Co. 6,600	400
Freeport-McMoran Copper & Gold, Inc., Class B 4,700	182	Dover Corp. 5,800	226
• Phelps Dodge Corp. 2,560	158	Emerson Electric Co. 11,800	670
	<b>1,185</b>	▲ 1 General Electric Co. 279,900	8,120
<b>Oil: Domestic 0.9%</b>		Honeywell International, Inc. 23,862	730
Amerada Hess Corp. 2,400	124	Illinois Tool Works, Inc. 8,700	640
Ashland, Inc. 1,900	71	Ingersoll-Rand Co., Class A 4,700	284
ConocoPhillips 19,049	1,089	Johnson Controls, Inc. 2,400	258

# Institutional Select® S&P 500 Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Millipore Corp. 1,200	53	Limited Brands, Inc. 14,400	253
Pall Corp. 3,400	80	Lowe's Cos., Inc. 21,800	1,285
Parker Hannifin Corp. 3,400	173	The May Department Stores Co. 7,800	218
Snap-On, Inc. 1,400	41	Nordstrom, Inc. 3,900	119
W.W. Grainger, Inc. 2,400	110	• Office Depot, Inc. 8,600	128
	<b>12,967</b>	RadioShack Corp. 4,800	144
<b>Railroad &amp; Shipping 0.4%</b>		• Safeway, Inc. 12,300	260
Burlington Northern Santa Fe Corp. 10,500	304	Sears, Roebuck & Co. 7,800	411
CSX Corp. 5,700	181	• Staples, Inc. 13,600	365
Norfolk Southern Corp. 10,900	220	Target Corp. 25,300	1,005
Union Pacific Corp. 7,300	457	Tiffany & Co. 3,950	187
	<b>1,162</b>	TJX Cos., Inc. 14,200	298
<b>Real Property 0.4%</b>		• Toys 'R' Us, Inc. 5,800	75
Apartment Investment & Management Co., Class A 2,700	110	▲ Wal-Mart Stores, Inc. 122,000	7,192
Equity Office Properties Trust 11,100	311	Walgreen Co. 28,400	989
Equity Residential 7,700	225	Winn-Dixie Stores, Inc. 3,800	31
Plum Creek Timber Co., Inc. 5,000	132		<b>19,990</b>
ProLogis 4,900	145	<b>Steel 0.1%</b>	
Simon Property Group, Inc. 5,200	234	Allegheny Technologies, Inc. 2,350	18
	<b>1,157</b>	Nucor Corp. 2,400	132
<b>Retail 7.4%</b>		United States Steel Corp. 2,600	61
Albertson's, Inc. 10,183	207	Worthington Industries, Inc. 2,100	31
• Autonation, Inc. 7,800	146		<b>242</b>
• AutoZone, Inc. 2,500	240	<b>Telephone 3.4%</b>	
• Bed, Bath & Beyond, Inc. 8,200	346	Alltel Corp. 8,600	407
• Best Buy Co., Inc. 8,900	519	AT&T Corp. 21,697	403
• Big Lots, Inc. 2,900	44	• AT&T Wireless Services, Inc. 75,446	547
Circuit City Stores, Inc. 5,500	52	• Avaya, Inc. 11,595	150
• Costco Wholesale Corp. 12,700	449	BellSouth Corp. 51,700	1,360
CVS Corp. 11,000	387	CenturyTel, Inc. 3,900	140
Dillards, Inc., Class A 2,200	36	• Citizens Communications Co. 7,686	96
Dollar General Corp. 9,050	203	• Nextel Communications, Inc., Class A 28,800	697
Family Dollar Stores, Inc. 5,000	218	• Qwest Communications International, Inc. 47,121	166
Federated Department Stores, Inc. 5,400	257	SBC Communications, Inc. 92,630	2,221
The Gap, Inc. 24,700	471	Sprint Corp. (FON Group) 24,900	398
Home Depot, Inc. 64,000	2,372	• Sprint Corp. (PCS Group) 28,700	125
J.C. Penney Co., Inc. Holding Co. 7,300	173	Verizon Communications, Inc. 76,828	2,581
• Kohl's Corp. 9,700	544		<b>9,291</b>
• Kroger Co. 20,900	366		

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Tobacco 1.1%</b>	
Altria Group, Inc. 56,600	2,632
R.J. Reynolds Tobacco Holdings, Inc. 2,300	110
UST, Inc. 4,500	153
	<b>2,895</b>

**Travel & Recreation 0.6%**

Brunswick Corp. 2,400	71
Carnival Corp. 17,700	618
Harrah's Entertainment, Inc. 3,200	139
Hilton Hotels Corp. 10,200	162
Marriott International, Inc., Class A 6,700	290
Starwood Hotels & Resorts Worldwide, Inc. 5,700	192
	<b>1,472</b>

**Trucking & Freight 0.1%**

Paccar, Inc. 3,250	257
Ryder Systems, Inc. 1,700	51
	<b>308</b>

**Utilities: Electric & Gas 2.8%**

• The AES Corp. 17,200	150
• Allegheny Energy, Inc. 3,201	34
Ameren Corp. 4,700	210
American Electric Power Co., Inc. 10,980	309
• Calpine Corp. 10,700	49
Centerpoint Energy, Inc. 8,400	82
Cinergy Corp. 4,800	174
• CMS Energy Corp. 3,700	30
Consolidated Edison, Inc. 6,200	251
Constellation Energy Group, Inc. 4,800	175
Dominion Resources, Inc. 9,191	566
DTE Energy Co. 4,800	177
Duke Energy Corp. 24,900	452
• Dynegy, Inc., Class A 10,100	40
• Edison International 8,800	173
El Paso Corp. 16,426	121
Entergy Corp. 6,400	345

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Exelon Corp. 9,150	581
FirstEnergy Corp. 9,088	312
FPL Group, Inc. 5,100	325
KeySpan Corp. 4,300	150
Kinder Morgan, Inc. 3,505	188
Nicor, Inc. 1,400	48
NiSource, Inc. 7,127	148
Peoples Energy Corp. 1,200	49
• PG&E Corp. 11,400	279
Pinnacle West Capital Corp. 2,400	88
PPL Corp. 5,000	200
Progress Energy, Inc. 6,726	290
Public Service Enterprise Group, Inc. 6,400	262
Sempra Energy 6,285	175
The Southern Co. 20,400	608
TECO Energy, Inc. 5,200	68
TXU Corp. 8,900	203
Williams Cos., Inc. 14,200	145
Xcel Energy, Inc. 11,060	181
	<b>7,638</b>

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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**U.S. Treasury Obligation**  
0.0% of net assets

▲ U.S. Treasury Bill 0.93%, 12/18/03	80	<b>80</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

## Institutional Select® S&P 500 Fund

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$271,235
Receivables:	
Fund shares sold	218
Interest	1
Dividends	364
Investments sold	416
Prepaid expenses	+ 14
<b>Total assets</b>	<b>272,248</b>

#### Liabilities

Cash overdraft	74
Payables:	
Fund shares redeemed	517
Investments bought	82
Transfer agent and shareholder service fees	1
Accrued expenses	+ 65
<b>Total liabilities</b>	<b>739</b>

#### Net Assets

<b>Total assets</b>	272,248
<b>Total liabilities</b>	- 739
<b>Net assets</b>	<b>\$271,509</b>

#### Net Assets by Source

Capital received from investors	347,404
Net investment income not yet distributed	3,116
Net realized capital losses	(51,446)
Net unrealized capital losses	(27,565)

#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$271,509		32,708		\$8.30

Unless stated, all numbers x 1,000.

The fund paid \$298,809 for these securities. Not counting short-term obligations and government securities, the fund paid \$37,388 for securities during the report period and received \$8,410 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had one open S&P 500 futures contract due to expire on December 18, 2003, with an aggregate contract value of \$262 and net unrealized gains of \$9.

#### Federal Tax Data

<b>Portfolio cost</b>	\$302,636
<b>Net unrealized gains and losses:</b>	
Gains	\$36,479
Losses	+ (67,880)
	<b>(\$31,401)</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$3,116
Long-term capital gains	\$-
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount
2008	\$465
2009	17,888
2010	27,646
2011	+ 1,611
	<b>\$47,610</b>



## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$4,079
Interest	16
Securities on loan	+ 27
<b>Total investment income</b>	<b>4,122</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(1,936)
Net realized gains on futures contracts	+ 400
<b>Net realized losses</b>	<b>(1,536)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	42,974
Net unrealized losses on futures contracts	+ (64)
<b>Net unrealized gains</b>	<b>42,910</b>

**Expenses**

Investment adviser and administrator fees	412
Transfer agent and shareholder service fees	229
Trustees' fees	6
Custodian fees	32
Portfolio accounting fees	34
Professional fees	27
Registration fees	32
Shareholder reports	36
Interest expense	1
Other expenses	+ 18
Total expenses	827
Expense reduction	- 483
<b>Net expenses</b>	<b>344</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	4,122
<b>Net expenses</b>	- 344
<b>Net investment income</b>	<b>3,778</b>
<b>Net realized losses</b>	(1,536)
<b>Net unrealized gains</b>	+ 42,910
<b>Increase in net assets from operations</b>	<b>\$45,152</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.18% of the first \$1 billion and 0.15% of 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, 0.05% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

Includes \$412 from the investment adviser (CSIM) and \$71 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 December 31, 2005, to 0.15% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$41,374.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02-10/31/03	11/1/01-10/31/02
Net investment income	\$3,778	\$3,541
Net realized losses	(1,536)	(24,773)
Net unrealized gains or losses	+ 42,910	(19,562)
<b>Increase or decrease in net assets from operations</b>	<b>45,152</b>	<b>(40,794)</b>

**Distributions Paid**

Dividends from net investment income	<b>\$3,544</b>	<b>\$3,522</b>
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**Transactions in Fund Shares**

	11/1/02-10/31/03		11/1/01-10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	13,049	\$95,187	13,395	\$109,254
Shares reinvested	407	2,823	338	2,960
Shares redeemed	+ (9,685)	(70,755)	(15,951)	(125,789)
<b>Net transactions in fund shares</b>	<b>3,771</b>	<b>\$27,255</b>	<b>(2,218)</b>	<b>(\$13,575)</b>

**Shares Outstanding and Net Assets**

	11/1/02-10/31/03		11/1/01-10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	28,937	\$202,646	31,155	\$260,537
Total increase or decrease	+ 3,771	68,863	(2,218)	(57,891)
<b>End of period</b>	<b>32,708</b>	<b>\$271,509</b>	<b>28,937</b>	<b>\$202,646</b>

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 tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$3,544
Long-term capital gains	\$—

**Prior period:**

Ordinary Income	\$3,522
Long-term capital gains	\$—

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase.

<b>Current period</b>	\$21
<b>Prior period</b>	\$116

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$3,116 and \$2,882 for the current period and prior period, respectively.

# *Institutional Select<sup>®</sup> Large-Cap Value Index Fund*

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	2/1/99 <sup>1</sup> – 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	7.14	8.92	11.44	10.68	10.00
Income or loss from investment operations:					
Net investment income	0.15	0.18	0.14	0.15	0.09
Net realized and unrealized gains or losses	1.55	(1.49)	(2.19)	0.84	0.59
Total income or loss from investment operations	1.70	(1.31)	(2.05)	0.99	0.68
Less distributions:					
Dividends from net investment income	(0.18)	(0.15)	(0.15)	(0.11)	—
Distributions from net realized gains	—	(0.32)	(0.32)	(0.12)	—
Total distributions	(0.18)	(0.47)	(0.47)	(0.23)	—
Net asset value at end of period	8.66	7.14	8.92	11.44	10.68
Total return (%)	24.40	(15.65)	(18.53)	9.48	6.80 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.25	0.25 <sup>3</sup>	0.25	0.25 <sup>4</sup>	0.21 <sup>5</sup>
Gross operating expenses	0.45	0.48	0.45	0.51	0.70 <sup>5</sup>
Net investment income	1.94	1.72	1.47	1.64	1.62 <sup>5</sup>
Portfolio turnover rate	24	26	47	27	19 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	79	70	128	129	71

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

<sup>2</sup> Not annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.26% if certain non-routine expenses (interest expense) had been included.

<sup>4</sup> The ratio of net operating expenses would have been 0.26% if certain non-routine expenses (proxy fees) had been included.

<sup>5</sup> Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts
- Issuer is related to the fund's adviser

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>98.3% Common Stock</b>	76,571	77,967
<b>1.3% Short-Term Investment</b>	1,041	1,041
<b>0.1% U.S. Treasury Obligations</b>	60	60
<b>99.7% Total Investments</b>	<b>77,672</b>	<b>79,068</b>
<b>33.7% Collateral Invested for Securities on Loan</b>	26,723	26,723
<b>(33.4)% Other Assets and Liabilities, Net</b>		(26,511)
<b>100.0% Total Net Assets</b>		<b>79,280</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock 98.3% of net assets****Aerospace / Defense 2.3%**

The Boeing Co.	13,400	516
Crane Co.	1,200	34
General Dynamics Corp.	3,200	268
Goodrich Corp.	1,900	53
Lockheed Martin Corp.	7,200	334
Northrop Grumman Corp.	2,824	252
Raytheon Co.	6,700	177
Rockwell Automation, Inc.	2,900	90
Textron, Inc.	2,100	104
		<b>1,828</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Air Transportation 0.8%**

Delta Air Lines, Inc.	1,800	23
FedEx Corp.	4,700	356
Sabre Holdings Corp.	2,200	48
Southwest Airlines Co.	12,500	243
		<b>670</b>

**Alcoholic Beverages 0.0%**

Adolph Coors Co., Class B	500	<b>28</b>
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**Apparel 0.3%**

Jones Apparel Group, Inc.	2,100	73
Liz Claiborne, Inc.	1,800	66
Reebok International Ltd.	900	35
VF Corp.	1,800	76
		<b>250</b>

**Automotive Products / Motor Vehicles 1.7%**

Cooper Tire & Rubber Co.	1,300	26
Cummins, Inc.	600	28
Dana Corp.	2,500	41
Danaher Corp.	2,500	207
Delphi Corp.	9,500	84
Eaton Corp.	1,200	120
Ford Motor Co.	29,009	352
General Motors Corp.	8,875	379
Genuine Parts Co.	2,700	86
• Goodyear Tire & Rubber Co.	2,800	19
Visteon Corp.	1,985	13
		<b>1,355</b>

**Banks 14.4%**

AmSouth Bancorp.	5,700	135
④ Bank of America Corp.	23,900	1,810
The Bank of New York Co., Inc.	12,100	377
Bank One Corp.	18,100	768
BB&T Corp.	8,300	321
Comerica, Inc.	2,700	139
First Tennessee National Corp.	2,200	100
FleetBoston Financial Corp.	16,602	671
Huntington Bancshares, Inc.	3,941	85

**Institutional Select® Large-Cap Value Index Fund**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
⑩ J.P. Morgan Chase & Co. 32,510	1,167	• Convergys Corp. 2,300	37
KeyCorp, Inc. 6,700	189	Electronic Data Systems Corp. 7,700	165
Marshall & Ilsley Corp. 3,666	131	• Fiserv, Inc. 3,000	106
Mellon Financial Corp. 7,000	209	• Interpublic Group of Cos., Inc. 6,000	89
National City Corp. 9,700	317	• Intuit, Inc. 1	—
North Fork Bancorp., Inc. 2,500	98	• Parametric Technology Corp. 4,100	13
Northern Trust Corp. 3,600	167	• PeopleSoft, Inc. 5,000	104
PNC Financial Services Group, Inc. 4,600	247	• Sungard Data Systems, Inc. 4,500	126
Regions Financial Corp. 3,600	132	Tyco International Ltd. 31,901	666
SouthTrust Corp. 5,400	172	Waste Management, Inc. 9,700	252
State Street Corp. 5,400	283		<b>2,277</b>
SunTrust Banks, Inc. 4,400	295		
Synovus Financial Corp. 4,700	130		
U.S. Bancorp 30,378	827		
UBS AG-Registered 3	—		
Union Planters Corp. 3,250	108		
Wachovia Corp. 21,400	982		
⑤ Wells Fargo & Co. 26,800	1,509		
Zions Bancorp. 1,400	86		
	<b>11,455</b>		<b>630</b>
<b>Business Machines &amp; Software 2.9%</b>		<b>Chemicals 0.8%</b>	
• Apple Computer, Inc. 5,800	133	Air Products & Chemicals, Inc. 3,700	168
Autodesk, Inc. 1,700	33	Eastman Chemical Co. 1,200	39
• BMC Software, Inc. 4,000	70	Great Lakes Chemical Corp. 700	15
• Compuware Corp. 6,100	34	Monsanto Co. 4,200	105
• Comverse Technology, Inc. 3,000	54	PPG Industries, Inc. 2,800	161
• EMC Corp. 34,900	483	Rohm & Haas Co. 3,605	142
• Gateway, Inc. 4,900	25		<b>630</b>
Hewlett-Packard Co. 48,598	1,084		
• NCR Corp. 1,600	57		
• Novell, Inc. 6,000	35		
• Siebel Systems, Inc. 7,700	97		
• Sun Microsystems, Inc. 50,600	200		
	<b>2,305</b>		
<b>Business Services 2.9%</b>		<b>Construction 0.9%</b>	
• Allied Waste Industries, Inc. 3,200	36	Centex Corp. 1,000	98
• Cendant Corp. 16,700	341	Fluor Corp. 1,300	48
Computer Associates International, Inc. 9,300	219	KB Home 800	55
• Computer Sciences Corp. 3,100	123	Masco Corp. 7,600	209
		Pulte Homes, Inc. 1,000	87
		The Sherwin-Williams Co. 2,400	80
		The Stanley Works 1,300	43
		Vulcan Materials Co. 1,600	71
			<b>691</b>
		<b>Consumer Durables 0.2%</b>	
		Leggett & Platt, Inc. 3,100	65
		Newell Rubbermaid, Inc. 4,400	100
			<b>165</b>
		<b>Containers 0.1%</b>	
		Bemis Co. 900	42
		• Pactiv Corp. 2,600	57
			<b>99</b>

See financial notes. 27

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Electronics 4.6%</b>			
• ADC Telecommunications, Inc. 12,800	33	• Noble Corp. 2,000	69
• Advanced Micro Devices, Inc. 5,200	79	Occidental Petroleum Corp. 6,100	215
• Agilent Technologies, Inc. 7,500	187	• Rowan Cos., Inc. 1,500	36
American Power Conversion Corp. 3,200	65		<b>1,407</b>
• Andrew Corp. 2,200	29	<b>Food &amp; Agriculture 0.8%</b>	
• Applied Materials, Inc. 26,300	615	Archer-Daniels-Midland Co. 10,005	144
• Applied Micro Circuits Corp. 5,200	30	Coca-Cola Enterprises, Inc. 7,300	147
• CIENA Corp. 7,600	49	ConAgra Foods, Inc. 8,400	200
• Jabil Circuit, Inc. 3,109	86	The Pepsi Bottling Group, Inc. 4,500	100
• JDS Uniphase Corp. 23,100	82	Supervalu, Inc. 2,200	56
• LSI Logic Corp. 6,200	57		<b>647</b>
• Micron Technology, Inc. 9,700	139	<b>Gold 0.4%</b>	
Molex, Inc. 3,000	94	Newmont Mining Corp. 6,400	<b>280</b>
Motorola, Inc. 37,185	503	<b>Healthcare / Drugs &amp; Medicine 3.1%</b>	
• National Semiconductor Corp. 2,800	114	AmerisourceBergen Corp. 1,800	102
• Novellus Systems, Inc. 2,400	99	• Anthem, Inc. 2,329	160
PerkinElmer, Inc. 2,100	38	Applied Biosystems Group – Applera Corp. 3,200	74
• Power-One, Inc. 1,100	10	Bausch & Lomb, Inc. 900	43
• Sanmina-SCI Corp. 8,100	85	Cardinal Health, Inc. 7,200	427
Scientific-Atlanta, Inc. 2,500	74	HCA, Inc. 8,000	306
• Solectron Corp. 14,800	82	Health Management Associates, Inc., Class A 3,700	82
Symbol Technologies, Inc. 3,500	44	• Humana, Inc. 2,600	53
Tektronix, Inc. 1,600	41	• King Pharmaceuticals, Inc. 3,600	48
• Tellabs, Inc. 6,600	50	Manor Care, Inc. 1,500	50
• Teradyne, Inc. 2,900	66	McKesson Corp. 4,500	136
Texas Instruments, Inc. 27,500	795	• Medco Health Solutions, Inc. 4,200	140
• Thermo Electron Corp. 2,700	59	• Quest Diagnostics 1,614	109
• Thomas & Betts Corp. 1,000	18	Schering-Plough Corp. 23,400	357
	<b>3,623</b>	• Tenet Healthcare Corp. 7,500	104
<b>Energy: Raw Materials 1.8%</b>		• Watson Pharmaceuticals, Inc. 1,700	67
Anadarko Petroleum Corp. 4,038	176	• WellPoint Health Networks, Inc. 2,400	213
Apache Corp. 2,535	177		<b>2,471</b>
Baker Hughes, Inc. 5,400	152	<b>Household Products 0.1%</b>	
Burlington Resources, Inc. 3,100	151	Alberto-Culver Co., Class B 1,000	<b>63</b>
Devon Energy Corp. 3,800	184		
EOG Resources, Inc. 1,900	80		
Halliburton Co. 7,000	167		

**Institutional Select® Large-Cap Value Index Fund**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Insurance 8.7%</b>		<b>Miscellaneous Finance 12.6%</b>	
ACE Ltd. 4,400	158	The Bear Stearns Cos., Inc. 1,501	114
Aetna, Inc. 2,500	144	Capital One Financial Corp. 3,600	219
AFLAC, Inc. 8,200	299	■ The Charles Schwab Corp. 21,600	293
The Allstate Corp. 11,200	442	Charter One Financial, Inc. 3,652	117
AMBAC Financial Group, Inc. 1,800	127	▲① Citigroup, Inc. 82,273	3,900
▲③ American International Group, Inc. 41,548	2,527	Countrywide Financial Corp. 2,200	231
AON Corp. 5,050	111	Franklin Resources, Inc. 4,100	194
Chubb Corp. 3,000	201	Freddie Mac 11,100	623
CIGNA Corp. 2,300	131	Golden West Financial Corp. 2,400	241
Cincinnati Financial Corp. 2,600	106	Goldman Sachs Group, Inc. 7,600	714
Hartford Financial Services Group, Inc. 4,400	242	Janus Capital Group, Inc. 3,700	52
Jefferson-Pilot Corp. 2,200	105	Lehman Brothers Holdings, Inc. 3,800	274
John Hancock Financial Services, Inc. 4,541	161	MBNA Corp. 20,400	505
Lincoln National Corp. 2,800	112	Merrill Lynch & Co., Inc. 14,900	882
Loews Corp. 3,000	129	Morgan Stanley 17,400	955
MBIA, Inc. 2,350	140	• Provident Financial Corp. 4,600	51
Metlife, Inc. 12,078	379	Washington Mutual, Inc. 14,750	645
MGIC Investment Corp. 1,600	82		<b>10,010</b>
Principal Financial Group, Inc. 5,200	163	<b>Non-Durables &amp; Entertainment 1.1%</b>	
Prudential Financial, Inc. 8,800	340	• American Greetings Corp., Class A 1,000	21
Safeco Corp. 2,300	85	Darden Restaurants, Inc. 2,700	57
St. Paul Cos., Inc. 3,700	141	Fortune Brands, Inc. 2,300	150
Torchmark Corp. 1,900	83	Hasbro, Inc. 2,850	62
Travelers Property Casualty Corp., Class B 16,099	264	McDonald's Corp. 20,300	508
UnumProvident Corp. 4,649	76	Wendy's International, Inc. 1,700	63
XL Capital Ltd., Class A 2,100	146		<b>861</b>
	<b>6,894</b>	<b>Non-Ferrous Metals 0.7%</b>	
<b>Media 6.6%</b>		Alcoa, Inc. 13,432	424
Clear Channel Communications, Inc. 9,839	402	Engelhard Corp. 2,100	60
•④ Comcast Corp., Class A 35,883	1,217	• Phelps Dodge Corp. 1,420	88
Gannett Co., Inc. 4,400	370		<b>572</b>
R.R. Donnelley & Sons Co. 1,900	49	<b>Oil: Domestic 1.7%</b>	
• Time Warner, Inc. 71,700	1,096	Amerada Hess Corp. 1,500	77
Tribune Co. 5,080	249	Ashland, Inc. 900	34
Viacom, Inc., Class B 27,901	1,113	ConocoPhillips 10,852	620
The Walt Disney Co. 32,400	734	Kerr-McGee Corp. 1,600	66
	<b>5,230</b>	Marathon Oil Corp. 4,900	145
		• Nabors Industries Ltd. 2,350	89

See financial notes. 29

# Institutional Select® Large-Cap Value Index Fund

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Sunoco, Inc. 1,300	57	<b>Railroad &amp; Shipping 0.8%</b>	
• Transocean, Inc. 5,048	97	Burlington Northern Santa Fe Corp. 5,800	168
Unocal Corp. 4,200	133	CSX Corp. 3,500	111
	<b>1,318</b>	Norfolk Southern Corp. 6,200	125
<b>Oil: International 6.5%</b>		Union Pacific Corp. 4,000	251
⑧ ChevronTexaco Corp. 17,112	1,271		<b>655</b>
▲② Exxon Mobil Corp. 105,950	3,876	<b>Real Property 0.8%</b>	
	<b>5,147</b>	Apartment Investment & Management Co., Class A 1,500	61
<b>Optical &amp; Photo 0.4%</b>		Equity Office Properties Trust 6,300	176
• Corning, Inc. 21,200	233	Equity Residential 4,400	129
Eastman Kodak Co. 4,500	110	Plum Creek Timber Co., Inc. 2,900	76
	<b>343</b>	ProLogis 2,900	86
<b>Paper &amp; Forest Products 1.0%</b>		Simon Property Group, Inc. 3,100	140
Boise Cascade Corp. 1,000	28		<b>668</b>
Georgia-Pacific Corp. 4,010	105	<b>Retail 3.6%</b>	
International Paper Co. 7,715	304	Albertson's, Inc. 5,838	118
• Louisiana-Pacific Corp. 1,700	32	• Automation, Inc. 4,300	80
MeadWestvaco Corp. 3,146	82	• Big Lots, Inc. 1,800	27
Temple-Inland, Inc. 800	43	Circuit City Stores, Inc. 3,100	30
Weyerhaeuser Co. 3,500	211	• Costco Wholesale Corp. 7,400	262
	<b>805</b>	CVS Corp. 6,200	218
<b>Producer Goods &amp; Manufacturing 2.8%</b>		Dillards, Inc., Class A 1,200	19
Caterpillar, Inc. 5,600	410	Federated Department Stores, Inc. 3,200	152
Cooper Industries Ltd., Class A 1,500	79	J.C. Penney Co., Inc. Holding Co. 4,400	104
Deere & Co. 3,900	237	• Kroger Co. 11,800	206
Dover Corp. 3,300	129	Limited Brands, Inc. 8,400	148
Honeywell International, Inc. 13,687	419	The May Department Stores Co. 4,500	126
Illinois Tool Works, Inc. 4,900	360	Nordstrom, Inc. 2,100	64
Ingersoll-Rand Co., Class A 2,800	169	• Office Depot, Inc. 4,800	72
Johnson Controls, Inc. 1,400	151	• Safeway, Inc. 7,000	148
Pall Corp. 1,900	45	Sears, Roebuck & Co. 4,800	253
Parker Hannifin Corp. 1,900	97	• Staples, Inc. 7,800	209
Snap-On, Inc. 1,000	29	Target Corp. 14,400	572
W.W. Grainger, Inc. 1,200	55	• Toys 'R' Us, Inc. 3,700	48
	<b>2,180</b>	Winn-Dixie Stores, Inc. 2,200	18
			<b>2,874</b>



**Institutional Select® Large-Cap Value Index Fund**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Steel 0.2%</b>			
Allegheny Technologies, Inc. 550	4	Cinergy Corp. 2,800	102
Nucor Corp. 1,200	66	• CMS Energy Corp. 2,200	18
United States Steel Corp. 1,600	38	Consolidated Edison, Inc. 3,500	142
Worthington Industries, Inc. 1,400	20	Constellation Energy Group, Inc. 2,800	102
	<b>128</b>	Dominion Resources, Inc. 5,048	311
		DTE Energy Co. 2,600	96
<b>Telephone 5.9%</b>		Duke Energy Corp. 14,300	260
Alltel Corp. 5,100	241	• Dynegy, Inc., Class A 5,500	22
AT&T Corp. 12,452	231	• Edison International 5,600	110
• AT&T Wireless Services, Inc. 42,845	311	El Paso Corp. 9,073	67
BellSouth Corp. 29,400	774	Entergy Corp. 3,700	199
CenturyTel, Inc. 2,500	89	Exelon Corp. 5,300	336
• Citizens Communications Co. 4,248	53	FirstEnergy Corp. 5,122	176
7 SBC Communications, Inc. 53,100	1,273	FPL Group, Inc. 2,900	185
Sprint Corp. (FON Group) 14,300	229	KeySpan Corp. 2,500	87
6 Verizon Communications, Inc. 43,900	1,475	Kinder Morgan, Inc. 2,145	115
	<b>4,676</b>	Nicor, Inc. 800	27
		NiSource, Inc. 4,515	93
<b>Tobacco 0.1%</b>		Peoples Energy Corp. 500	20
R.J. Reynolds Tobacco Holdings, Inc. 1,300	62	• PG&E Corp. 6,600	161
<b>Travel &amp; Recreation 1.1%</b>		Pinnacle West Capital Corp. 1,500	55
Brunswick Corp. 1,600	48	PPL Corp. 2,800	112
Carnival Corp. 10,000	349	Progress Energy, Inc. 3,806	164
Harrah's Entertainment, Inc. 1,700	74	Public Service Enterprise Group, Inc. 3,500	143
Hilton Hotels Corp. 5,900	93	Sempra Energy 3,300	92
Marriott International, Inc., Class A 3,700	160	The Southern Co. 11,500	343
Starwood Hotels & Resorts Worldwide, Inc. 3,200	108	TECO Energy, Inc. 3,000	39
	<b>832</b>	TXU Corp. 5,000	114
		Williams Cos., Inc. 8,400	86
<b>Trucking &amp; Freight 0.2%</b>		Xcel Energy, Inc. 6,410	105
Paccar, Inc. 1,950	154		<b>4,278</b>
Ryder Systems, Inc. 1,200	36	<b>Short-Term Investment</b>	
	<b>190</b>	1.3% of net assets	
<b>Utilities: Electric &amp; Gas 5.4%</b>		Provident Institutional TempFund 1,041,239	1,041
• Allegheny Energy, Inc. 2,100	22		
Ameren Corp. 2,500	112		
American Electric Power Co., Inc. 6,440	181		
• Calpine Corp. 6,000	28		
Centerpoint Energy, Inc. 5,400	53		

See financial notes. 31

## Institutional Select® Large-Cap Value Index Fund

### Portfolio Holdings continued

Security Rate, Maturity Date	Face value (\$ x 1,000)	Mkt. value (\$ x 1,000)
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#### U.S. Treasury Obligations 0.1% of net assets

▲ U.S. Treasury Bills 0.85%-0.93%, 12/18/03	60	60
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**End of investments.** For totals, please see the first page of holdings for this fund.

#### Collateral Invested for Securities on Loan 33.7% of net assets

#### Commercial Paper & Other Corporate Obligations

American Express Centurion Bank 1.11%, 12/12/03	103	103
1.11%, 01/27/04	148	148
American Express Credit Corp. 1.11%, 04/16/04	536	536
1.09%, 05/13/04	171	171
Canadian Imperial Bank Corp. 1.09%, 05/28/04	624	623
CC USA, Inc. 1.08%, 11/17/03	134	133
Concord Minutemen Capital Corp. 1.11%, 01/09/04	3,736	3,726
1.08%, 11/14/03	571	570
1.08%, 11/18/03	341	341
1.07%, 11/19/03	1,815	1,814
Crown Point Funding Corp. 1.11%, 11/16/04	445	444
1.08%, 11/14/03	220	219
Depfa Bank PLC 1.08%, 11/18/03	1,286	1,282

Security Rate, Maturity Date	Face value (\$ x 1,000)	Mkt. value (\$ x 1,000)
---------------------------------	----------------------------	----------------------------

Fairway Finance Corp. 1.10%, 01/12/04	133	133
General Electric Capital Corp. 1.08%, 05/10/04	831	831
Lexington Parker 1.07%, 11/06/03	944	943
Svenska Handelsbanken 1.39%, 10/27/04	147	147
Tulip Funding Corp. 1.07%, 11/10/03	1,738	1,736
Westdeutsche Landesbank AG 1.09%, 09/23/04	640	640
1.09%, 09/29/04	222	222

**14,762**

#### Short-Term Investment

Wells Fargo Bank Time Deposit 1.06%, 11/03/03	1,529	1,529
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#### Security and Number of Shares

#### Other Investment Companies

Institutional Money Market Trust 10,432,383	10,432
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**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

## Institutional Select® Large-Cap Value Index Fund

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$25,908 of securities on loan)	\$79,068
Collateral held for securities on loan	26,723
Receivables:	
Fund shares sold	120
Interest	1
Dividends	134
Due from broker for futures	2
Income from securities on loan	2
Prepaid expenses	+ 10
<b>Total assets</b>	<b>106,060</b>

#### Liabilities

Collateral held for securities on loan	26,723
Payables:	
Fund shares redeemed	11
Investment adviser and administrator fees	1
Accrued expenses	+ 45
<b>Total liabilities</b>	<b>26,780</b>

#### Net Assets

<b>Total assets</b>	106,060
<b>Total liabilities</b>	– 26,780
<b>Net assets</b>	<b>\$79,280</b>

#### Net Assets by Source

Capital received from investors	110,995
Net investment income not yet distributed	1,097
Net realized capital losses	(34,243)
Net unrealized capital gains	1,431

#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$79,280		9,157		\$8.66

Unless stated, all numbers x 1,000.

The fund paid \$77,672 for these securities. Not counting short-term obligations and government securities, the fund paid \$16,837 for securities during the report period and received \$23,115 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had five open S&P 500 futures contracts due to expire on December 18, 2003, with an aggregate contract value of \$1,312 and net unrealized gains of \$35.

#### Federal Tax Data

<b>Portfolio cost</b>	\$79,551
<b>Net unrealized gains and losses:</b>	
Gains	\$12,696
Losses	+ (13,179)
	<b>(\$483)</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$1,098
Long-term capital gains	\$–
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount
2010	\$25,956
2011	+ 6,374
	<b>\$32,330</b>

See financial notes. 33

## Institutional Select® Large-Cap Value Index Fund

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$1,521
Interest	5
Securities on loan	+ 9
<b>Total investment income</b>	<b>1,535</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	(6,161)
Net realized gains on futures contracts	+ 34
<b>Net realized losses</b>	<b>(6,127)</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	20,445
Net unrealized gains on futures contracts	+ 24
<b>Net unrealized gains</b>	<b>20,469</b>

#### Expenses

Investment adviser and administrator fees	140
Transfer agent and shareholder service fees	70
Trustees' fees	5
Custodian fees	14
Portfolio accounting fees	10
Professional fees	22
Registration fees	21
Shareholder reports	16
Interest expenses	1
Other expenses	+ 13
Total expenses	<u>312</u>
Expense reduction	- 135
<b>Net expenses</b>	<u><b>177</b></u>

#### Increase in Net Assets from Operations

Total investment income	1,535
Net expenses	<u>177</u>
Net investment income	<b>1,358</b>
Net realized losses	(6,127)
Net unrealized gains	<u>20,469</u>
Increase in net assets from operations	<b>\$15,700</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.20% of the first \$1 billion and 0.18% of 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, 0.05% of the fund's assets. These fees are paid to Charles Schwab & Co,

For the fund's independent trustees only.

Includes \$120 from the investment adviser (CSIM) and \$15 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 December 31, 2005, to 0.25% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$14,342.

## Institutional Select® Large-Cap Value Index Fund

Statements of

### Changes in Net Assets

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

#### Operations

	11/1/02-10/31/03	11/1/01-10/31/02
Net investment income	\$1,358	\$1,845
Net realized losses	(6,127)	(22,048)
Net unrealized gains	+ 20,469	5,276
<b>Increase or decrease in net assets from operations</b>	<b>15,700</b>	<b>(14,927)</b>

#### Distributions Paid

Dividends from net investment income	1,700	2,118
Distributions from net realized gains	+ —	4,400
<b>Total distributions paid</b>	<b>\$1,700</b>	<b>\$6,518</b>

#### Transactions in Fund Shares

	11/1/02-10/31/03		11/1/01-10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	3,034	\$23,065	4,767	\$40,217
Shares reinvested	200	1,408	611	5,412
Shares redeemed	+ (3,938)	(29,626)	(9,892)	(81,906)
<b>Net transactions in fund shares</b>	<b>(704)</b>	<b>(\$5,153)</b>	<b>(4,514)</b>	<b>(\$36,277)</b>

#### Shares Outstanding and Net Assets

	11/1/02-4/30/03		11/1/01-10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	9,861	\$70,433	14,375	\$128,155
Total increase or decrease	+ (704)	8,847	(4,514)	(57,722)
<b>End of period</b>	<b>9,157</b>	<b>\$79,280</b>	<b>9,861</b>	<b>\$70,433</b>

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 tax-basis components of distributions paid are:

#### Current period:

Ordinary Income	\$1,700
Long-term capital gains	\$—

#### Prior period:

Ordinary Income	\$3,921
Long-term capital gains	\$2,597

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	<b>\$12</b>
<b>Prior period</b>	<b>\$64</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$1,097 and \$1,439 for the current period and prior period, respectively.

# *Institutional Select<sup>®</sup> Small-Cap Value Index Fund*

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	2/1/99 <sup>1</sup> – 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	9.50	10.82	11.23	9.89	10.00
Income or loss from investment operations:					
Net investment income	0.11	0.10	0.09	0.09	0.07
Net realized and unrealized gains or losses	3.04	(0.32)	0.32	1.74	(0.18)
Total income or loss from investment operations	3.15	(0.22)	0.41	1.83	(0.11)
Less distributions:					
Dividends from net investment income	(0.10)	(0.10)	(0.08)	(0.09)	—
Distributions from net realized gains	—	(1.00)	(0.74)	(0.40)	—
Total distributions	(0.10)	(1.10)	(0.82)	(0.49)	—
Net asset value at end of period	12.55	9.50	10.82	11.23	9.89
Total return (%)	33.52	(3.32)	4.14	19.42	(1.10) <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.32	0.32 <sup>3</sup>	0.32	0.27 <sup>4</sup>	0.00 <sup>5</sup>
Gross operating expenses	0.63	0.61	0.61	0.66	0.98 <sup>5</sup>
Net investment income	0.95	0.81	0.87	0.94	1.25 <sup>5</sup>
Portfolio turnover rate	36	56	69	71	38 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	36	37	47	39	32

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

<sup>2</sup> Not annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.33% if certain non-routine expenses (interest expense) had been included.

<sup>4</sup> The ratio of net operating expenses would have been 0.28% if certain non-routine expenses (proxy fees) had been included.

<sup>5</sup> Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>99.3% Common Stock</b>	28,223	35,596
<b>0.1% U.S. Treasury Obligation</b>	25	25
<b>99.4% Total Investments</b>	<b>28,248</b>	<b>35,621</b>
<b>6.8% Collateral Invested for Securities on Loan</b>	2,441	2,441
<b>(6.2)% Other Assets and Liabilities, Net</b>		(2,229)
<b>100.0% Total Net Assets</b>		<b>35,833</b>

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

**Common Stock** 99.3% of net assets**Aerospace / Defense 1.7%**

• Armor Holdings, Inc.	5,000	97
• DRS Technologies, Inc.	3,600	87
EDO Corp.	3,600	80
• Esterline Technologies Corp.	3,800	84
GenCorp, Inc.	7,900	75
Kaman Corp., Class A	4,100	50
• Veeco Instruments, Inc.	4,800	122
		<b>595</b>

**Air Transportation 1.3%**

• AAR Corp.	5,200	57
• Atlantic Coast Airlines Holdings, Inc.	7,100	78
• Frontier Airlines, Inc.	5,100	82
• Mesa Air Group, Inc.	5,200	56

Security and Number of Shares	Mkt. Value (\$ x 1,000)
SkyWest, Inc. 9,900	183
	<b>456</b>

**Apparel 2.3%**

•▲ Ashworth, Inc.	1,400	12
Brown Shoe Co., Inc.	3,200	111
Haggar Corp.	1,100	17
Kellwood Co.	4,800	179
Oxford Industries, Inc.	1,100	75
Phillips-Van Heusen Corp.	5,000	86
Russell Corp.	5,300	97
Stride Rite Corp.	7,200	87
Wolverine World Wide, Inc.	7,300	147
		<b>811</b>

**Automotive Products / Motor Vehicles 2.1%**

A.O. Smith Corp., Class B	5,200	165
Coachmen Industries, Inc.	2,400	37
• Fleetwood Enterprises, Inc.	6,600	67
• Group 1 Automotive, Inc.	3,800	135
• Midas, Inc.	2,400	32
• Monaco Coach Corp.	4,700	113
Myers Industries, Inc.	5,500	67
Standard Motor Products, Inc.	2,800	31
• TBC Corp.	3,500	95
• Tower Automotive, Inc.	7,700	31
		<b>773</b>

**Banks 5.4%**

Anchor Bancorp Wisconsin, Inc.	4,100	102
Brookline Bancorp, Inc.	9,500	141
Chittenden Corp.	6,500	209
First Republic Bank	2,500	89
• FirstFed Financial Corp.	3,100	140
Irwin Financial Corp.	4,700	132
MAF Bancorp., Inc.	4,300	180
Provident Bankshares Corp.	4,305	134
Riggs National Corp.	4,600	76
The South Financial Group, Inc.	8,300	217
Susquehanna Bancshares, Inc.	6,800	170
Umpqua Holdings Corp.	4,000	82
▲⑦ Whitney Holding Corp.	7,150	271
		<b>1,943</b>

See financial notes. 37

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Business Machines &amp; Software 2.8%</b>			
▲ Adaptec, Inc. 18,700	159	• NYFIX, Inc. 5,500	44
Analogic Corp. 2,400	105	• On Assignment, Inc. 2,900	15
• Artesyn Technologies, Inc. 7,100	58	• Paxar Corp. 6,300	75
Black Box Corp. 3,200	138	• Pegasus Solutions, Inc. 3,600	39
• Brooktrout, Inc. 2,400	34	• Phoenix Technologies Ltd. 3,000	20
• Concerto Software, Inc. 1,400	17	• PRG-Schultz International, Inc. 10,900	52
• Digi International, Inc. 3,600	33	• QRS Corp. 2,900	30
• Imagistics International, Inc. 3,100	100	• Radiant Systems, Inc. 3,600	24
• Input/Output, Inc. 9,200	38	Roto-Rooter, Inc. 1,500	53
• Invision Technologies, Inc. 3,100	84	• SourceCorp 3,000	70
Landamerica Financial Group, Inc. 3,400	170	• Spherion Corp. 9,700	84
• Roxio, Inc. 3,900	40	• SPSS, Inc. 3,200	58
• Ultimate Electronics, Inc. 2,000	18	The Standard Register Co. 5,200	92
	<b>994</b>	• Systems & Computer Technology Corp. 6,000	88
<b>Business Services 8.5%</b>		Talx Corp. 1,900	41
• 4Kids Entertainment, Inc. 2,400	59	• URS Corp. 5,700	125
ABM Industries, Inc. 8,700	135	• Volt Information Sciences, Inc. 2,800	49
• American Management Systems, Inc. 7,700	114		<b>3,056</b>
Angelica Corp. 1,700	35	<b>Chemicals 1.8%</b>	
Bowne & Co., Inc. 5,400	81	A. Schulman, Inc. 4,700	89
• Catapult Communications Corp. 1,900	26	Arch Chemicals, Inc. 4,100	91
CDI Corp. 3,200	105	H.B. Fuller Co. 5,000	124
• ⑨ Cerner Corp. 5,900	250	▲ OM Group, Inc. 4,600	82
• Ciber, Inc. 11,700	108	• Omnova Solutions, Inc. 5,400	19
• Cross Country Healthcare, Inc. 5,000	69	Penford Corp. 1,600	22
• eFunds Corp. 8,500	136	• PolyOne Corp. 14,700	71
G&K Services, Inc., Class A 3,700	122	Tredegar Corp. 6,400	100
• Global Imaging Systems, Inc. 3,500	102	Wellman, Inc. 5,100	42
• Heidrick & Struggles International, Inc. 3,300	65		<b>640</b>
• Insurance Auto Auctions, Inc. 1,700	22	<b>Construction 2.6%</b>	
• JDA Software Group, Inc. 4,500	96	Apogee Enterprises, Inc. 4,400	46
• Kroll, Inc. 6,800	158	Building Material Holding Corp. 1,900	27
• Mapinfo Corp. 2,600	24	• EMCOR Group, Inc. 2,300	87
• MAXIMUS, Inc. 3,800	133	• Insituform Technologies, Inc., Class A 4,800	68
• Metro One Telecommunications 1,800	5	③ MDC Holdings, Inc. 5,184	349
• MRO Software, Inc. 4,500	57	⑥ Standard-Pacific Corp. 5,700	273
Nautilus Group, Inc. 5,300	83	Texas Industries, Inc. 3,300	89
• NCO Group, Inc. 4,700	112		<b>939</b>



**Institutional Select® Small-Cap Value Index Fund**

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Consumer Durables 1.5%</b>			
• Applica, Inc. 3,700	27	Methode Electronics, Class A 6,600	79
Bassett Furniture Industries, Inc. 2,200	35	Park Electrochemical Corp. 3,100	76
• Griffon Corp. 4,990	96	• Pericom Semiconductor Corp. 4,000	46
Haverty Furniture Cos., Inc. 3,900	81	• Radisys Corp. 3,200	63
• Interface, Inc., Class A 8,500	47	• Rudolph Technologies, Inc. 2,500	65
National Presto Industries, Inc. 1,200	42	• SBS Technologies, Inc. 2,500	34
• Salton, Inc. 2,000	21	• SCM Microsystems, Inc. 2,500	21
Skyline Corp. 1,400	48	▲ Skyworks Solutions, Inc. 24,300	208
Sturm Ruger & Co., Inc. 4,200	48	• Standard Microsystems Corp. 3,100	93
Thomas Industries, Inc. 2,800	85	• Symmetricom, Inc. 7,600	55
	<b>530</b>	• Technitrol, Inc. 7,300	159
		• THQ, Inc. 6,100	108
<b>Containers 0.1%</b>		• Three-Five Systems, Inc. 2,200	10
• Mobile Mini, Inc. 2,400	<b>51</b>	• Tollgrade Communications, Inc. 1,800	28
<b>Electronics 10.2%</b>		• Viasat, Inc. 4,700	92
Acuity Brands, Inc. 7,500	161	• Vicor Corp. 7,600	77
Agilysys, Inc. 4,800	49		<b>3,673</b>
• Alliance Semiconductor Corp. 6,300	49	<b>Energy: Raw Materials 3.2%</b>	
• Anixter International, Inc. 6,000	143	• Atwood Oceanics, Inc. 2,200	57
• Audiovox Corp., Class A 3,400	41	• Cimarex Energy Co. 6,800	139
• Axcelis Technologies, Inc. 16,300	172	• Dril-Quip, Inc. 3,200	48
Bel Fuse, Inc., Class B 2,000	53	• Kirby Corp. 4,400	129
Belden, Inc. 4,600	86	Massey Energy Co. 13,600	189
• Bell Microproducts, Inc. 3,700	31	• Offshore Logistics, Inc. 4,000	87
• Benchmark Electronics, Inc. 4,500	219	• Seacor Smit, Inc. 3,100	119
• Brooks Automation, Inc. 6,000	150	• Southwestern Energy Co. 5,900	115
C&D Technologies, Inc. 4,700	94	• Swift Energy Co. 4,200	58
• C-COR.net Corp. 6,200	62	▲ Tom Brown, Inc. 7,200	195
• Cable Design Technologies Corp. 6,750	65		<b>1,136</b>
• Captaris, Inc. 5,000	30	<b>Food &amp; Agriculture 2.5%</b>	
• Checkpoint Systems, Inc. 6,000	113	▲ Corn Products International, Inc. 6,400	217
• Coherent, Inc. 5,300	122	Flowers Foods, Inc. 8,000	190
CTS Corp. 6,200	69	• Hain Celestial Group, Inc. 5,600	118
• Dupont Photomasks, Inc. 2,800	65	• International Multifoods Corp. 3,100	69
• Electro Scientific Industries, Inc. 4,600	113	• J & J Snack Foods Corp. 1,500	54
• ESS Technology, Inc. 6,800	94	Lance, Inc. 4,900	64
• Exar Corp. 6,700	108	Nash Finch Co. 1,800	28
• FEI Co. 5,300	126	• Ralcorp Holdings, Inc. 5,900	162
• Gerber Scientific, Inc. 4,000	32		<b>902</b>
• Hutchinson Technology, Inc. 4,500	151		
• Intermagnetics General Corp. 2,600	61		

See financial notes. 39

**Institutional Select® Small-Cap Value Index Fund**

**Portfolio Holdings** continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Healthcare / Drugs &amp; Medicine 5.7%</b>		<b>Media 0.7%</b>	
Alpharma, Inc., Class A 8,500	155	▲ Advanced Marketing Services, Inc. 3,000	34
• Arqule, Inc. 3,700	19	• Consolidated Graphics, Inc. 2,400	67
Cambrex Corp. 4,200	99	• Information Holdings, Inc. 3,400	76
• Cima Labs, Inc. 2,200	69	• Network Equipment Technologies, Inc. 3,600	38
• Conmed Corp. 5,000	102	Thomas Nelson, Inc. 2,600	41
• Curative Health Services, Inc. 1,900	27		<b>256</b>
Datascope Corp. 2,700	90		
• Haemonetics Corp. 4,400	101	<b>Miscellaneous Finance 5.2%</b>	
• Hologic, Inc. 3,600	49	• BankUnited Financial Corp., Class A 4,900	108
Invacare Corp. 5,000	205	Cash America International, Inc. 4,400	84
Nature's Sunshine Products, Inc. 2,300	18	▲ Commercial Federal Corp. 7,900	203
• Orthodontic Centers of America, Inc. 8,300	73	▲ Downey Financial Corp. 4,700	216
• Parexel International Corp. 4,100	69	• Financial Federal Corp. 3,100	104
▲ Pediatrx Medical Group, Inc. 4,000	214	▲ ④ Jefferies Group, Inc. 9,200	285
• Province Healthcare Co. 8,900	114	▲ ② Raymond James Financial, Inc. 8,600	351
• RehabCare Group, Inc. 2,900	45	Seacoast Financial Services Corp. 4,400	113
• Savient Pharmaceuticals, Inc. 9,600	58	▲ Staten Island Bancorp., Inc. 9,600	191
• Sola International, Inc. 4,500	77	SWS Group, Inc. 2,997	65
• Sunrise Senior Living, Inc. 4,000	116	Waypoint Financial Corp. 6,240	130
• Theragenics Corp. 3,600	16		<b>1,850</b>
• US Oncology, Inc. 14,700	161		
• Viasys Healthcare, Inc. 4,800	87	<b>Non-Durables &amp; Entertainment 3.2%</b>	
Vital Signs, Inc. 2,200	67	• A.T. Cross Co., Class A 2,400	15
	<b>2,031</b>	Action Performance Cos., Inc. 2,700	55
<b>Insurance 3.7%</b>		• Department 56, Inc. 2,000	28
Delphi Financial Group, Inc., Class A 3,545	179	• Enesco Group, Inc. 2,500	25
Fremont General Corp. 13,800	229	• Huffy Corp. 1,700	10
Hooper Holmes, Inc. 11,500	60	IHOP Corp. 3,600	134
• Philadelphia Consolidated Holding Co. 3,800	179	• Jack in the Box, Inc. 6,000	109
Presidential Life Corp. 4,800	74	• Jakks Pacific, Inc. 3,700	48
RLI Corp. 4,100	138	Landry's Restaurants, Inc. 4,500	113
SCPIE Holdings, Inc. 1,300	17	Lone Star Steakhouse & Saloon, Inc. 3,759	82
Selective Insurance Group, Inc. 4,400	135	▲ Midway Games, Inc. 7,200	20
• Stewart Information Services Corp. 3,200	100	• O'Charleys, Inc. 3,300	56
• UICI 8,000	120	• Rare Hospitality International Inc. 5,600	139
Zenith National Insurance Corp. 2,900	89	Russ Berrie & Co., Inc. 3,500	126
	<b>1,320</b>	• Ryan's Family Steak Houses, Inc. 7,200	100
		Triarc Cos., Class B 9,800	104
			<b>1,164</b>

Institutional Select® Small-Cap Value Index Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Non-Ferrous Metals 1.9%</b>			
▲• A.M. Castle & Co. 1,900	10	▲ Aptargroup, Inc. 6,500	233
• Brush Engineered Materials, Inc. 2,900	37	• Astec Industries, Inc. 3,600	46
• Century Aluminum Co. 3,900	64	• Barnes Group, Inc. 3,700	108
• Commercial Metals Co. 5,100	126	▲⑧ Briggs & Stratton Corp. 4,000	260
• Commonwealth Industries, Inc. 1,800	12	▲ Butler Manufacturing Co. 800	14
• Imco Recycling, Inc. 2,200	17	• Concord Camera Corp. 5,100	65
• Mueller Industries, Inc. 5,800	183	• Curtiss-Wright Corp. 1,700	126
• Reliance Steel & Aluminum Co. 5,800	166	• Fedders Corp. 4,910	29
• RTI International Metals, Inc. 3,800	46	• Gardner Denver, Inc. 2,600	54
• Wolverine Tube, Inc. 1,200	6	• Hughes Supply, Inc. 4,100	158
	<b>667</b>	• Ionics, Inc. 2,900	83
		• JLG Industries, Inc. 6,900	82
<b>Oil: Domestic 2.5%</b>		• Lawson Products, Inc. 1,700	51
▲•① Newfield Exploration Co. 10,000	397	• Lennox International, Inc. 10,612	176
• Nuevo Energy Co. 3,500	69	▲• Magnetek, Inc. 2,600	16
• Spinnaker Exploration Co. 5,400	138	• Manitowoc Co., Inc. 4,300	93
• Stone Energy Corp. 4,300	156	• Material Sciences Corp. 2,500	23
• Vintage Petroleum, Inc. 11,700	135	• Milacron, Inc. 5,000	12
	<b>895</b>	• Regal Beloit 4,600	94
		• Robbins & Myers, Inc. 2,600	55
<b>Optical &amp; Photo 0.3%</b>		• The Shaw Group, Inc. 6,300	86
• Meade Instruments Corp. 2,100	8	• SPS Technologies, Inc. 2,100	104
• Photonics, Inc. 5,500	118	• Standex International Corp. 2,200	56
	<b>126</b>	• Stewart & Stevenson Services, Inc. 5,200	87
		⑩ The Timken Co. 14,400	242
<b>Paper &amp; Forest Products 1.3%</b>		• Triumph Group, Inc. 2,600	85
• Buckeye Technologies, Inc. 6,800	61	• Valmont Industries, Inc. 4,100	85
• Caraustar Industries, Inc. 3,900	38	• Watsco, Inc. 4,400	94
• Chesapeake Corp. 2,800	68	• Watts Water Technologies, Inc., Class A 5,000	89
• Deltic Timber Corp. 2,200	63	• Woodward Governor Co. 1,800	83
• Lydall, Inc. 2,500	30		<b>3,144</b>
• Pope & Talbot, Inc. 2,400	34		
• Rock-Tennessee Co., Class A 6,300	101	<b>Railroad &amp; Shipping 0.4%</b>	
• Universal Forest Products, Inc. 2,900	86	• Kansas City Southern Railway 10,400	<b>138</b>
	<b>481</b>		
		<b>Real Property 1.8%</b>	
<b>Producer Goods &amp; Manufacturing 8.8%</b>		▲ Colonial Properties Trust 4,400	163
• Aeroflex, Inc. 10,700	99	• Gables Residential Trust 4,700	151
• Albany International Corp., Class A 5,900	182	• Glenborough Realty Trust, Inc. 4,600	90
• Applied Industrial Technologies, Inc. 3,300	74		

See financial notes. 41

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
▲ Kilroy Realty Corp. 4,700	136	<b>Telephone 0.3%</b>	
Lexington Corp. Properties Trust 6,000	115	• General Communication, Inc., Class A 10,200	101
	<b>655</b>	<b>Tobacco 0.3%</b>	
<b>Retail 7.7%</b>		DIMON, Inc. 6,700	48
Aaron Rents, Inc. 5,300	116	Schweitzer-Mauduit International, Inc. 2,700	72
▲• AnnTaylor Stores Corp. 7,700	276		<b>120</b>
Burlington Coat Factory Warehouse Corp. 7,500	161	<b>Travel &amp; Recreation 1.7%</b>	
Casey's General Stores, Inc. 8,700	135	• Aztar Corp. 5,800	121
The Cato Corp., Class A 3,200	68	• Bally Total Fitness Holding Corp. 6,000	40
• The Children's Place Retail Stores, Inc. 4,300	129	Central Parking Corp. 5,900	71
• The Dress Barn, Inc. 4,500	63	• K2, Inc. 4,500	75
• Duane Reade, Inc. 3,800	52	The Marcus Corp. 5,400	81
• Footstar, Inc. 2,800	18	• Pinnacle Entertainment, Inc. 4,000	35
• Genesco, Inc. 4,000	67	• Prime Hospitality Corp. 7,300	66
Goody's Family Clothing, Inc. 6,000	63	• WMS Industries, Inc. 5,000	116
• Great Atlantic & Pacific Tea Co. 7,000	44		<b>605</b>
• Insight Enterprises, Inc. 7,600	128	<b>Trucking &amp; Freight 1.3%</b>	
• Jo-Ann Stores, Inc., Class A 3,400	102	Arkansas Best Corp. 4,300	142
• Linens 'N Things, Inc. 7,400	218	Roadway Corp. 3,200	164
• The Men's Wearhouse, Inc. 7,200	212	USF Corp. 4,600	147
Pep Boys-Manny, Moe & Jack 9,000	173		<b>453</b>
• School Specialty, Inc. 3,100	86	<b>Utilities: Electric &amp; Gas 5.4%</b>	
• ShopKo Stores, Inc. 5,300	82	American States Water Co. 2,400	59
• Stein Mart, Inc. 6,200	45	Atmos Energy Corp. 8,400	206
• United Stationers, Inc. 5,800	216	Avista Corp. 8,800	150
• The Wet Seal, Inc., Class A 4,800	53	Cascade Natural Gas Corp. 1,700	33
▲• Zale Corp. 4,580	237	Central Vermont Public Service Corp. 2,200	51
	<b>2,744</b>	CH Energy Group, Inc. 2,500	109
<b>Steel 1.1%</b>		Cleco Corp. 8,200	137
• Cleveland-Cliffs, Inc. 1,700	51	• El Paso Electric Co. 7,800	95
Intermet Corp. 4,400	19	▲ Energen Corp. 6,000	221
Quanex Corp. 2,900	116	▲ Green Mountain Power Corp. 900	20
Ryerson Tull, Inc. 4,200	34	The Laclede Group, Inc. 3,500	99
• Steel Dynamics, Inc. 8,100	151	Northwest Natural Gas Co. 4,300	125
Steel Technologies, Inc. 1,600	25	NUI Corp. 2,600	44
	<b>396</b>		

# Institutional Select® Small-Cap Value Index Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• Southern Union Co. 12,029	212
Southwest Gas Corp. 5,800	131
UIL Holdings Corp. 2,600	98
Unisource Energy Corp. 6,100	117
• Veritas DGC, Inc. 5,000	44
	<b>1,951</b>

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

## U.S. Treasury Obligation 0.1% of net assets

▲ U.S. Treasury Bill 0.93%, 12/18/03	25	<b>25</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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## Collateral Invested for Securities on Loan 6.8% of net assets

### Commercial Paper & Other Corporate Obligations

American Express Centurion Bank 1.11%, 12/12/03	212	212
Crown Point Funding Corp. 1.08%, 11/14/03	342	341
Westdeutsche Landesbank AG 1.09%, 09/23/04	140	140
		<b>693</b>

### Short-Term Investment

Wells Fargo Bank, Time Deposit 1.06%, 11/03/03	202	<b>202</b>
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### Security and Number of Shares

#### Other Investment Companies

Institutional Money Market Trust 1,546,268	<b>1,546</b>
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**End of collateral invested for securities on loan.** For totals, please see the first page of holdings for this fund.

## Institutional Select® Small-Cap Value Index Fund

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$2,336 of securities on loan)	\$35,621
Collateral held for securities on loan	2,441
Receivables:	
Fund shares sold	32
Dividends	29
Investments sold	471
Income from securities on loan	1
Prepaid expenses	+ 9
<b>Total assets</b>	<b>38,604</b>

#### Liabilities

Collateral held for securities on loan	2,441
Cash overdraft	214
Payables:	
Fund shares redeemed	74
Due to brokers for futures	1
Accrued expenses	+ 41
<b>Total liabilities</b>	<b>2,771</b>

#### Net Assets

<b>Total assets</b>	38,604
<b>Total liabilities</b>	- 2,771
<b>Net assets</b>	<b>\$35,833</b>

#### Net Assets by Source

Capital received from investors	29,563
Net investment income not yet distributed	268
Net realized capital losses	(1,381)
Net unrealized capital gains	7,383

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$35,833		2,856		\$12.55

Unless stated, all numbers x 1,000.

The fund paid \$28,248 for these securities. Not counting short-term obligations and government securities, the fund paid \$12,718 for securities during the report period and received \$24,042 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had one open Russell 2000 futures contract due to expire on December 21, 2003, with an aggregate contract value of \$264 and net unrealized gains of \$10.

#### Federal Tax Data

<b>Portfolio cost</b>	\$28,755
<b>Net unrealized gains and losses:</b>	
Gains	\$9,075
Losses	+ (2,209)
	<b>\$6,866</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$268
Long-term capital gains	\$-
<b>Capital losses utilized</b>	<b>\$542</b>
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount
2010	\$864

## Institutional Select® Small-Cap Value Index Fund

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends		\$448
Interest		1
Securities on loan	+	7
<b>Total investment income</b>		<b>456</b>

#### Net Realized Gains and Losses

Net realized gains on investments sold	842
Net realized losses on futures contracts	+ (9)
<b>Net realized gains</b>	<b>833</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	9,148
Net unrealized gains on futures contracts	+ 10
<b>Net unrealized gains</b>	<b>9,158</b>

#### Expenses

Investment adviser and administrator fees	90
Transfer agent and shareholder service fees	36
Trustees' fees	5
Custodian fees	18
Portfolio accounting fees	5
Professional fees	25
Registration fees	15
Shareholder reports	15
Interest expense	1
Other expenses	+ 15
Total expenses	<u>225</u>
Expense reduction	- 110
<b>Net expenses</b>	<u><b>115</b></u>

#### Increase in Net Assets from Operations

<b>Total investment income</b>	<b>456</b>
<b>Net expenses</b>	<b>- 115</b>
<b>Net investment income</b>	<b>341</b>
<b>Net realized gains</b>	<b>833</b>
<b>Net unrealized gains</b>	<b>+ 9,158</b>
<b>Increase in net assets from operations</b>	<b>\$10,332</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.25% of the first \$1 billion and 0.23% of 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, 0.05% of the fund's assets. These fees are paid to Charles Schwab & Co.

For the fund's independent trustees only.

Includes \$90 from the investment adviser (CSIM) and \$20 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 December 31, 2005, to 0.32% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$9,991.

## Institutional Select® Small-Cap Value Index Fund

Statements of

### Changes in Net Assets

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

#### Operations

	11/1/02-10/31/03	11/1/01-10/31/02
Net investment income	\$341	\$413
Net realized gains or losses	833	(781)
Net unrealized gains or losses	+ 9,158	(836)
<b>Increase or decrease in net assets from operations</b>	<b>10,332</b>	<b>(1,204)</b>

#### Distributions Paid

Dividends from net investment income	401	451
Distributions from net realized gains	+ —	4,324
<b>Total distributions paid</b>	<b>\$401</b>	<b>\$4,775</b>

#### Transactions in Fund Shares

	11/1/02-10/31/03		11/1/01-10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	727	\$7,355	1,550	\$17,684
Shares reinvested	34	331	328	3,590
Shares redeemed	+ (1,794)	(18,743)	(2,360)	(25,619)
<b>Net transactions in fund shares</b>	<b>(1,033)</b>	<b>(\$11,057)</b>	<b>(482)</b>	<b>(\$4,345)</b>

#### Shares Outstanding and Net Assets

	11/1/02-10/31/03		11/1/01-10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,889	\$36,959	4,371	\$47,283
Total decrease	+ (1,033)	(1,126)	(482)	(10,324)
<b>End of period</b>	<b>2,856</b>	<b>\$35,833</b>	<b>3,889</b>	<b>\$36,959</b>

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 tax-basis components of distributions paid are:

#### Current period:

Ordinary Income	\$401
Long-term capital gains	\$—

#### Prior period:

Ordinary Income	\$3,482
Long-term capital gains	\$1,293

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	\$3
<b>Prior period</b>	\$14

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 \$268 and \$328 for 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 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 investments and policies that may affect a fund's financials, as described below. Other policies concerning the funds' business operations also are described here.

**The funds 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.

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. The fund records the change in market value of futures, and also the change in the amount of margin deposit required ("variation margin").

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

### The 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 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™  
 Schwab U.S. MarketMasters Fund™  
 Schwab Balanced MarketMasters Fund™  
 Schwab Small-Cap MarketMasters Fund™  
 Schwab International MarketMasters Fund™  
 Schwab Core Equity Fund™  
 Schwab Dividend Equity Fund™  
 Schwab Small-Cap Equity Fund™  
 Schwab Hedged Equity Fund™  
 Communications Focus Fund  
 Financial Services Focus Fund  
 Health Care Focus Fund  
 Technology Focus Fund  
**Institutional Select S&P 500 Fund**  
**Institutional Select Large-Cap Value Index Fund**  
**Institutional Select Small-Cap Value Index Fund**

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

**The funds may loan securities to certain brokers, dealers and other financial institutions who pay the funds negotiated fees.** The funds receive cash, letters of credit or U.S. government securities as collateral on these loans. All of the cash collateral received is reinvested in high quality, short-term investments. The value of the collateral must be at least 102% of the market value of the loaned securities as of the first day of the loan, and at least 100% each day thereafter.

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

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

**The funds may engage in certain transactions involving related parties.** For instance, a fund may own shares of The Charles Schwab Corporation if that company is included in its index.

The funds may make direct transactions with certain other SchwabFunds® 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 SchwabFunds®. 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 SchwabFunds.

**Trustees may include people who are officers and/or directors of the investment adviser or Schwab.** Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trusts were in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but they did pay the non-interested persons (independent trustees), as noted in each fund's Statement of Operations.

**The funds may borrow money from banks and custodians.** The funds may obtain temporary bank loans through the trust to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

Fund	Amount outstanding at 10/31/03 (\$ x 1,000)	Average borrowing* (\$ x 1,000)	Weighted average interest rate* (%)
<b>Institutional Select S&amp;P 500 Fund</b>	74	1,112	2.01
<b>Institutional Select Large-Cap Value Index Fund</b>	—	481	1.57
<b>Institutional Select Small-Cap Value Index Fund</b>	—	162	1.49

\* 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 for which no market quotations are readily available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the fund's Board of Trustees.
- **Futures and forwards:** open contracts are valued at their settlement prices as of the close of their exchanges (for futures) or at a market value based on that day's exchange rates (for forwards). When a fund closes out a futures or forwards position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.
- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

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

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

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

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

**Assets and liabilities denominated in foreign currencies** are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in

effect on the transaction date.

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

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

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

## *Report of independent auditors*

### **To the Board of Trustees and Shareholders of:**

Schwab Institutional Select S&P 500 Fund

Schwab Institutional Select Large-Cap Value Index Fund

Schwab Institutional Select Small-Cap Value Index 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 Institutional Select S&P 500 Fund, Schwab Institutional Select Large-Cap Value Index Fund and Schwab Institutional Select Small-Cap Value Index Fund, (three of the portfolios constituting Schwab Capital Trust) (hereafter collectively referred to as the “funds”) at October 31, 2003, and the results of each of their operations for the year then ended, the changes in each of their net assets for the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the funds’ management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which 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, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, CA

December 12, 2003

## Fund Trustees

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 SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

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

Each of the SchwabFunds (of which there were 49 as of 10/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

### Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03:</i> Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03:</i> Co-Chair, The Charles Schwab Corporation. <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01:</i> Director, The Charles Schwab Trust Company. <i>Until 1/99:</i> Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

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

<sup>2</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Institutional Select® Funds

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

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Dawn G. Lepore</b> <sup>1</sup> 3/21/54	Trustee:2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
<b>Jeffrey M. Lyons</b> <sup>1</sup> 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

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

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
<b>Tai-Chin Tung</b> 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
<b>Stephen B. Ward</b> 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

<sup>1</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Institutional Select® Funds

Individuals Who Are Independent Trustees		
Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Non-Executive Chairman, Solelectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Networks (telecommunications); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, School of Business, University of California, Berkeley.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).



## Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

**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."

**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.

## Notes

## Contact Schwab

SchwabFunds® offers you a complete family of mutual funds, each one based on a clearly defined investment approach and using disciplined management strategies.

Actively managed funds include multi-manager stock funds, a fund that uses long-short strategies, and a range of taxable and tax-free bond funds. Index funds include large-cap, small-cap and international stock funds. The list at right shows all currently available SchwabFunds.

Whether you're an experienced investor or just starting out, SchwabFunds can help you achieve your financial goals. Please call 1-800-435-4000 for a free prospectus and brochure for any SchwabFund. Please read the prospectus carefully before you invest. This report must be preceded or accompanied by a current prospectus.

### Methods for Placing Orders

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

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

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

#### Schwab by Phone™<sup>2</sup>

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

#### TeleBroker®

Automated touch-tone phone service at **1-800-272-4922**.

#### Mail

Write to SchwabFunds 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.

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

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

## The SchwabFunds Family®

### Stock Funds

Schwab S&P 500 Fund  
Schwab 1000 Fund®  
Schwab Small-Cap Index Fund®  
Schwab Total Stock Market Index Fund®  
Schwab International Index Fund®  
Schwab Core Equity Fund™  
Schwab Dividend Equity Fund™  
Schwab Small-Cap Equity Fund™  
Schwab Hedged Equity Fund™  
Schwab Focus Funds  
    Communications Focus Fund  
    Financial Services Focus Fund  
    Health Care Focus Fund  
    Technology Focus Fund  
Schwab MarketMasters Funds™  
    Schwab U.S. MarketMasters Fund™  
    Schwab Small-Cap MarketMasters Fund™  
    Schwab International MarketMasters Fund™  
    Schwab Balanced MarketMasters Fund™

### Asset Allocation Funds

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

### Bond Funds

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

### Schwab Money Funds

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

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



**Investment Adviser**

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

**Distributor**

SchwabFunds®  
P.O. Box 3812, Englewood, CO 80155-3812

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# *Funds Using Schwab Equity Ratings*<sup>™</sup>

## **Annual Report**

October 31, 2003

Schwab Core Equity Fund<sup>™</sup>

Schwab Dividend Equity Fund<sup>™</sup>

Schwab Small-Cap Equity Fund<sup>™</sup>

Schwab Hedged Equity Fund<sup>™</sup>

Communications Focus Fund

Financial Services Focus Fund

Health Care Focus Fund

Technology Focus Fund

*charles* **SCHWAB**

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

## In This Report

### Management's Discussion . . . . . 2

The president of SchwabFunds® and the funds' managers take a look at the factors that shaped fund performance during the report period.

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### Schwab Core Equity Fund™

Ticker Symbol: **SWANX**

The fund seeks long-term capital growth.

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Financial Statements . . . . . 27

### Schwab Dividend Equity Fund™

Investor Shares: **SWDIX** Select Shares: **SWDSX**

The fund seeks current income and capital appreciation.

Performance and Fund Facts . . . . . 11

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### Schwab Small-Cap Equity Fund™

Investor Shares: **SWSIX** Select Shares: **SWSCX**

The fund seeks long-term capital growth.

Performance and Fund Facts . . . . . 14

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### Schwab Hedged Equity Fund™

Ticker Symbol: **SWHEX**

The fund's principal investment objective is long-term capital appreciation over market cycles with lower volatility than the broad equity market.

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### Communications Focus Fund

Ticker Symbol: **SWCFX**

The fund's goal is to seek long-term capital growth.

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### Financial Services Focus Fund

Ticker Symbol: **SWFFX**

The fund's goal is to seek long-term capital growth.

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### Health Care Focus Fund

Ticker Symbol: **SWHFX**

The fund's goal is to seek long-term capital growth.

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### Technology Focus Fund

Ticker Symbol: **SWTFX**

The fund's goal is to seek long-term capital growth.

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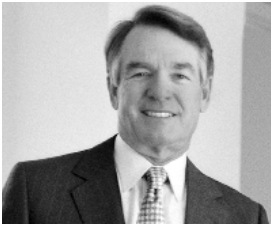
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## *From the Chairman*



**Charles R. Schwab**, Chairman

In the past few months, the mutual fund industry has been rocked by the discovery of improper practices and arrangements. Investors large and small have seen their confidence shaken, and understandably so.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. Many firms, including our own, have begun thorough investigations of their broker processes and procedures. We are continuing to scrutinize such transactions and arrangements, and are working closely with regulatory authorities. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds®.

I fully believe that even a small number of irregularities is unacceptable. We have spent nearly 30 years building an ethical firm, and our business is founded on a commitment to doing what's right for investors. That commitment leaves no room for any failures to follow company policies or industry regulations.

Given the importance of mutual funds to American investors, I can understand why investors find the recent news to be disturbing. At the same time, I would caution investors not to overreact. Before taking any action, investors should consider implications to their portfolio, tax situation and long-term financial goals.

Ultimately, mutual funds still offer all the features that have made them so popular—diversification, liquidity, convenience, low investment minimums, and professional management. For individual investors especially, mutual funds continue to be one of the most cost-effective investment vehicles available. To date, millions of Americans have relied on mutual funds as an important way to invest for retirement, their children's education, and other financial goals. We see no reason why mutual funds cannot continue to do the same for millions more Americans in the years to come.

Sincerely,



## Management's Discussion

for the year ended October 31, 2003



**Randall W. Merk** is President and CEO of Charles Schwab Investment Management, Inc. and is president of each of the funds covered in this report. He joined the firm in August of 2002, bringing with him 24 years of experience in the asset management industry.

Dear SchwabFunds® Shareholders:

By now, many of you have read the significant media coverage regarding the mutual fund industry. We are pleased to report that to date we have found no indications of illegal or improper activities by Charles Schwab Investment Management ("CSIM"), the investment advisor who manages the SchwabFunds.

Similarly, you may have also read about a limited number of potential late trading issues at Charles Schwab & Co., Inc. and certain limited market timing arrangements at U.S. Trust. CSIM, which is a separate Charles Schwab subsidiary, has been conducting its own review of the SchwabFunds policies and procedures regarding market timing and late trading. We have examined over two years of activity by CSIM personnel and have not found the types of improper market timing or late trading arrangements that you have been reading about. Our research is still ongoing, so some of these facts may change. Here are our key findings to date:

- **The Integrity of our Staff:** We have not found any indication that any CSIM employees, including portfolio managers and senior managers, have engaged in improper or inappropriate trading for their own account.
- **Market Timing & Late Trading:** We have not found any special arrangements with any shareholders to permit market timing or trading of SchwabFunds after market close.
- **Hedge Funds:** We have not found any special arrangements with hedge funds or other private investment vehicles that would permit them to trade in a way that was inconsistent with a fund's policies and procedures.

As part of the recent mutual fund investigations, requests for information were sent by the SEC to about 90 of the largest mutual fund companies. As the nation's 11th largest fund family with over \$140 billion under management, SchwabFunds also received a request from the SEC. We take these requests very seriously and are working closely with the regulators on this matter.

Charles Schwab founded his firm 30 years ago with a vision to create the most useful and ethical financial services firm in the world. We live by that philosophy every day and nothing means more to our business than the trust of our shareholders.

Your investment in SchwabFunds is an indication of the trust you place in us. As the managers of your money, we have a special obligation to live up to that trust. I want to thank you for investing with us, and want to assure you that we strive relentlessly to operate our business with the highest ethical standards and an unwavering commitment to serve you, our SchwabFunds shareholders.

Sincerely,





*Factors that have been linked to superior long-term stock performance were not the factors that investors appeared to value most during the period.*

## The Economy and the Market

**The economy continued to gather strength during the report period, but improvement remained sluggish and uneven.** Although numerous factors had been indicating that the U.S. economy was in recovery when the report period began, many remained concerned about the slow pace of improvement, in particular the absence of job growth. However, the government reported an 8.2% increase in GDP for the third quarter of 2003, job growth for October 2003 was the largest since January 2003, and merger activity picked up—indications that the economy may have gained real strength during the report period.

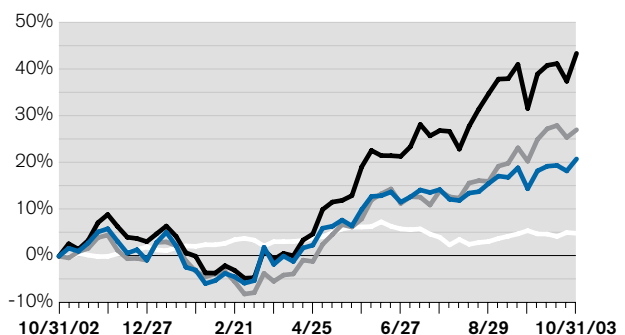
**Government policies were strongly aimed at stimulating the economy.** The Federal Reserve (the Fed) cut short-term interest rates twice during the period—0.50% in November 2002 and 0.25% in June 2003—bringing the Fed funds target rate to a 45-year low of 1.00%. On the fiscal side, stimulus measures included tax cuts.

Consumer spending held up strongly throughout the economic downturn, bolstered in part by unprecedented activity in mortgage refinancing (as individuals took advantage of the opportunity to refinance at historically low rates). During the period, we also saw business capital spending show signs of life after declining for the past few years.

### 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.

- 20.80% **S&P 500® Index:** measures U.S. large-cap stocks
- 43.37% **Russell 2000® Index:** measures U.S. small-cap stocks
- 27.03% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 4.91% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



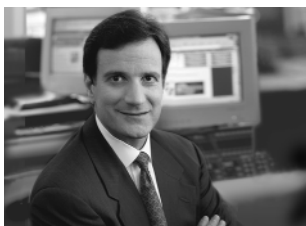
These figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and you can't invest in them directly. Remember that past performance is not an indication of future results.

Data source: Charles Schwab & Co., Inc.



**Geri Hom**, a vice president and senior portfolio manager of the investment adviser, has overall responsibility for the management of the Core Equity, Hedged Equity, Small-Cap Equity and Focus funds, and is lead manager for the Dividend Equity Fund. Prior to joining the firm in 1995, she worked for nearly 15 years in equity management.

**Larry Mano**, a director and a portfolio manager, is responsible for the day-to-day management of the Core Equity, Dividend Equity, Financial Services Focus and Technology Focus funds. Prior to joining the firm in 1998, he worked for 20 years in equity management.



**Kim Daifotis**, CFA, a vice president and senior portfolio manager of the investment adviser, is responsible for management of preferred stocks and convertible securities for the Dividend Equity Fund. He joined the firm in 1997, and has worked in fixed-income asset management and research since 1982.

**Stock prices rose significantly over the period, even as skepticism lingered about the quality of the rally.** After more than two years of generally negative performance, U.S. equity markets reached an apparent bottom during the report period, then rose strongly, ending the period with significant gains. During the report period, the Nasdaq Composite Index rose 46%, while the S&P 500® Index rose nearly 21%.

One striking feature of the overall U.S. stock market during the report period is that stocks with more speculative characteristics tended to perform better than stocks with more demonstrable quality. For example, companies with low earnings or dividends generally outperformed companies with higher earnings or dividends. This held true for other measures of quality as well, such as debt to equity: those with higher levels of debt performed better than companies with lower levels of debt. Consistent with this trend, small-cap stocks (which tend to be more speculative) performed well during the period, and microcap stocks performed even better. Large-cap stocks lagged both groups, but still performed well.

Many market observers have asked why lower quality securities outperformed higher quality and whether it could continue. There are many possible answers, but we believe the more important point is that in the long run, quality has been shown to be a superior indicator of performance.

**Despite the dividend tax cut, dividend stocks underperformed the overall market during the period.** Congress passed the tax cut during the period as part of the government's economic stimulus efforts. The cut reduced the double taxation of corporate dividends, thus lowering the cost of capital and encouraging investment. Since companies that pay dividends are generally more established and less speculative, we see the underperformance of these stocks as being part of the larger market trend mentioned earlier.



**Robin Jackson**, a portfolio manager of the investment adviser, is responsible for the day-to-day management of the Hedged Equity Fund. Prior to joining the firm in 2001, he worked for 13 years in various portfolio management positions, developing and implementing long- and short-trading strategies.



**Elie Spiesel**, a portfolio manager of the investment adviser, shares responsibility for the day-to-day management of the Hedged Equity Fund. Prior to joining the firm in 2001, he spent 12 years in long/short portfolio management.

## The Funds

All of the funds in this report that were in operation for the entire report period posted double-digit total returns. October 2003, the last month of the period, was an especially strong month for the broad U.S. stock market and marked the seventh positive month of the last eight.

The S&P 500® Index closed above 1050 for the first time since May of 2002. Third-quarter earnings were 5% above consensus estimates for the 79% of the companies in the index that had reported their third-quarter earnings by the time this report was written. Information technology, which had been especially hard-hit in recent years, led all S&P 500 sectors during the period with a notable 41% total return.

At the same time, we cannot help but notice that the funds' performance would have benefited even more had higher quality stocks performed better. The Schwab Equity Ratings are designed to evaluate companies based on a variety of factors that can be correlated with stock price. The funds that use Schwab Equity Ratings bought stocks that showed higher quality characteristics, as determined by the ratings.

As discussed earlier, however, these were not the types of stocks that led the market during the report period; rather, it was the stocks assigned lower rankings by Schwab Equity Ratings that led the market. While the use of the ratings therefore limited the performance of most of these funds during the period covered by this report, we also believe that investing in lower-rated stocks—that is, those whose earnings and potential for growth appear to be little to none—would have meant exposing the funds to undue risk. We continue to believe the basic premise of the Schwab Equity Ratings remains sound and that the ratings have the potential to contribute to performance over multi-year periods. We note that the market rally appeared to broaden toward the end of the report period, with higher-rated stocks improving their performance relative to lower-rated stocks in September and October 2003.

All sectors in the **Schwab Core Equity Fund** posted positive total returns, with the weakest sector, basic materials, up 2%. Technology, the leading sector, was up 32%. The fund's emphasis on less speculative stocks helped limit the fund's volatility.

Schwab Equity Ratings are produced by the Schwab Equity Model Development Department.

## Management's Discussion continued

### Performance at a Glance

Total return for the 12 months ended 10/31/03, except where noted

**Schwab Core Equity Fund™** . . . 17.54%  
 Benchmark . . . . . 20.80%  
 Category Average . . . . . 19.40%  
*Performance Details . . . . . page 9*

**Schwab Dividend Equity Fund™**  
 Total return for 9/1/03 - 10/31/03  
 Investor Shares . . . . . 6.00%  
 Select Shares® . . . . . 6.00%  
 Benchmark . . . . . 4.54%  
 Category Average . . . . . 4.26%  
*Performance Details . . . pages 11-12*

**Schwab Small-Cap Equity Fund™**  
 Total return for 7/2/03 - 10/31/03  
 Investor Shares . . . . . 18.10%  
 Select Shares . . . . . 18.10%  
 Benchmark . . . . . 16.36%  
 Category Average . . . . . 16.60%  
*Performance Details . . . pages 14-15*

**Schwab Hedged Equity Fund™** . . . . . 17.17%  
 Benchmark . . . . . 20.80%  
 Category Average . . . . . 15.87%  
*Performance Details . . . . . page 17*

The **Schwab Dividend Equity Fund** ended its first two months with a total return of 6%. The fund's avoidance of lower-rated stocks, which led the market during the period, did not help the fund's performance. The fund was equally weighted across its holdings, a strategy designed to minimize stock-specific risk, and this strategy helped performance. The fund's dividend yield for the two-month period was 3.4%, which compares favorably to a yield of 1.7% for the S&P 500 Index (see page 13 for SEC yield information).

With small-caps outperforming mid- and large-caps during the period, the **Schwab Small-Cap Equity Fund** was able to post a total return of more than 18% for its first four months. With this fund, the use of Schwab Equity Ratings provided a more positive contribution to fund performance, because unlike the broader market, higher quality small-cap stocks performed better than lower quality small-cap stocks. Even the worst-performing sector, energy, had a 3% return for these four months, while information technology rose a remarkable 31%. Historically, October has been a bad month for small-cap stocks. However, October 2003 saw small-caps gain 8% (as measured by the Schwab Small-Cap Index). Investors should note that the gains in small-caps were accompanied by high volatility: small-cap stock prices moved more than 1% a day on over 80% of the trading days during the period.

Funds that make use of hedging techniques, such as the **Schwab Hedged Equity Fund™**, sometimes fare less well during market run-ups than funds that do not engage in hedging, and that was the case here, with the fund returning 17% during the report period. The fund's strategy of short-selling lower-rated stocks undercut the fund's performance for the period: performance for the fund's long positions alone was over 27%, while performance for its short positions was close to -28%. At the same

Past performance does not indicate future results.

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

All fund and index figures on this page and the following page assume dividends and distributions were reinvested. Benchmark index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Each fund's share price and principal values change, and when you sell your shares they may be worth more or less than what you paid for them. For more current performance information visit [www.schwab.com](http://www.schwab.com) or call 1-800-435-4000.

Small company stocks are subject to greater volatility than other asset categories.

Schwab Equity Ratings are produced by the Schwab Equity Model Development Department.

## Performance at a Glance

Total return for the 12 months ended  
10/31/03

### Communications

**Focus Fund** . . . . . **26.87%**  
Benchmark . . . . . **-0.16%**  
Category Average . . . . . **34.96%**

*Performance Details . . . . . page 19*

### Financial Services

**Focus Fund** . . . . . **26.68%**  
Benchmark . . . . . **20.96%**  
Category Average . . . . . **25.68%**

*Performance Details . . . . . page 21*

### Health Care Focus Fund . . . 18.96%

Benchmark . . . . . **6.94%**  
Category Average . . . . . **21.27%**

*Performance Details . . . . . page 23*

### Technology Focus Fund . . . . 48.97%

Benchmark . . . . . **42.14%**  
Category Average . . . . . **53.50%**

*Performance Details . . . . . page 25*

time, the fund did achieve its total return for the period with significantly less volatility than the S&P 500. As of the end of the report period, the fund had slightly more exposure to finance and services stocks, and slightly less exposure to energy and technology, compared to the S&P 500® Index. The fund maintained a long-short ratio of 4:1 throughout the report period, in keeping with its disciplined strategy.

The four **Schwab Focus Funds** switched to using Schwab Equity Ratings in July of 2003. In choosing stocks, each Focus Fund generally chooses the higher rated stocks in its sector from the universe of stocks rated by the Schwab Equity Ratings (about 3,500). Since switching to Schwab Equity Ratings, each fund has tended to invest an equal portion of assets in each of the stocks in its portfolio.

The **Communications Focus Fund** significantly outperformed its benchmark but trailed its category average. Only one sub-industry, capital goods, was negative, while the strongest, retailing, was up nearly 48%. The fund benefited from not owning two bellwether stocks, Nokia and Nortel Networks, both foreign stocks that are not ranked by the Schwab Equity Ratings. These stocks were down 17% and 21% respectively, on concerns over growth prospects and stock valuations. While we are pleased with the fund's performance for the period, we note that this sector continues to face major structural challenges. New companies and technologies are only adding pressure to an already highly competitive environment, while regulatory rulings threaten to further commoditize services.

Past performance does not indicate future results.

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

Since each of the Focus Funds focuses its investments on companies involved in a specific sector, 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 Equity Model Development Department.

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.

## Management's Discussion continued

*The sector-specific Schwab Focus Funds were one area where Schwab Equity Ratings appear to have contributed more positively to performance during the report period.*

The financial services sector outperformed the broader market during the report period, and the **Financial Services Focus Fund** did so as well. As in the broader market, this sector saw large-cap stocks underperforming small-caps. However, unlike the broader market, this sector saw higher quality stocks outperform lower quality stocks, and this helped the fund's performance. A wide gulf separated the best- and worst-performing subindustries in this sector: real property was up 69%, while business services was down 34%.

The **Health Care Focus Fund** significantly outperformed its benchmark, but trailed its category average. The 12 months of the report period were a mixed year for the health care sector. The biotechnology, health services and medical products subindustries all posted gains, but pharmaceuticals lagged, partly on concerns that current pricing practices may be under threat. Based on such factors as biotechnology advances and the healthcare needs of an aging population, we continue to believe that this sector has long-term growth potential.

The **Technology Focus Fund** returned nearly 49% for the period, outperforming the S&P technology sector. The fund clearly benefited from the resurgence of interest in tech stocks, evidently fueled by investors who believed that these stocks had fallen so far that a reassessment was due. Stocks rated F rose 67%, but those rated A also rose substantially: by 53%. As in the financial sector, a wide gulf separated the best- and worst-performing subindustries in this sector: electronics was up 89%, while optics and photo was down 11%.

Since each of the Focus funds focuses its investments on companies involved in a specific sector, these funds may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

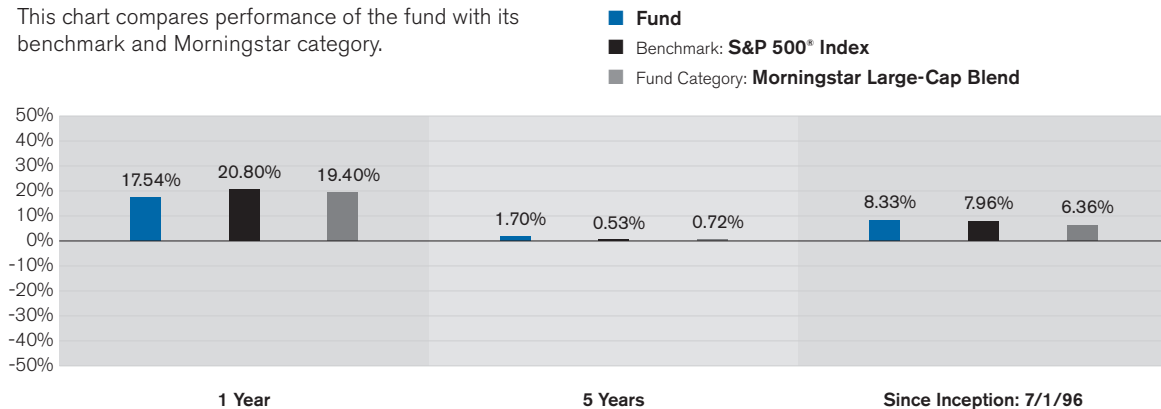
Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed subsequent to the report date.

# Schwab Core Equity Fund™

Performance as of 10/31/03

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

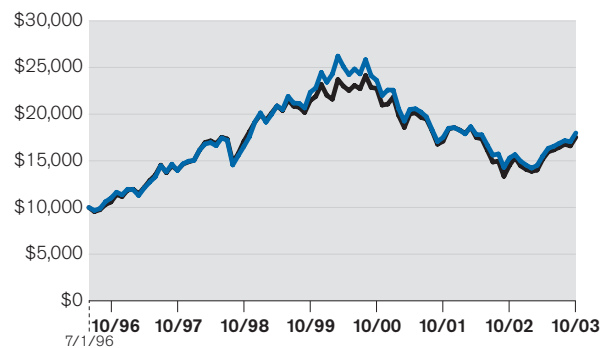
This chart compares performance of the fund with its benchmark and Morningstar category.



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

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

■ \$17,985 Fund  
■ \$17,535 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

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

## Schwab Core Equity Fund™

### Fund Facts as of 10/31/03

Fund Category<sup>1</sup>

Investment Style

ValueBlendGrowth

LargeMediumSmall

Market Cap

Statistics

Number of Holdings164

Weighted Average Market Cap (\$ x 1,000,000)\$75,382

Price/Earnings Ratio (P/E)18.6

Price/Book Ratio (P/B)3.2

Portfolio Turnover Rate73%

Top Holdings<sup>2</sup>

Security

% of Net Assets

① Procter & Gamble Co.4.4%

② Bank of America Corp.4.4%

③ Intel Corp.4.1%

④ Citigroup, Inc.3.5%

⑤ Microsoft Corp.3.5%

⑥ Cisco Systems, Inc.3.3%

⑦ Fannie Mae2.9%

⑧ Exxon Mobil Corp.2.9%

⑨ The Progressive Corp.2.4%

⑩ Wachovia Corp.2.2%

Total33.6%

Sector Weightings % of Portfolio

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.

25.2%

Finance

25.1%

Consumer Non-Durables

19.0%

Technology

9.5%

Utilities

7.9%

Materials & Services

6.0%

Energy

4.5%

Capital Goods

1.9%

Transportation

0.9%

Other

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.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.



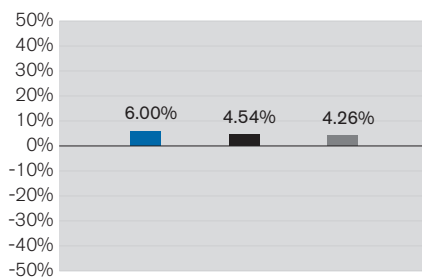
# Schwab Dividend Equity Fund™

## Investor Shares Performance as of 10/31/03

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

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

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

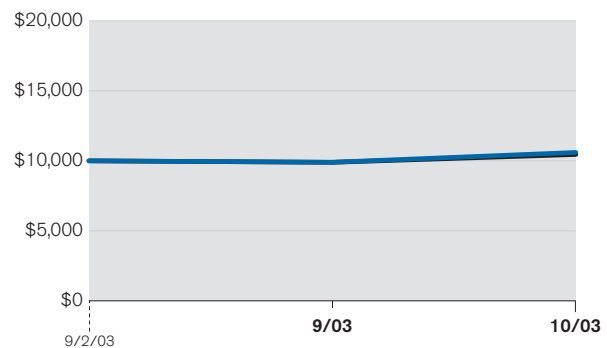


Since Inception: 9/2/03

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

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

■ \$10,600 **Investor Shares**  
 ■ \$10,454 **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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

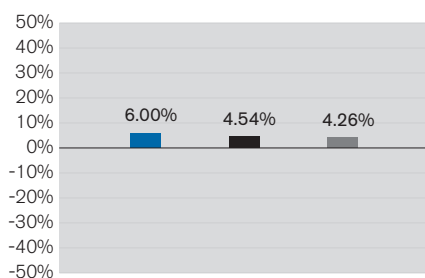
<sup>2</sup> Source for category information: Morningstar, Inc.

## Schwab Dividend Equity Fund™

### Select Shares® Performance as of 10/31/03

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

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



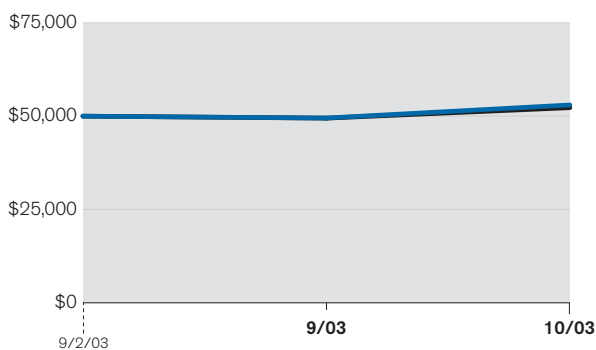
Since Inception: 9/2/03

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

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

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

■ \$53,000 **Select Shares**  
 ■ \$52,270 **S&P 500 Index**



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

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

## Schwab Dividend Equity Fund™

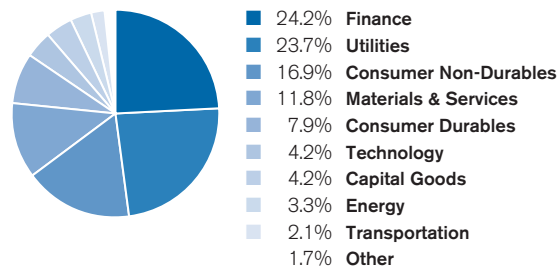
### Fund Facts as of 10/31/03

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

Security	% of Net Assets
① FleetBoston Financial Corp.	1.3%
② Carlisle Cos., Inc.	1.2%
③ Oshkosh Truck Corp.	1.2%
④ Rohm & Haas Co.	1.2%
⑤ ChevronTexaco Corp.	1.2%
⑥ Bank of America Corp.	1.1%
⑦ Black & Decker Corp.	1.1%
⑧ Rockwell Automation, Inc.	1.1%
⑨ 3M Co.	1.1%
⑩ Brunswick Corp.	1.1%
<b>Total</b>	<b>11.6%</b>

#### Sector Weightings % of Portfolio

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 Statistics

Number of Holdings	101
Weighted Average Market Cap (\$ x 1,000,000)	\$26,051
Price/Earnings Ratio (P/E)	15.4
Price/Book Ratio (P/B)	2.4
Portfolio Turnover Rate <sup>2</sup>	2%
SEC Yield <sup>3</sup>	3.19%

<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

<sup>2</sup> Not annualized.

<sup>3</sup> Portfolio expenses have been absorbed by CSIM and Schwab. Without these reductions, the portfolio's 30-day SEC yield would have been 1.95%. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

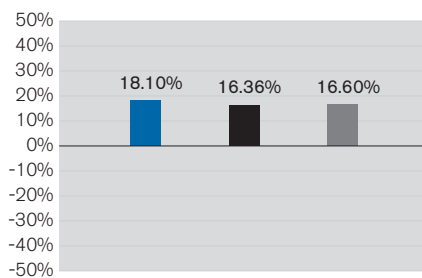
# Schwab Small-Cap Equity Fund™

## Investor Shares Performance as of 10/31/03

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

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

■ Fund: **Investor Shares**  
 ■ Benchmark: **S&P SmallCap 600 Index**  
 ■ Fund Category: **Morningstar Small-Cap Blend**

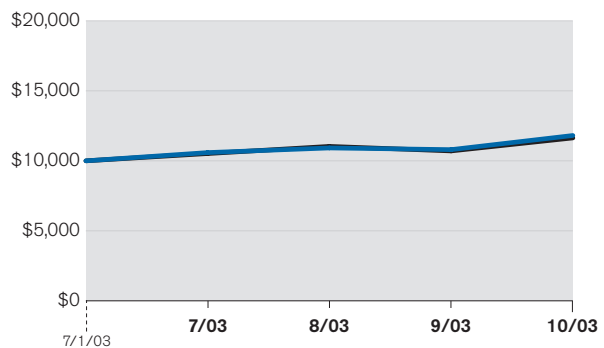


Since Inception: 7/1/03

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

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

■ \$11,810 **Investor Shares**  
 ■ \$11,636 **S&P SmallCap 600 Index**



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

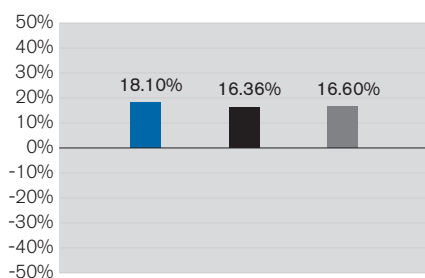
<sup>2</sup> Source for category information: Morningstar, Inc.

## Schwab Small-Cap Equity Fund™

### Select Shares® Performance as of 10/31/03

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

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



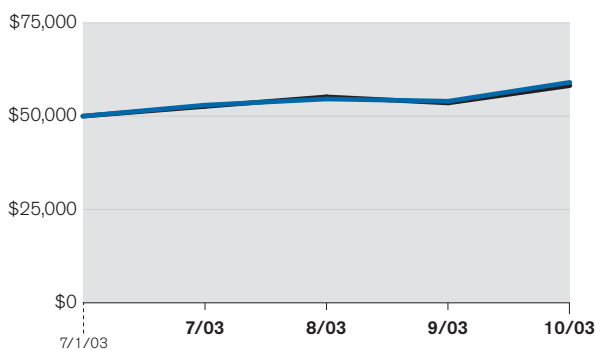
Since Inception: 7/1/03

■ Fund: **Select Shares**  
 ■ Benchmark: **S&P SmallCap 600 Index**  
 ■ Fund Category: **Morningstar Small-Cap Blend**

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

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

■ \$59,050 **Select Shares**  
 ■ \$58,182 **S&P SmallCap 600 Index**



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

## Schwab Small-Cap Equity Fund™

### Fund Facts as of 10/31/03

Fund Category<sup>1</sup>

Investment Style

ValueBlendGrowth

LargeMediumSmall

Market Cap

Statistics

Number of Holdings

180

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

\$911

Price/Earnings Ratio (P/E)

20.7

Price/Book Ratio (P/B)

2.3

Portfolio Turnover Rate<sup>2</sup>

39%

Top Holdings<sup>3</sup>

Security

% of Net Assets

① Graco, Inc.

1.5%

② Mid Atlantic Medical Services, Inc.

1.4%

③ First Bancorp Puerto Rico

1.3%

④ Stride Rite Corp.

1.3%

⑤ FirstFed Financial Corp.

1.2%

⑥ UGI Corp.

1.2%

⑦ Oskosh Truck Corp.

1.2%

⑧ Choice Hotels International, Inc.

1.2%

⑨ Church & Dwight Co., Inc.

1.1%

⑩ Aspect Communications Corp.

1.0%

Total

12.4%

Sector Weightings % of Portfolio

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.

23.7%

Materials & Services

20.5%

Consumer Non-Durables

15.6%

Technology

13.7%

Finance

7.1%

Consumer Durables

5.6%

Capital Goods

5.3%

Energy

3.6%

Utilities

2.8%

Transportation

2.1%

Other

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.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 10/31/03, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

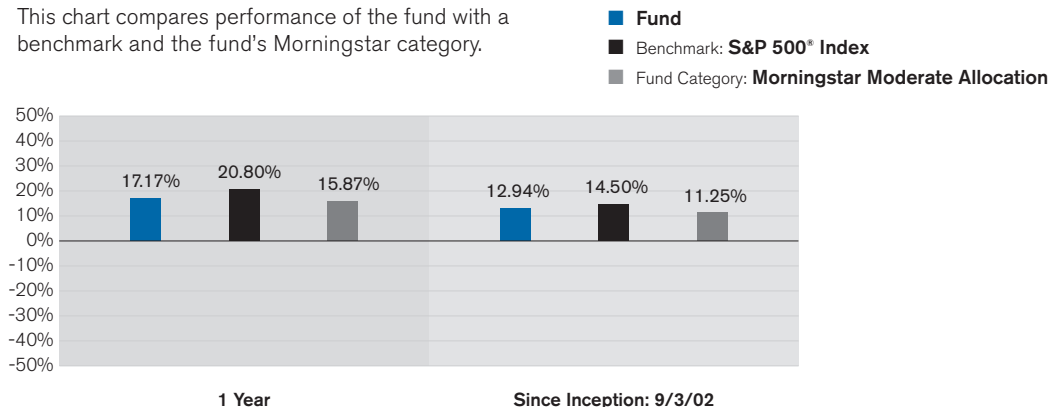
<sup>3</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Schwab Hedged Equity Fund™

Performance as of 10/31/03

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

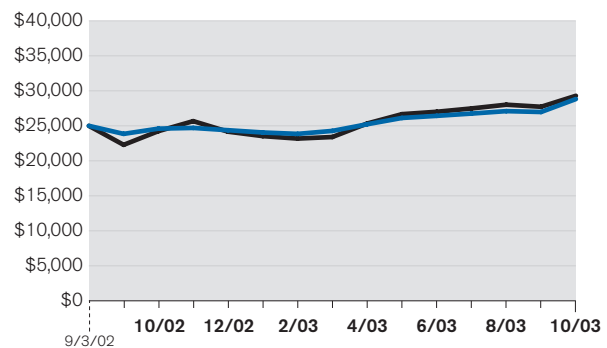
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



## Performance of a Hypothetical \$25,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$25,000 investment in the fund (the minimum investment for this fund), compared with a similar investment in a benchmark.

■ \$28,825 Fund  
■ \$29,291 S&P 500 Index



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

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

## Schwab Hedged Equity Fund™

### Fund Facts as of 10/31/03

Top Long Holdings <sup>1</sup>		Statistics		
Security	% of Net Assets		Long Holdings	Short Positions
① Rockwell International Corp.	0.8%	Number of Holdings	207	127
② PanAmSat Corp.	0.8%	Weighted Average Market Cap (\$ x 1,000,000)	\$12,935	\$4,924
③ Deere & Co.	0.8%	Price/Earnings Ratio (P/E)	17.4	31.1
④ Eaton Corp.	0.8%	Price/Book Ratio (P/B)	2.4	2.2
⑤ Intel Corp.	0.8%	Portfolio Turnover Rate <sup>2</sup>	114%	—
Total	4.0%			

Top Short Positions <sup>1</sup>	
Security	% of Net Assets
① Mandalay Resort Group	0.7%
② 99 Cents Only Stores	0.7%
③ Astoria Financial Corp.	0.6%
④ Scotts Co., Class A	0.6%
⑤ Superior Industries International, Inc.	0.6%
Total	3.2%

<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

<sup>2</sup> 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.

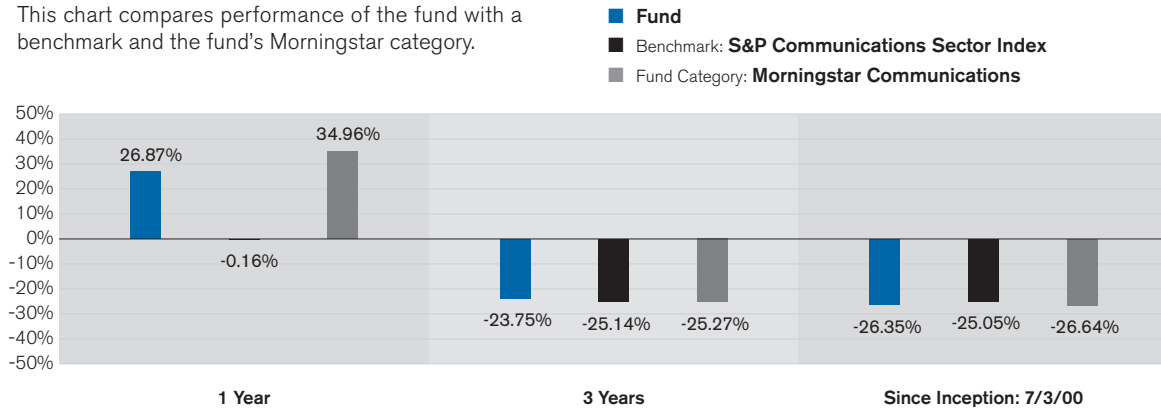


# Communications Focus Fund

Performance as of 10/31/03

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

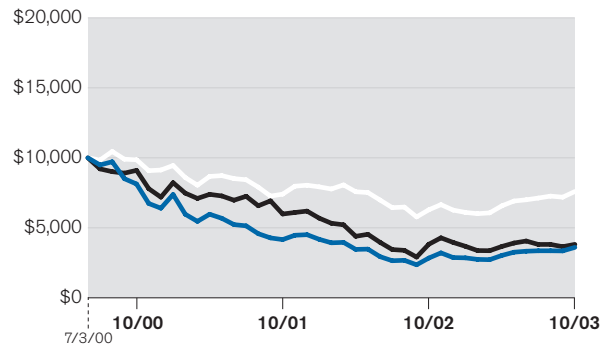
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

■ \$3,604 Fund  
■ \$3,820 S&P Communications Sector Index  
□ \$7,596 S&P 500 Index



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

## Communications Focus Fund

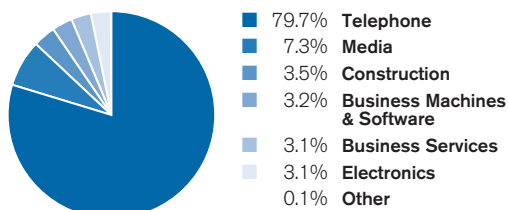
### Fund Facts as of 10/31/03

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

Security	% of Net Assets
1 PanAmSat Corp.	4.1%
2 Primus Telecommunications Group, Inc.	4.1%
3 Crown Castle International Corp.	3.9%
4 BellSouth Corp.	3.8%
5 Nextel Communications, Inc., Class A	3.7%
6 SBA Communications Corp.	3.5%
7 General Communication, Inc., Class A	3.5%
8 Time Warner Telecom, Inc., Class A	3.5%
9 AT&T Corp.	3.4%
10 Cincinnati Bell, Inc.	3.4%
<b>Total</b>	<b>36.9%</b>

#### Industry Weightings % of Portfolio

This chart shows the fund's industry composition as of the report date.



#### Statistics

Number of Holdings	31
Weighted Average Market Cap (\$ x 1,000,000)	\$11,457
Price/Earnings Ratio (P/E)	35.3
Price/Book Ratio (P/B)	1.5
Portfolio Turnover Rate	179%

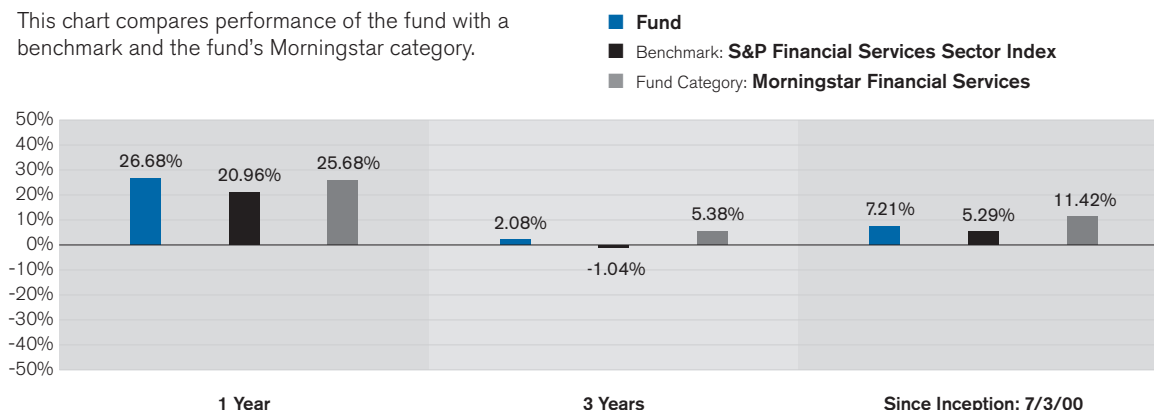
<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Financial Services Focus Fund

Performance as of 10/31/03

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

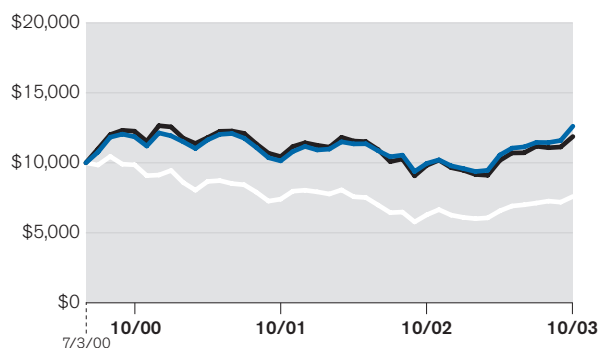
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

■ \$12,615 Fund  
■ \$11,877 S&P Financial Services Sector Index  
□ \$7,596 S&P 500 Index



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

## Financial Services Focus Fund

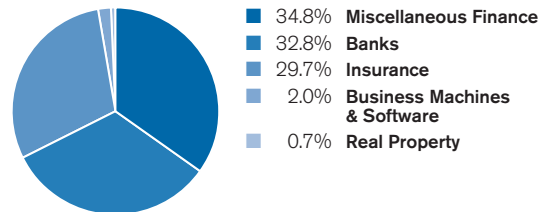
### Fund Facts as of 10/31/03

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

Security	% of Net Assets
① Countrywide Financial Corp.	2.4%
② WFS Financial, Inc.	2.2%
③ Capital Corp. of the West	2.2%
④ City National Corp.	2.2%
⑤ Bank of Hawaii Corp.	2.2%
⑥ IndyMac Bancorp, Inc.	2.2%
⑦ Safeco Corp.	2.1%
⑧ Popular, Inc.	2.1%
⑨ Cash America International, Inc.	2.1%
⑩ Metlife, Inc.	2.1%
<b>Total</b>	<b>21.8%</b>

#### Industry Weightings % of Portfolio

This chart shows the fund's industry composition as of the report date.



#### Statistics

Number of Holdings	54
Weighted Average Market Cap (\$ x 1,000,000)	\$14,610
Price/Earnings Ratio (P/E)	11.0
Price/Book Ratio (P/B)	2.0
Portfolio Turnover Rate	181%

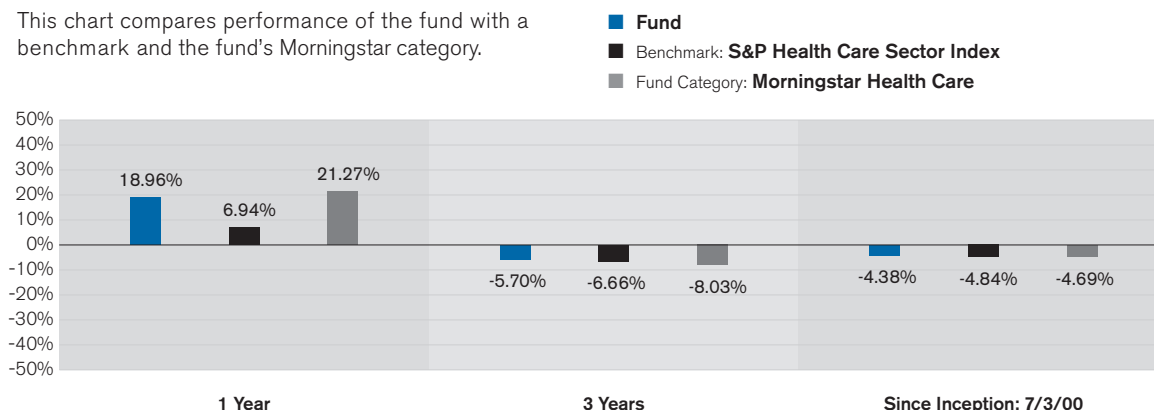
<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Health Care Focus Fund

Performance as of 10/31/03

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

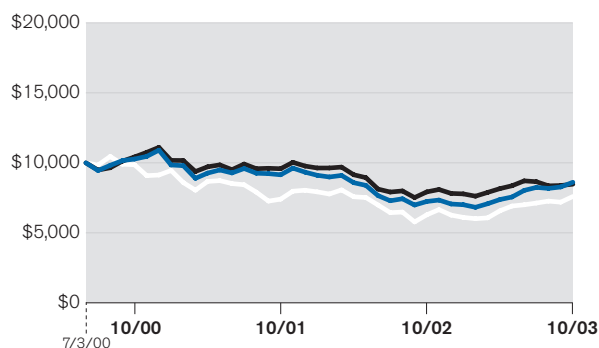
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

- \$8,613 Fund
- \$8,475 S&P Health Care Sector Index
- \$7,596 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

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

## Health Care Focus Fund

### Fund Facts as of 10/31/03

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

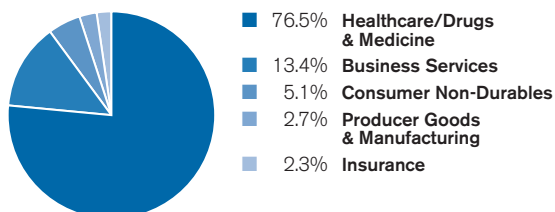
Security	% of Net Assets
① Ventiv Health, Inc.	3.1%
② Microtek Medical Holdings, Inc.	3.0%
③ UnitedHealth Group, Inc.	2.9%
④ DJ Orthopedics, Inc.	2.9%
⑤ DaVita, Inc.	2.8%
⑥ IMS Health, Inc.	2.8%
⑦ Cytoc Corp.	2.8%
⑧ Sybron Dental Specialities, Inc.	2.7%
⑨ Becton Dickinson & Co.	2.7%
⑩ Fisher Scientific International, Inc.	2.7%
<b>Total</b>	<b>28.4%</b>

#### Statistics

Number of Holdings	40
Weighted Average Market Cap (\$ x 1,000,000)	\$6,045
Price/Earnings Ratio (P/E)	17.7
Price/Book Ratio (P/B)	2.5
Portfolio Turnover Rate	200%

#### Industry Weightings % of Portfolio

This chart shows the fund's industry composition as of the report date.



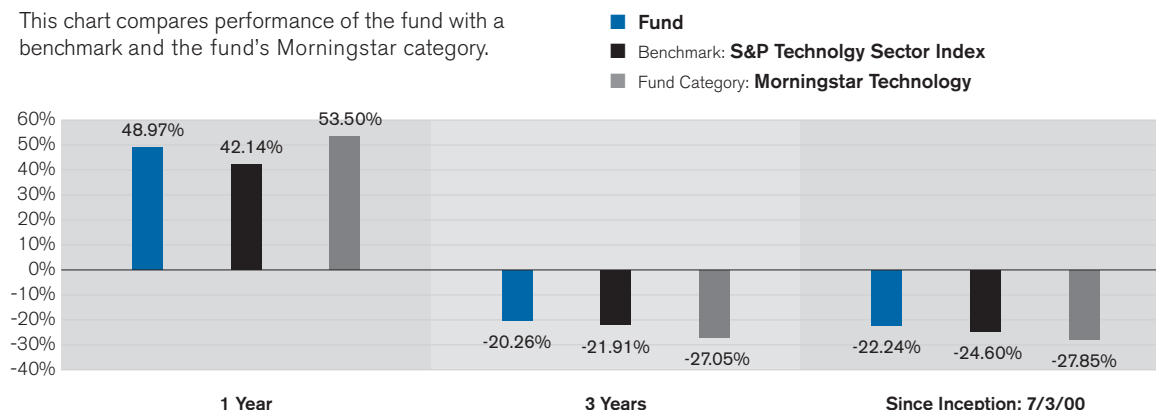
<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.

# Technology Focus Fund

Performance as of 10/31/03

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

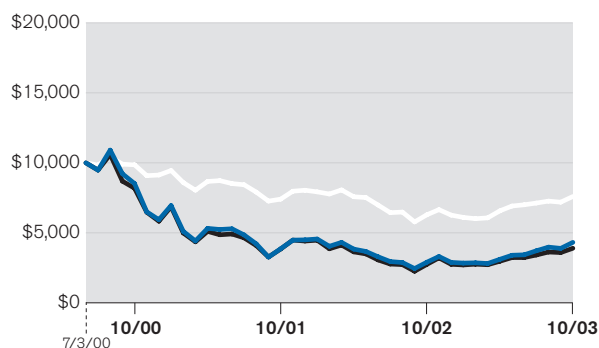
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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

■ \$4,320 Fund  
■ \$3,899 S&P Technology Sector Index  
□ \$7,596 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. The fund's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results.

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

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

## Technology Focus Fund

### Fund Facts as of 10/31/03

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

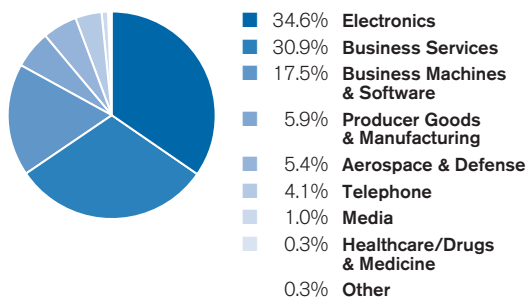
Security	% of Net Assets
① Transaction Systems Architects, Inc., Class A	3.3%
② Epicor Software Corp.	2.3%
③ Cisco Systems, Inc.	2.3%
④ Atmel Corp.	2.2%
⑤ Citrix Systems, Inc.	2.1%
⑥ Intel Corp.	2.1%
⑦ Sybase, Inc.	2.1%
⑧ Benchmark Electronics, Inc.	2.0%
⑨ Adobe Systems, Inc.	2.0%
⑩ Avaya, Inc.	2.0%
<b>Total</b>	<b>22.4%</b>

#### Statistics

Number of Holdings	74
Weighted Average Market Cap (\$ x 1,000,000)	\$12,091
Price/Earnings Ratio (P/E)	—
Price/Book Ratio (P/B)	3.1
Portfolio Turnover Rate	165%

#### Industry Weightings % of Portfolio

This chart shows the fund's industry composition as of the report date.



<sup>1</sup> This list is not a recommendation of any security by the investment adviser. Portfolio holdings may have changed since the report date.



# Schwab Core Equity Fund™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	11/1/99– 10/31/00	11/1/98– 10/31/99
<b>Per-Share Data (\$)</b>					
Net asset value at beginning of period	10.89	12.53	18.53	18.91	14.57
Income or loss from investment operations:					
Net investment income	0.10	0.08	0.08	0.05	0.06
Net realized and unrealized gains or losses	1.79	(1.64)	(4.57)	1.08	4.94
Total income or loss from investment operations	1.89	(1.56)	(4.49)	1.13	5.00
Less distributions:					
Dividends from net investment income	(0.07)	(0.08)	(0.07)	(0.04)	(0.09)
Distributions from net realized gains	—	—	(1.44)	(1.47)	(0.57)
Total distributions	(0.07)	(0.08)	(1.51)	(1.51)	(0.66)
Net asset value at end of period	12.71	10.89	12.53	18.53	18.91
Total return (%)	17.54	(12.58)	(25.93)	5.75	35.20
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	0.75	0.75	0.75	0.75 <sup>1</sup>	0.75
Gross operating expenses	0.88	0.91	0.88	0.87	0.93
Net investment income	0.94	0.63	0.55	0.29	0.34
Portfolio turnover rate	73	114	106	96	99
Net assets, end of period (\$ x 1,000,000)	237	179	210	342	289

<sup>1</sup> The ratio of net operating expenses would have been 0.76% if certain non-routine expenses (proxy fees) had been included.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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

▲ Collateral for open futures contracts

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>99.5% Common Stock</b>	198,733	235,860
<b>0.3% Short-Term Investment</b>	688	688
<b>0.0% U.S. Treasury Obligations</b>	65	65
<b>99.8% Total Investments</b>	<b>199,486</b>	<b>236,613</b>
<b>18.5% Collateral Invested for Securities on Loan</b>	43,898	43,898
<b>(18.3)% Other Assets and Liabilities, Net</b>		(43,453)
<b>100.0% Total Net Assets</b>		<b>237,058</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock** 99.5% of net assets**Aerospace / Defense 2.1%**

Rockwell Automation, Inc.	34,000	1,056
United Technologies Corp.	47,200	3,997
		<b>5,053</b>

**Air Transportation 1.9%**

• ExpressJet Holdings, Inc.	22,000	336
FedEx Corp.	27,900	2,114
United Parcel Service, Inc., Class B	28,200	2,045
		<b>4,495</b>

**Alcoholic Beverages 0.2%**

Anheuser-Busch Cos., Inc.	9,500	<b>468</b>
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**Security and Number of Shares**

Mkt. Value  
(\$ x 1,000)

**Apparel 0.6%**

Liz Claiborne, Inc.	12,000	443
• Timberland Co., Class A	3,500	182
VF Corp.	20,500	870
		<b>1,495</b>

**Automotive Products / Motor Vehicles 1.1%**

Dana Corp.	64,600	1,052
Eaton Corp.	12,200	1,223
Ford Motor Co.	25,300	307
		<b>2,582</b>

**Banks 8.5%**

▲ ② Bank of America Corp.	137,600	10,421
Bank One Corp.	30,000	1,274
UnionBanCal Corp.	20,600	1,116
⑩ Wachovia Corp.	113,000	5,183
Wells Fargo & Co.	38,400	2,163
		<b>20,157</b>

**Business Machines & Software 10.0%**

Adobe Systems, Inc.	6,800	298
• ⑥ Cisco Systems, Inc.	368,900	7,740
• Dell, Inc.	51,400	1,856
International Business Machines Corp.	17,700	1,584
Landamerica Financial Group, Inc.	200	10
• Lexmark International, Inc., Class A	15,300	1,126
▲ ⑤ Microsoft Corp.	313,800	8,206
• Oracle Corp.	125,500	1,501
• Storage Technology Corp.	12,500	301
• Xerox Corp.	105,000	1,102
		<b>23,724</b>

**Business Services 3.5%**

Automatic Data Processing, Inc.	15,100	570
• Cendant Corp.	119,000	2,431
• Citrix Systems, Inc.	14,500	367
Computer Associates International, Inc.	22,400	527
• CSG Systems International, Inc.	17,500	201
• D&B Corp.	2,900	135

## Schwab Core Equity Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
▲ Gartner, Inc., Class B 23,000	280
H&R Block, Inc. 16,000	753
IMS Health, Inc. 9,200	216
• Intuit, Inc. 7,000	350
• Invitrogen Corp. 4,600	293
• Macrovision Corp. 6,900	152
Republic Services, Inc. 20,100	467
• Sycamore Networks, Inc. 16,400	82
• VeriSign, Inc. 44,000	698
• Veritas Software Corp. 23,500	850
	<b>8,372</b>
<b>Chemicals 1.7%</b>	
Albemarle Corp. 6,500	174
E.I. du Pont de Nemours & Co. 74,900	3,026
MacDermid, Inc. 4,300	129
PPG Industries, Inc. 12,000	692
	<b>4,021</b>
<b>Construction 0.1%</b>	
Centex Corp. 2,500	<b>244</b>
<b>Consumer Durables 0.3%</b>	
Black & Decker Corp. 16,400	<b>784</b>
<b>Electronics 5.4%</b>	
• Amkor Technology, Inc. 46,100	869
• Applied Micro Circuits Corp. 10,000	58
• Atmel Corp. 23,500	132
• GlobespanVirata, Inc. 55,600	342
③ Intel Corp. 293,000	9,684
• LSI Logic Corp. 51,300	474
Motorola, Inc. 17,500	237
• Plantronics, Inc. 4,600	128
Scientific-Atlanta, Inc. 25,300	749
• Thermo Electron Corp. 10,000	220
	<b>12,893</b>
<b>Energy: Raw Materials 0.3%</b>	
Cabot Oil & Gas Corp. 6,000	153
EOG Resources, Inc. 13,700	578
	<b>731</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Food &amp; Agriculture 1.8%</b>	
Hershey Foods Corp. 13,000	1,002
Kellogg Co. 24,300	805
PepsiCo, Inc. 26,300	1,258
Tyson Foods, Inc., Class A 85,500	1,220
	<b>4,285</b>
<b>Healthcare / Drugs &amp; Medicine 11.4%</b>	
• Anthem, Inc. 11,700	801
Bausch & Lomb, Inc. 25,500	1,228
Becton Dickinson & Co. 32,300	1,181
Bristol-Myers Squibb Co. 133,200	3,379
C.R. Bard, Inc. 6,800	544
• Coventry Health Care, Inc. 9,500	520
• Cytoc Corp. 32,900	425
• DaVita, Inc. 17,000	597
• Health Net, Inc. 35,900	1,134
ICN Pharmaceuticals, Inc. 43,800	846
▲ Johnson & Johnson 32,900	1,656
McKesson Corp. 4,900	148
Merck & Co., Inc. 87,300	3,863
Mylan Laboratories, Inc. 26,775	647
• Oxford Health Plans, Inc. 18,800	761
• Pacificare Health Systems, Inc. 24,000	1,428
• Pediatrix Medical Group, Inc. 10,000	534
• Sunrise Senior Living, Inc. 13,100	379
• Sybron Dental Specialties, Inc. 13,500	310
UnitedHealth Group, Inc. 80,200	4,081
• WellPoint Health Networks, Inc. 15,000	1,334
Wyeth 27,000	1,192
	<b>26,988</b>
<b>Household Products 4.4%</b>	
Clorox Co. 500	23
① Procter & Gamble Co. 106,800	10,497
	<b>10,520</b>
<b>Insurance 7.2%</b>	
Aetna, Inc. 25,000	1,435
AFLAC, Inc. 91,900	3,352
The Allstate Corp. 38,500	1,521
Fidelity National Financial, Inc. 26,475	819

See financial notes. 29

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Marsh & McLennan Cos., Inc. 64,900	2,774	• Newfield Exploration Co. 23,800	945
Metlife, Inc. 20,000	628	Pogo Producing Co. 12,000	502
Principal Financial Group, Inc. 24,200	759	Vintage Petroleum, Inc. 26,300	304
⑨ The Progressive Corp. 78,300	5,779		<b>4,629</b>
Radian Group, Inc. 1,800	95		
	<b>17,162</b>	<b>Oil: International 3.7%</b>	
<b>Media 1.8%</b>		ChevronTexaco Corp. 27,000	2,006
• CNET Networks, Inc. 47,500	387	⑧ Exxon Mobil Corp. 186,700	6,830
• EchoStar Communications Corp., Class A 4,500	172		<b>8,836</b>
The McGraw-Hill Cos., Inc. 2,100	141	<b>Optical &amp; Photo 0.2%</b>	
• Time Warner, Inc. 36,500	558	Eastman Kodak Co. 13,800	337
Viacom, Inc., Class B 65,100	2,595	• Ingram Micro, Inc., Class A 15,000	222
Washington Post, Class B 400	295		<b>559</b>
	<b>4,148</b>	<b>Paper &amp; Forest Products 0.4%</b>	
<b>Miscellaneous 1.7%</b>		International Paper Co. 25,500	<b>1,003</b>
3M Co. 50,900	<b>4,014</b>	<b>Producer Goods &amp; Manufacturing 2.3%</b>	
<b>Miscellaneous Finance 9.4%</b>		Albany International Corp., Class A 20,900	646
American Express Co. 39,600	1,858	Briggs & Stratton Corp. 14,500	942
▲④ Citigroup, Inc. 176,433	8,363	Deere & Co. 48,500	2,940
⑦ Fannie Mae 96,500	6,918	HON Industries, Inc. 17,900	734
Goldman Sachs Group, Inc. 26,500	2,488	• SPX Corp. 2,800	135
Legg Mason, Inc. 14,000	1,166		<b>5,397</b>
Lehman Brothers Holdings, Inc. 11,000	792	<b>Retail 5.1%</b>	
MBNA Corp. 5,500	136	• AnnTaylor Stores Corp. 26,300	941
Morgan Stanley 10,000	549	• Best Buy Co., Inc. 4,500	262
	<b>22,270</b>	Claire's Stores, Inc. 15,000	580
<b>Non-Durables &amp; Entertainment 1.9%</b>		Dollar General Corp. 61,000	1,371
• American Greetings Corp., Class A 27,500	586	Federated Department Stores, Inc. 68,300	3,248
Fortune Brands, Inc. 27,500	1,792	The Gap, Inc. 121,700	2,322
Hasbro, Inc. 25,500	556	RadioShack Corp. 46,000	1,380
• Marvel Enterprises, Inc. 25,800	760	• Rent-A-Center, Inc. 3,000	94
McDonald's Corp. 13,500	338	• Rite Aid Corp. 103,000	590
• Yum! Brands, Inc. 14,000	478	• Staples, Inc. 31,900	856
	<b>4,510</b>	• United Stationers, Inc. 11,000	409
<b>Oil: Domestic 2.0%</b>			<b>12,053</b>
Kerr-McGee Corp. 66,500	2,760	<b>Telephone 7.6%</b>	
Marathon Oil Corp. 4,000	118	Alltel Corp. 3,500	165
		AT&T Corp. 3,020	56

## Schwab Core Equity Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
• AT&T Wireless Services, Inc. 132,000	957
• Avaya, Inc. 10,900	141
BellSouth Corp. 126,500	3,328
• Crown Castle International Corp. 36,400	461
• Level 3 Communications, Inc. 79,500	429
• Nextel Communications, Inc., Class A 104,000	2,517
SBC Communications, Inc. 205,600	4,930
Sprint Corp. (FON Group) 57,700	923
Verizon Communications, Inc. 118,200	3,972
	<b>17,879</b>
<b>Travel &amp; Recreation 0.8%</b>	
Harrah's Entertainment, Inc. 37,100	1,614
• MGM MIRAGE 7,000	248
	<b>1,862</b>
<b>Trucking &amp; Freight 0.1%</b>	
• Landstar Systems, Inc. 1,300	<b>95</b>
<b>Utilities: Electric &amp; Gas 2.0%</b>	
Constellation Energy Group, Inc. 6,000	218
▲ Exelon Corp. 48,500	3,077
Great Plains Energy, Inc. 41,900	1,336
	<b>4,631</b>

### Short-Term Investment 0.3% of net assets

Provident Institutional TempFund 688,328	<b>688</b>
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Security Rate, Maturity Date	Face Value (\$ x 1,000)
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### U.S. Treasury Obligations 0.0% of net assets

▲ U.S. Treasury Bills 0.85%-0.88%, 12/18/03 65	<b>65</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
---------------------------------	----------------------------	----------------------------

### Collateral Invested for Securities on Loan 18.5% of net assets

### Commercial Paper & Other Corporate Obligations

American Express Centurion Bank 1.11%, 12/12/03	897	897
Canadian Imperial Bank Corp. 1.09%, 05/28/04	273	273
CC USA, Inc. 1.08%, 11/17/03	672	671
Concord Minutemen Capital Corp. 1.11%, 01/09/04	1,801	1,797
1.08%, 11/18/03	1,491	1,488
1.07%, 11/19/03	4,524	4,520
Crown Point Funding Corp. 1.11%, 01/16/04	2,294	2,290
1.08%, 11/14/03	515	514
Depfa Bank PLC 1.08%, 11/18/03	432	431
General Electric Capital Corp. 1.08%, 05/10/04	331	331
Tulip Funding Corp. 1.07%, 11/10/03	3,338	3,335
Westdeutsche Landesbank AG 1.09%, 09/29/04	6,571	6,570
1.09%, 09/23/04	1,097	1,097
	<b>24,214</b>	

### Short-Term Investments

Wells Fargo Bank, Time Deposit 1.06%, 11/03/03	2,647	<b>2,647</b>
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### Security and Number of Shares

### Other Investment Companies

Institutional Money Market Trust 17,037,123	<b>17,037</b>
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### End of collateral invested from securities on loan.

For totals, please see the first page of holdings for this fund.

Statement of

**Assets and Liabilities**

As of October 31, 2003. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$42,542 of securities on loan)	\$236,613
Collateral held for securities on loan	43,898
Receivables:	
Fund shares sold	244
Due from brokers for futures	1
Dividends	423
Income from securities on loan	6
Prepaid expenses	+ 12
<b>Total assets</b>	<b>281,197</b>

**Liabilities**

Collateral held for securities on loan	43,898
Payables:	
Fund shares redeemed	161
Investment adviser and administrator fees	5
Transfer agent and shareholder service fees	3
Accrued expenses	+ 72
<b>Total liabilities</b>	<b>44,139</b>

**Net Assets**

<b>Total assets</b>	281,197
<b>Total liabilities</b>	- 44,139
<b>Net assets</b>	<b>\$237,058</b>

**Net Assets by Source**

Capital received from investors	244,832
Net investment income not yet distributed	1,643
Net realized capital losses	(46,572)
Net unrealized capital gains	37,155

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$237,058		18,648		\$12.71

Unless stated, all numbers x 1,000.

The fund paid \$199,486 for these securities. Not counting short-term obligations and government securities, the fund paid \$172,172 for securities during the report period and received \$144,317 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had three open S&P 500 futures contracts due to expire on December 18, 2003, with an aggregate net contract value of \$787 and net unrealized gains of \$28.

**Federal Tax Data**

<b>Portfolio cost</b>	\$199,498
<b>Net unrealized gains and losses:</b>	
Gains	\$43,729
Losses	+ (6,614)
	<b>\$37,115</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$1,643
Long-term capital gains	\$-
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount
2009	\$26,773
2010	8,588
2011	+ 11,171
	<b>\$46,532</b>

## Statement of

**Operations**

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

**Investment Income**

Dividends	\$3,354
Interest	31
Securities on loan	+ 18
<b>Total investment income</b>	<b>3,403</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(11,378)
Net realized gains on futures contracts	+ 422
<b>Net realized losses</b>	<b>(10,956)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	43,682
Net unrealized gains on futures contracts	+ 65
<b>Net unrealized gains</b>	<b>43,747</b>

**Expenses**

Investment adviser and administrator fees	1,085
Transfer agent and shareholder service fees	502
Trustees' fees	5
Custodian fees	23
Portfolio accounting fees	29
Professional fees	27
Registration fees	32
Shareholder reports	67
Other expenses	+ 3
Total expenses	1,773
Expense reduction	- 265
<b>Net expenses</b>	<b>1,508</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>3,403</b>
<b>Net expenses</b>	<b>- 1,508</b>
<b>Net investment income</b>	<b>1,895</b>
<b>Net realized losses</b>	<b>(10,956)</b>
<b>Net unrealized gains</b>	<b>+ 43,747</b>
<b>Increase in net assets from operations</b>	<b>\$34,686</b>

Unless stated, all numbers x 1,000.

Calculated as a percentage of average daily net assets: 0.54% of the first \$500 million and 0.49% of assets beyond that.

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.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 0.75% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$32,791.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$1,895	\$1,234
Net realized losses	(10,956)	(7,462)
Net unrealized gains or losses	+ 43,747	(17,836)
<b>Increase or decrease in net assets from operations</b>	<b>34,686</b>	<b>(24,064)</b>

**Distributions paid**

Dividends from net investment income	<b>\$1,261</b>	<b>\$1,269</b>
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**Transactions in fund shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	5,806	\$65,590	3,029	\$34,629
Shares reinvested	109	1,152	89	1,172
Shares redeemed	+ (3,746)	(42,567)	(3,376)	(40,795)
<b>Net transactions in fund shares</b>	<b>2,169</b>	<b>\$24,175</b>	<b>(258)</b>	<b>(\$4,994)</b>

**Shares outstanding and net assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	16,479	\$179,458	16,737	\$209,785
Total increase or decrease	+ 2,169	57,600	(258)	(30,327)
<b>End of period</b>	<b>18,648</b>	<b>\$237,058</b>	<b>16,479</b>	<b>\$179,458</b>

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 tax-basis components of distributions paid are:

**Current period:**

Ordinary Income	\$1,261
Long-term capital gains	\$–

**Prior period:**

Ordinary Income	\$1,269
Long-term capital gains	\$–

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

Includes distributable net investment income in the amount of \$1,643 and \$1,009 at the end of the current period and prior period, respectively.



# Schwab Dividend Equity Fund™

## Financial Statements

### Financial Highlights

Investor Shares	9/2/03 <sup>1</sup> – 10/31/03
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.05
Net realized and unrealized gains	0.55
Total income from investment operations	0.60
Net asset value at end of period	10.60
Total return (%)	6.00 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	—
Gross operating expenses	1.34 <sup>3</sup>
Net investment income	3.41 <sup>3</sup>
Portfolio turnover rate	2 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	94

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares®	9/2/03¹– 10/31/03
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	10.00
Income from investment operations:	
Net investment income	0.05
Net realized and unrealized gains	0.55
Total income from investment operations	0.60
Net asset value at end of period	10.60
Total return (%)	6.00²
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	—
Gross operating expenses	1.19³
Net investment income	3.41³
Portfolio turnover rate	2²
Net assets, end of period (\$ x 1,000,000)	111

¹ Commencement of operations.

² Not annualized.

³ Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

**1** Top ten holding

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Market Value</b> (\$x1,000)
<b>99.6% Common Stock</b>	194,362	203,992
<b>1.8% Short-Term Investments</b>	3,630	3,630
<b>101.4% Total Investments</b>	<b>197,992</b>	<b>207,622</b>
<b>(1.4)% Other Assets and Liabilities, Net</b>		(2,820)
<b>100.0% Total Net Assets</b>		<b>204,802</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock** 99.6% of net assets**Aerospace / Defense 1.1%**

<b>8</b> Rockwell Automation, Inc.	73,100	<b>2,270</b>
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**Air Transportation 1.1%**

United Parcel Service, Inc., Class B	30,900	<b>2,241</b>
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**Apparel 1.0%**

VF Corp.	50,400	<b>2,139</b>
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**Automotive Products / Motor Vehicles 4.8%**

Bandag, Inc.	19,000	695
<b>2</b> Carlisle Cos., Inc.	43,100	2,472
Ford Motor Co.	178,700	2,168
General Motors Corp.	51,000	2,176
<b>3</b> Oshkosh Truck Corp.	52,000	2,383
		<b>9,894</b>

**Banks 15.2%**

AmSouth Bancorp.	93,000	2,197
<b>6</b> Bank of America Corp.	30,200	2,287
Bank One Corp.	51,700	2,195

**Security and number of shares**

Mkt. value  
(\$ x 1,000)

<b>1</b> FleetBoston Financial Corp.	64,000	2,585
J.P. Morgan Chase & Co.	61,700	2,215
National City Corp.	65,900	2,152
National Commerce Financial Corp.	79,800	2,192
PNC Financial Services Group, Inc.	40,900	2,191
Regions Financial Corp.	59,900	2,201
U.S. Bancorp	79,800	2,172
Union Planters Corp.	64,200	2,136
UnionBanCal Corp.	41,000	2,221
Wachovia Corp.	48,700	2,234
Wells Fargo & Co.	39,200	2,208
		<b>31,186</b>

**Business Machines & Software 1.1%**

Pitney Bowes, Inc.	53,200	<b>2,186</b>
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**Business Services 3.1%**

GTECH Holdings Corp.	46,500	2,078
H&R Block, Inc.	46,400	2,185
Viad Corp.	86,000	2,148
		<b>6,411</b>

**Chemicals 7.5%**

Dow Chemical Co.	57,800	2,178
E.I. du Pont de Nemours & Co.	53,900	2,178
Lubrizol Corp.	68,900	2,088
Monsanto Co.	87,000	2,179
PPG Industries, Inc.	39,000	2,248
<b>4</b> Rohm & Haas Co.	60,500	2,378
RPM International, Inc.	141,000	2,037
		<b>15,286</b>

**Consumer Durables 2.1%**

<b>7</b> Black & Decker Corp.	47,700	2,281
Maytag Corp.	77,100	1,958
		<b>4,239</b>

**Electronics 2.1%**

Acuity Brands, Inc.	98,500	2,118
PerkinElmer, Inc.	116,500	2,098
		<b>4,216</b>

See financial notes. 37

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Food &amp; Agriculture 3.2%</b>		<b>Oil: Domestic 1.1%</b>	
ConAgra Foods, Inc. 88,200	2,103	Kerr-McGee Corp. 52,600	2,183
H.J. Heinz Co. 62,000	2,190	<b>Oil: International 2.2%</b>	
Kellogg Co. 65,900	2,183	⑤ ChevronTexaco Corp. 31,800	2,363
	<b>6,476</b>	Exxon Mobil Corp. 60,800	2,224
<b>Healthcare / Drugs &amp; Medicine 1.9%</b>			<b>4,587</b>
Bristol-Myers Squibb Co. 86,700	2,199	<b>Optical &amp; Photo 0.2%</b>	
Merck & Co., Inc. 39,200	1,735	Eastman Kodak Co. 16,900	413
	<b>3,934</b>	<b>Paper &amp; Forest Products 0.7%</b>	
<b>Household Products 3.2%</b>		Rayonier, Inc. 33,100	1,392
Clorox Co. 47,500	2,152	<b>Producer Goods &amp; Manufacturing 4.2%</b>	
The Gillette Co. 68,000	2,169	Briggs & Stratton Corp. 34,300	2,230
Procter & Gamble Co. 22,600	2,221	Harsco Corp. 55,700	2,134
	<b>6,542</b>	Hubbell, Inc., Class B 51,300	2,197
<b>Insurance 5.2%</b>		Lennox International, Inc. 128,000	2,117
The Allstate Corp. 56,200	2,220		<b>8,678</b>
Cincinnati Financial Corp. 53,400	2,185	<b>Railroad &amp; Shipping 1.0%</b>	
Lincoln National Corp. 50,200	2,004	Alexander & Baldwin, Inc. 69,200	2,146
Marsh & McLennan Cos., Inc. 44,700	1,911	<b>Retail 3.3%</b>	
Mercury General Corp. 47,100	2,239	Albertson's, Inc. 95,200	1,931
	<b>10,559</b>	Federated Department Stores, Inc. 46,600	2,216
<b>Media 1.1%</b>		Limited Brands, Inc. 120,800	2,126
R.R. Donnelley & Sons Co. 84,600	2,200	RadioShack Corp. 16,000	480
<b>Miscellaneous 1.1%</b>			<b>6,753</b>
⑨ 3M Co. 28,700	2,264	<b>Steel 0.7%</b>	
<b>Miscellaneous Finance 4.1%</b>		Worthington Industries, Inc. 98,400	1,435
Citigroup, Inc. 46,300	2,195	<b>Telephone 6.4%</b>	
GreenPoint Financial Corp. 70,700	2,202	Alltel Corp. 47,300	2,236
Washington Federal, Inc. 68,900	1,815	AT&T Corp. 111,600	2,075
Washington Mutual, Inc. 51,500	2,253	BellSouth Corp. 83,600	2,199
	<b>8,465</b>	SBC Communications, Inc. 92,000	2,206
<b>Non-Durables &amp; Entertainment 1.1%</b>		Sprint Corp. (FON Group) 137,800	2,205
Fortune Brands, Inc. 34,500	2,248	Verizon Communications, Inc. 64,300	2,160
			<b>13,081</b>

Schwab Dividend Equity Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Tobacco 1.1%</b>	
Altria Group, Inc. 47,300	2,199
<b>Travel &amp; Recreation 1.1%</b>	
⑩ Brunswick Corp. 76,200	2,261
<b>Utilities: Electric &amp; Gas 17.6%</b>	
Centerpoint Energy, Inc. 219,000	2,148
CH Energy Group, Inc. 38,000	1,664
Constellation Energy Group, Inc. 61,200	2,226
DPL, Inc. 120,000	2,186
Duquesne Light Holdings, Inc. 122,000	1,961
Energy East Corp. 95,800	2,151
Exelon Corp. 34,200	2,170
FirstEnergy Corp. 63,100	2,170
Great Plains Energy, Inc. 68,100	2,171
Hawaiian Electric Industries, Inc. 48,500	2,220
National Fuel Gas Co. 77,800	1,739
OGE Energy Corp. 70,200	1,601
PPL Corp. 44,600	1,781
Puget Energy, Inc. 94,200	2,141
UGI Corp. 70,800	2,181
Westar Energy, Inc. 106,900	2,137
WGL Holdings, Inc. 64,100	1,772
WPS Resources Corp. 38,100	1,689
	<b>36,108</b>

Security Rate, maturity date	Face value (\$ x 1,000)	Mkt. value (\$ x 1,000)
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**Short-Term Investments**  
1.8% of net assets

Bank One, Grand Cayman Time Deposit 0.50%, 11/01/03	3,600	3,600
Brown Brothers Harriman, Grand Cayman Time Deposit 0.50%, 11/01/03	30	30
		<b>3,630</b>

**End of investments.** For totals, please see the first page of holdings for this fund.

## Schwab Dividend Equity Fund™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$207,622
Receivables:	
Fund shares sold	2,643
Dividends	485
Reimbursement from adviser	40
Prepaid expenses	+ 41
<b>Total assets</b>	<b>210,831</b>

#### Liabilities

Payables:	
Fund shares redeemed	64
Investments bought	5,910
Accrued expenses	+ 55
<b>Total liabilities</b>	<b>6,029</b>

#### Net Assets

<b>Total assets</b>	210,831
<b>Total liabilities</b>	- 6,029
<b>Net assets</b>	<b>\$204,802</b>

#### Net Assets by Source

Capital received from investors	194,602
Net investment income not yet distributed	931
Net realized capital losses	(361)
Net unrealized capital gains	9,630

#### Net asset value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$93,916		8,862		\$10.60
Select Shares®	\$110,886		10,463		\$10.60

Unless stated, all numbers x 1,000.

The fund paid \$197,992 for these securities. Not counting short-term obligations and government securities, the fund paid \$198,508 for securities during the report period and received \$3,754 from securities it sold or that matured.

#### Federal Tax Data

<b>Portfolio Cost</b>	\$198,085
<b>Net unrealized gains and losses:</b>	
Gains	\$11,856
Losses	+ (2,319)
	<b>\$9,537</b>

#### Undistributed earnings:

Ordinary income	\$931
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2011	\$268

## Statement of

**Operations**

For September 2, 2003 (commencement of operations) through October 31, 2003.  
All numbers x 1,000.

**Investment Income**

Dividends	\$925
Interest	+ 6
<b>Total investment income</b>	<b>931</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	<b>(361)</b>
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**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>9,630</b>
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**Expenses**

Investment adviser and administrator fees	232
Transfer agent and shareholder service fees:	
Investor Shares	30
Select Shares®	15
Trustees' fees	1
Custodian fees	3
Portfolio accounting fees	7
Professional fees	17
Registration fees	19
Shareholder reports	18
Other expenses	+ 1
Total expenses	343
Expense reduction	- 343
<b>Net expenses</b>	<b>-</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>931</b>
<b>Net expenses</b>	<b>-</b>
<b>Net investment income</b>	<b>931</b>
<b>Net realized losses</b>	<b>(361)</b>
<b>Net unrealized gains</b>	<b>+ 9,630</b>
<b>Increase in net assets from operations</b>	<b>\$10,200</b>

Unless stated, all numbers x 1,000.

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.

For the fund's independent trustees only.

Includes \$232 from the investment adviser (CSIM) and \$46 from the transfer agent and shareholder service agent (Schwab). In addition, the total expenses reimbursed by the investment adviser was \$65. These reductions reflect a guarantee by CSIM and Schwab to limit the annual operating expenses of this fund through May 3, 2004 at 0.00% for both Investor Shares and Select® shares.

These add up to a net gain on investments of \$9,269.

Statements of

**Changes in Net Assets**

For the current report period only. Because the fund commenced operations on September 2, 2003, it has no prior report period. All numbers x 1,000.

**Operations**

	9/2/03–10/31/03
Net investment income	\$931
Net realized losses	(361)
Net unrealized gains	+ 9,630
<b>Increase in net assets from operations</b>	<b>\$10,200</b>

**Transactions in Fund Shares**

	9/2/03–10/31/03	
	SHARES	VALUE
<b>Shares Sold</b>		
Investor Shares	9,018	\$90,936
Select Shares	+	10,753
<b>Total shares sold</b>	<b>19,771</b>	<b>\$199,165</b>
<b>Shares Redeemed</b>		
Investor Shares	(156)	(\$1,596)
Select Shares	+	(290)
<b>Total shares redeemed</b>	<b>(446)</b>	<b>(\$4,563)</b>
<b>Net transactions in fund shares</b>	<b>19,325</b>	<b>\$194,602</b>

**Shares Outstanding and Net Assets**

	9/2/03–10/31/03	
	SHARES	NET ASSETS
Beginning of period	—	\$—
Total increase	+ 19,325	204,802
<b>End of period</b>	<b>19,325</b>	<b>\$204,802</b>

Unless stated, all numbers x 1,000.

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 \$931 at the end of the current period.



# Schwab Small-Cap Equity Fund™

## Financial Statements

### Financial Highlights

Investor Shares	7/1/03 <sup>1</sup> – 10/31/03
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	10.00
Income or loss from investment operations:	
Net investment loss	(0.02)
Net realized and unrealized gains	1.83
Total income from investment operations	1.81
Net asset value at end of period	11.81
Total return (%)	18.10 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	1.30 <sup>3</sup>
Gross operating expenses	1.73 <sup>3</sup>
Net investment loss	(0.54) <sup>3</sup>
Portfolio turnover rate	39 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	26

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares®	7/1/03 <sup>1</sup> – 10/31/03
<b>Per-share data (\$)</b>	
Net asset value at beginning of period	10.00
Income or loss from investment operations:	
Net investment loss	(0.01)
Net realized and unrealized gains	1.82
Total income from investment operations	1.81
Net asset value at end of period	11.81
Total return (%)	18.10 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratios to average net assets:	
Net operating expenses	1.12 <sup>3</sup>
Gross operating expenses	1.58 <sup>3</sup>
Net investment loss	(0.36) <sup>3</sup>
Portfolio turnover rate	39 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	14

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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
- ▲ Collateral for open futures contracts

Holdings by Category	Cost (\$x1,000)	Market Value (\$x1,000)
<b>97.5% Common Stock</b>	<b>34,482</b>	<b>38,881</b>
<b>1.9% Short-Term Investment</b>	<b>751</b>	<b>751</b>
<b>0.2% U.S. Treasury Obligation</b>	<b>75</b>	<b>75</b>
<b>99.6% Total Investments</b>	<b>35,308</b>	<b>39,707</b>
<b>0.4% Other Assets and Liabilities, Net</b>		<b>144</b>
<b>100.0% Total Net Assets</b>		<b>39,851</b>

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

**Common Stock** 97.5% of net assets**Aerospace / Defense 1.3%**

• Armor Holdings, Inc.	6,200	121
• EnPro Industries, Inc.	16,700	169
• Teledyne Technologies, Inc.	13,200	217
		<b>507</b>

**Air Transportation 0.8%**

• EGL, Inc.	6,200	101
• MAIR Holdings, Inc.	28,500	200
		<b>301</b>

**Apparel 3.6%**

• K-Swiss, Inc., Class A	5,400	237
• Kellwood Co.	7,800	292
• Stage Stores, Inc.	7,800	224

Security and Number of Shares		Mkt. Value (\$ x 1,000)
Stride Rite Corp.	42,400	511
Wolverine World Wide, Inc.	9,000	182
		<hr/> 1,446

**Automotive Products / Motor Vehicles 3.2%**

• Carlisle Cos., Inc.	2,700	155
• CSK Auto Corp.	17,300	297
• Dura Automotive Systems, Inc., Class A	18,800	181
▲⑦ Oshkosh Truck Corp.	10,100	463
• Stoneridge, Inc.	13,100	179
		<b>1,275</b>

**Banks 6.0%**

Anchor Bancorp Wisconsin, Inc.	12,500	311
BancFirst Corp.	1,800	97
Cullen/Frost Bankers, Inc.	4,400	171
Dime Community Bancshares, Inc.	3,700	103
▲③ First Bancorp Puerto Rico	15,700	523
▲⑤ FirstFed Financial Corp.	10,500	472
Hudson United Bancorp	8,100	294
Mid-State Bancshares	6,000	146
Second Bancorp., Inc.	10,200	283
		<b>2,400</b>

**Business Machines & Software 1.3%**

Analogic Corp.	3,000	131
• Imagistics International, Inc.	8,200	263
• PTEK Holdings, Inc.	13,900	121
		<b>515</b>

**Business Services 13.9%**

• 4Kids Entertainment, Inc.	6,200	152
Advo, Inc.	4,600	206
• Aether Systems, Inc.	19,800	95
• Barra, Inc.	4,300	163
Courier Corp.	2,000	110
• Credit Acceptance Corp.	10,600	124
▲ Factset Research Systems, Inc.	4,200	183
• Forrester Research, Inc.	5,700	97
• Genencor International, Inc.	7,300	112
• Gentiva Health Services, Inc.	16,100	184

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Gevity HR, Inc. 8,100	122	<b>Electronics 11.6%</b>	
Global Payments, Inc. 3,500	146	▲ Acuity Brands, Inc. 10,300	221
• GSI Commerce, Inc. 37,900	370	• Accxiom Corp. 17,500	278
• Informatica Corp. 20,000	218	• Alliant Techsystems, Inc. 4,100	212
• infoUSA, Inc. 17,900	147	▲•⑩ Aspect Communications Corp. 30,500	413
• ITT Educational Services, Inc. 6,300	314	▲• Benchmark Electronics, Inc. 7,800	380
▲ John H. Harland Co. 14,800	403	• Checkpoint Systems, Inc. 17,400	328
• Kronos, Inc. 2,600	156	• Dionex Corp. 3,500	149
• MemberWorks, Inc. 7,900	228	• Harman International Industries, Inc. 3,200	410
• National Processing, Inc. 8,900	197	• Interactive Data Corp. 14,700	253
• Per-Se Technologies, Inc. 10,400	141	• Littelfuse, Inc. 7,000	186
• Progress Software Corp. 7,600	168	• Mattson Technology, Inc. 10,200	145
• SYKES Enterprises, Inc. 21,200	198	• Planar Systems, Inc. 15,200	352
• Tetra Tech, Inc. 10,000	225	• Radisys Corp. 7,100	139
• Transaction Systems Architects, Inc., Class A 19,100	382	• Raven Industries, Inc. 8,200	214
• Ventiv Health, Inc. 25,400	213	• Supertex, Inc. 5,000	94
• Watson Wyatt & Co. Holdings 6,800	163	• Technitrol, Inc. 11,400	249
• WebEx Communications, Inc. 14,200	314	• Tekelec 15,300	246
	<b>5,531</b>	• Thomas & Betts Corp. 9,100	162
<b>Chemicals 2.5%</b>		• Western Wireless Corp., Class A 11,000	213
Amcol International Corp. 13,500	243		<b>4,644</b>
Arch Chemicals, Inc. 12,300	273	<b>Energy: Raw Materials 2.5%</b>	
• Ethyl Corp. 22,700	365	▲• FMC Technologies, Inc. 17,400	350
Ferro Corp. 5,000	103	• Joy Global, Inc. 10,700	204
	<b>984</b>	• Plains Resources, Inc. 19,500	258
<b>Construction 3.0%</b>		• Prima Energy Corp. 6,300	175
Centex Construction Products, Inc. 4,400	237		<b>987</b>
Florida Rock Industries, Inc. 2,800	160	<b>Food &amp; Agriculture 3.6%</b>	
▲ M/I Schottenstein Homes, Inc. 6,000	250	• 7-Eleven, Inc. 20,300	324
MDC Holdings, Inc. 4,500	303	• Corn Products International, Inc. 4,100	139
The Ryland Group, Inc. 3,000	267	• Darling International, Inc. 42,600	120
	<b>1,217</b>	• J & J Snack Foods Corp. 4,000	143
<b>Consumer Durables 1.5%</b>		• Lance, Inc. 13,100	170
• Genlyte Group, Inc. 5,200	245	• The Pantry, Inc. 18,800	308
Kimball International, Inc., Class B 13,000	201	• Sanderson Farms, Inc. 6,400	225
Stanley Furniture Co., Inc. 4,700	145		<b>1,429</b>
	<b>591</b>		

# Schwab Small-Cap Equity Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Healthcare / Drugs &amp; Medicine 10.4%</b>			
• America Service Group, Inc. 9,300	240	Cash America International, Inc. 14,600	279
Arrow International, Inc. 10,700	282	Fidelity Bankshares, Inc. 4,000	108
• Beverly Enterprises, Inc. 22,500	137	First Financial Holdings, Inc. 5,800	175
• Conmed Corp. 8,000	163	Independent Bank Corp. Michigan 4,180	121
• DJ Orthopedics, Inc. 15,000	269	MB Financial, Inc. 2,900	137
• Ii-Vi, Inc. 4,400	104	McGrath RentCorp 3,600	103
• Inamed Corp. 1,300	112	• Meritage Corp. 2,800	165
Medicis Pharmaceutical Corp., Class A 3,700	234	Waypoint Financial Corp. 7,245	151
▲② Mid Atlantic Medical Services, Inc. 9,700	567		<b>1,565</b>
• MIM Corp. 14,500	85	<b>Non-Durables &amp; Entertainment 3.5%</b>	
Mine Safety Appliances Co. 5,400	306	• Barnes & Noble.com, Inc. 43,700	101
Nature's Sunshine Products, Inc. 15,200	122	Handleman Co. 16,400	291
• Osteotech, Inc. 21,000	170	• Isle of Capri Casinos, Inc. 9,100	190
Owens & Minor, Inc. 9,900	201	▲ Lone Star Steakhouse & Saloon, Inc. 17,100	374
• PSS World Medical, Inc. 26,300	245	• SCP Pool Corp. 2,900	101
• Sierra Health Services, Inc. 6,800	158	• Service Corp. International 71,400	346
• Techne Corp. 4,200	146		<b>1,403</b>
• Third Wave Technologies, Inc. 6,000	21	<b>Oil: Domestic 2.8%</b>	
• Visx, Inc. 7,400	180	• Clayton Williams Energy, Inc. 9,900	208
West Pharmaceutical Services, Inc. 4,800	159	• Encore Acquisition Co. 12,500	288
• Wright Medical Group, Inc. 9,000	264	• Houston Exploration Co. 3,900	137
	<b>4,165</b>	• KCS Energy, Inc. 20,100	160
<b>Household Products 1.1%</b>		• Nuevo Energy Co. 8,200	161
▲⑨ Church & Dwight Co., Inc. 11,600	<b>432</b>	• Universal Compression Holdings, Inc. 7,600	167
<b>Insurance 3.2%</b>			<b>1,121</b>
▲ Delphi Financial Group, Inc., Class A 6,100	307	<b>Paper &amp; Forest Products 0.3%</b>	
• FPIC Insurance Group, Inc. 9,000	159	Wausau-Mosinee Paper Corp. 10,700	<b>132</b>
Odyssey Re Holdings Corp. 12,400	260	<b>Producer Goods &amp; Manufacturing 6.2%</b>	
State Auto Financial Corp. 7,100	190	Aptargroup, Inc. 6,900	247
• Stewart Information Services Corp. 8,300	259	Cognex Corp. 6,300	169
• Universal American Financial Corp. 9,900	100	Franklin Electric Co., Inc. 5,100	311
	<b>1,275</b>	▲① Graco, Inc. 15,600	594
<b>Miscellaneous Finance 3.9%</b>		Lennox International, Inc. 12,600	209
• Affiliated Managers Group, Inc. 4,500	326	MSC Industrial Direct Co., Class A 6,400	151
		Nordson Corp. 4,300	119
		▲ Oceaneering International, Inc. 8,400	194

See financial notes. 47

# Schwab Small-Cap Equity Fund™

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	
Sauer-Danfoss, Inc. 20,400	289	
Tennant Co. 5,100	202	
	<b>2,485</b>	
<b>Railroad &amp; Shipping 1.1%</b>		
Alexander & Baldwin, Inc. 7,000	217	
• OMI Corp. 34,400	232	
	<b>449</b>	
<b>Real Property 0.5%</b>		
• Trammell Crow Co. 13,500	184	
<b>Retail 3.7%</b>		
• Borders Group, Inc. 12,500	283	
▲ The Men's Wearhouse, Inc. 7,200	212	
• Pacific Sunwear of California 9,300	215	
• Pathmark Stores, Inc. 35,000	240	
Ruddick Corp. 9,700	155	
• Urban Outfitters, Inc. 11,000	367	
	<b>1,472</b>	
<b>Telephone 2.2%</b>		
• Dobson Communications Corp., Class A 19,300	167	
• General Communication, Inc., Class A 25,200	249	
• Inet Technologies, Inc. 10,500	141	
North Pittsburgh Systems, Inc. 5,500	101	
• Primus Telecommunications Group, Inc. 22,100	204	
	<b>862</b>	
<b>Travel &amp; Recreation 1.5%</b>		
• ⑧ Choice Hotels International, Inc. 13,900	459	
The Marcus Corp. 9,200	138	
	<b>597</b>	
<b>Trucking &amp; Freight 0.9%</b>		
• Forward Air Corp. 8,200	238	
• Pacer International, Inc. 5,600	116	
	<b>354</b>	
<b>Utilities: Electric &amp; Gas 1.4%</b>		
Central Vermont Public Service Corp. 3,900	90	
▲ ⑥ UGI Corp. 15,200	468	
	<b>558</b>	

48 See financial notes.

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
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### Short-Term Investment 1.9% of net assets

Bank One, Grand Cayman Time Deposit 0.50%, 11/01/03	751	751
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### U.S. Treasury Obligation 0.2% of net assets

▲ U.S. Treasury Bill 0.93%, 12/18/03	75	75
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**End of investments.** For totals, please see the first page of holdings for this fund.

## Schwab Small-Cap Equity Fund™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$39,707
Receivables:	
Fund shares sold	169
Dividends	11
Prepaid expenses	+ 14
<b>Total assets</b>	<b>39,901</b>

#### Liabilities

Payables:	
Fund shares redeemed	12
Due to brokers for futures	4
Investment adviser and administrator fees	1
Accrued expenses	+ 33
<b>Total liabilities</b>	<b>50</b>

#### Net Assets

<b>Total assets</b>	39,901
<b>Total liabilities</b>	- 50
<b>Net assets</b>	<b>\$39,851</b>

#### Net Assets by Source

Capital received from investors	34,686
Net realized capital gains	736
Net unrealized capital gains	4,429

#### Net asset value (NAV) by Share Class

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$25,593		2,167		\$11.81
Select Shares®	\$14,258		1,207		\$11.81

Unless stated, all numbers x 1,000.

The fund paid \$35,308 for these securities. Not counting short-term obligations and government securities, the fund paid \$45,563 for securities during the report period and received \$11,693 from securities it sold or that matured.

These derive from investments and futures. As of the report date, the fund had three open Russell 2000 futures contracts due to expire on December 21, 2003, with an aggregate net contract value of \$793 and net unrealized gains of \$30.

#### Federal Tax Data

<b>Portfolio Cost</b>	\$35,308
<b>Net unrealized gains and losses:</b>	
Gains	\$4,809
Losses	+ (410)
	<b>\$4,399</b>

#### Undistributed earnings:

Ordinary income	\$643
Long-term capital gains	\$123

#### Reclassifications:

Net investment income not yet distributed	\$50
Reclassified as:	
Net realized capital gains	(\$50)

See financial notes. 49

## Schwab Small-Cap Equity Fund™

### Statement of

### Operations

For July 1, 2003 (commencement of operations) through October 31, 2003.  
All numbers x 1,000.

#### Investment Income

Dividends		\$78
Interest	+	3
<b>Total investment income</b>		<b>81</b>

#### Net Realized Gains and Losses

Net realized gains on investments sold	611
Net realized gains received on futures contracts	+ 175
<b>Net realized gains</b>	<b><u>786</u></b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	4,399
Net unrealized gains on futures contracts	+ 30
<b>Net unrealized gains</b>	<b>4,429</b>

#### Expenses

Investment adviser and administrator fees	112
Transfer agent and shareholder service fees:	
Investor Shares	17
Select Shares®	4
Trustees' fees	2
Custodian fees	4
Portfolio accounting fees	6
Professional fees	16
Registration fees	6
Shareholder reports	10
Other expenses	+ 1
Total expenses	<hr/> 178
Expense reduction	- 47
<b>Net expenses</b>	<hr/> <b>131</b>

#### Increase in Net Assets from Operations

Total investment income	81
Net expenses	— 131
Net investment loss	<u>(50)</u>
Net realized gains	786
Net unrealized gains	+ 4,429
Increase in net assets from operations	<u>\$5,165</u>

Unless stated, all numbers x 1,000.

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.

For the fund's independent trustees only.

Includes \$46 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 28, 2005, as follows:

Share Class	% of Average Daily Net Assets
Investor Shares	1.30
Select Shares	1.12

This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$5,215.



Statements of

**Changes in Net Assets**

For the current report period only. Because the fund commenced operations on July 1, 2003, it has no prior report period. All numbers x 1,000.

**Operations**

	7/1/03–10/31/03
Net investment loss	(\$50)
Net realized gains	786
Net unrealized gains	+
	4,429
<b>Increase in net assets from operations</b>	<b>\$5,165</b>

**Transactions in Fund Shares**

	7/1/03–10/31/03	
	SHARES	VALUE
<b>Shares Sold</b>		
Investor Shares	2,272	\$23,526
Select Shares	+	12,704
<b>Total shares sold</b>	<b>3,517</b>	<b>\$36,230</b>
<b>Shares Redeemed</b>		
Investor Shares	(105)	(\$1,137)
Select Shares	+	(407)
<b>Total shares redeemed</b>	<b>(143)</b>	<b>(\$1,544)</b>
<b>Net transactions in fund shares</b>	<b>3,374</b>	<b>\$34,686</b>

**Shares Outstanding and Net Assets**

	7/1/03–10/31/03	
	SHARES	NET ASSETS
Beginning of period	—	\$—
Total increase	+	
	3,374	39,851
<b>End of period</b>	<b>3,374</b>	<b>\$39,851</b>

Unless stated, all numbers x 1,000.

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 is no distributable net investment income at the end of the current period.

# Schwab Hedged Equity Fund™

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	9/3/02¹– 10/31/02
<b>Per-Share Data (\$)</b>		
Net asset value at beginning of period	9.84	10.00
Income or loss from investment operations:		
Net investment loss	(0.09)	(0.01)
Net realized and unrealized gains or losses	1.78	(0.15)
Total income or loss from investment operations	1.69	(0.16)
Net asset value at end of period	11.53	9.84
Total return (%)	17.17	(1.60)²
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses (including dividend expense on short sales)	2.37	2.39³
Net operating expenses (excluding dividend expense on short sales)	2.00	2.00³
Gross operating expenses	2.77	3.33³
Net investment loss	(0.90)	(0.79)³
Portfolio turnover rate	114	68²
Net assets, end of period (\$ x 1,000,000)	44	32

¹ Commencement of operations.

² Not annualized.

³ Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. With the top five long holdings and short positions, the number in the circle is the security's rank among their respective top five.

- ① Top five long holdings/short positions
  - Non-income producing security
- Collateral for short sales

Holdings by Category		Cost/ Proceeds (\$x1,000)	Market Value (\$x1,000)
103.5%	Common Stock	38,262	45,501
0.9%	Short-Term Investment	393	393
104.4%	Total Investments	38,655	45,894
(26.3)%	Short Sales	(10,830)	(11,537)
21.9%	Other Assets and Liabilities, Net		9,611
100.0%	Total Net Assets		43,968

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock** 103.5% of net assets**Aerospace / Defense 2.1%**

Lockheed Martin Corp.	5,800	269
■① Rockwell International Corp.	11,400	354
■ United Technologies Corp.	3,500	296
		<b>919</b>

**Air Transportation 0.4%**

■ FedEx Corp.	2,100	159
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**Apparel 0.3%**

Timberland Co.	2,300	120
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**Automobile Products / Motor Vehicles 3.6%**

Advance Auto Parts, Inc.	300	23
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**Security and Number of Shares**

Mkt. Value  
(\$ x 1,000)

• American Axle & Manufacturing Holdings, Inc.	6,300	218
■ Carlisle Cos., Inc.	5,800	333
■④ Eaton Corp.	3,400	341
Ford Motor Co.	18,500	224
• Lear Corp.	5,400	314
Oshkosh Truck Corp. Class B	3,100	142
		<b>1,595</b>

**Banks 7.6%**

Associated Bancorp.	5,600	231
BancorpSouth, Inc.	2,600	61
Bank of America Corp.	3,500	265
Commerce Bancshares, Inc.	5,950	285
Cullen Frost Bankers, Inc.	5,500	213
■ Doral Financial Corp.	5,500	278
First Bancorp Puerto Rico	2,100	70
First Midwest Bancorp, Inc.	3,916	121
Hudson City Bancorp, Inc.	2,600	90
National City Corp.	8,300	271
PNC Financial Services Corp.	4,900	262
Popular, Inc.	7,006	315
■ UnionBanCal Corp.	5,200	282
Wachovia Corp.	6,800	312
Zions Bancorp.	4,649	285
		<b>3,341</b>

**Business Machines & Software 3.1%**

■ Cisco Systems, Inc.	15,400	323
■ Lexmark International, Inc., Class A	3,700	272
• Storage Technology Corp.	11,400	275
• Sybase, Inc.	16,200	290
• Xerox Corp.	20,000	210
		<b>1,370</b>

**Business Services 4.6%**

• Cendant Corp.	3,200	65
■ Citrix Systems, Inc.	12,516	317
Factset Research Systems, Inc.	6,100	266
Global Payments, Inc.	1,800	75
■ GTech Holdings Corp.	6,300	282
IMS Health, Inc.	13,400	315

See financial notes. 53

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
• National Processing, Inc. 1,000	22	• Nextel Communications, Inc., Class A 13,600	329
• Polycom, Inc. 4,400	88	■ Plantronics, Inc. 11,100	309
• Republic Services, Inc., Class A 11,900	277	Scientific Atlanta, Inc. 9,000	266
• VeriSign, Inc. 20,000	317	• Synopsys, Inc. 10,100	320
	<b>2,024</b>	• Tektronix, Inc. 600	16
<b>Chemical 3.7%</b>		• Thermo Electron Corp. 3,200	70
Albemarle Corp. 1,000	27	• Waters Corp. 300	9
• Cytec Industries, Inc. 6,200	216		<b>2,674</b>
■ E.I. Du Pont de Nemours & Co. 7,000	283	<b>Energy: Raw Materials 1.2%</b>	
• Hercules, Inc. 11,500	120	Devon Energy Corp. 1,300	63
Lubrizol Corp. 1,900	58	EOG Resources, Inc. 6,800	286
Monsanto Co. 11,600	291	• FMC Technologies, Inc. 8,600	173
PPG Industries, Inc. 5,000	288		<b>522</b>
Rohm & Haas Co. 8,400	330	<b>Food &amp; Agriculture 3.3%</b>	
	<b>1,613</b>	7-Eleven, Inc. 4,700	75
<b>Construction 2.5%</b>		Corn Products International, Inc. 4,500	153
D.R. Horton, Inc. 4,400	175	Dean Foods Co. 4,000	121
KB Home 4,800	329	Fresh Del Monte Produce, Inc. 10,300	257
The Ryland Group, Inc. 3,400	302	Hershey Foods Corp. 4,200	324
The Sherwin-Williams Co. 9,100	305	Kellogg Co. 4,500	149
	<b>1,111</b>	PepsiAmericas, Inc. 5,000	75
<b>Consumer Durables 1.4%</b>		Tyson Foods, Inc. 19,700	281
■ Black & Decker Corp. 6,600	316		<b>1,435</b>
■ Rent-A-Center, Inc. 9,250	289	<b>Healthcare / Drugs &amp; Medicine 7.3%</b>	
	<b>605</b>	■ Bausch & Lomb, Inc. 6,800	327
<b>Containers 1.1%</b>		Becton Dickinson & Co. 7,500	274
Crown Cork & Seal Co., Inc. 20,000	158	Bristol-Meyers Squibb Co. 700	18
• Pactiv Corp. 14,100	311	■ C.R. Bard, Inc. 3,600	288
	<b>469</b>	■ Coventry Healthcare, Inc. 5,000	274
<b>Electronics 6.1%</b>		• Cytec Corp. 20,000	258
■ Amkor Technology, Inc. 16,720	315	• DaVita, Inc. 8,200	288
• Applied Micro Circuits Corp. 1,700	10	■ Health Net, Inc. 8,800	278
Benchmark Electronics, Inc. 6,200	302	ICN Pharmaceuticals, Inc. 15,300	295
• Globespan, Inc. 20,000	123	• Manor Care, Inc. 2,400	80
⑤ Intel Corp. 10,100	334	Medicis Pharmaceutical Corp., Class A 200	13
Motorola, Inc. 20,000	271	■ Mylan Laboratories, Inc. 11,550	279
		■ Pacificare Health Systems, Inc. 600	36

## Schwab Hedged Equity Fund™

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
•Pediatrix Medical Group, Inc. 500	27	Media General, Inc. 1,500	99
United Healthcare Corp. 5,300	270	■Meredith Corp. 6,500	315
•Universal Health Services, Inc., Class B 4,300	202	•②PanAmSat Corp. 17,082	354
	<b>3,207</b>	Readers Digest Association, Inc. 13,600	200
		Tribune Co. 2,200	108
			<b>2,122</b>
<b>Household Products 2.7%</b>		<b>Miscellaneous 1.2%</b>	
Church & Dwight, Inc. 5,900	220	■3M Co. 4,200	331
■Clorox Co. 6,100	276	•SpectraSite, Inc. 5,200	202
•Estee Lauder Cos., Inc., Class A 8,400	314		<b>533</b>
Gillette Co. 1,700	54		
Procter & Gamble Co. 3,100	305	<b>Miscellaneous Finance 7.3%</b>	
The Dial Corp. 1,800	43	•Affiliated Managers Group, Inc. 4,400	319
	<b>1,212</b>	■The Bear Stearns Cos., Inc. 3,700	282
<b>Insurance 8.1%</b>		Citigroup, Inc. 600	28
AFLAC, Inc. 9,100	332	Countrywide Credit Industries, Inc. 3,000	315
Allstate Corp. 7,700	304	•E*TRADE Group, Inc. 20,000	206
AMBAC, Inc. 500	35	■Fannie Mae 4,100	294
Delphi Financial Group Inc., Class A 1,600	81	GreenPoint Financial Corp. 8,100	252
■Fidelity National Financial, Inc. 9,450	292	Independence Community Bank Corp. 7,964	293
■First American Financial Corp. 11,000	315	IndyMac Bankcorp., Inc. 6,000	176
■Marsh & McLennan Cos., Inc. 5,900	252	■Legg Mason, Inc. 4,000	333
Metlife, Inc. 5,000	157	Lehman Brothers Holdings, Inc. 4,000	288
Odyssey Re Holdings Corp. 3,800	80	MBNA Corp. 3,500	87
Old Republic International Corp. 8,600	309	Morgan Stanley 600	33
•Principal Financial Group, Inc. 9,100	285	■Nuveen Investments, Inc. 2,100	59
■The Progressive Corp. 4,200	310	SLM Corp. 6,600	259
Safeco Corp. 8,091	297	•WFS Financial, Inc. 200	9
•StanCorp. Financial Group, Inc. 3,600	227		<b>3,233</b>
Torchmark Corp. 400	18		
W.R. Berkley Corp. 7,450	256	<b>Non-Durables &amp; Entertainment 4.2%</b>	
	<b>3,550</b>	•American Greetings Corp., Class A 11,000	235
<b>Media 4.8%</b>		■Energizer Holdings, Inc. 8,400	309
■Blockbuster, Inc. 13,800	266	■Fortune Brands, Inc. 5,000	326
•EchoStar Communications Corp. 7,871	302	Hasbro, Inc. 15,200	331
Harte-Hanks Communications, Inc. 6,400	127	•Marvel Enterprises, Inc. 700	21
McClatchy Co., Class A 1,900	123	•The Yankee Candle Co. 10,600	296
McGraw Hill Cos., Inc. 3,400	228	•Yum! Brands, Inc. 9,700	331
			<b>1,849</b>

See financial notes. 55

## Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
<b>Oil: Domestic 1.4%</b>		<b>Telephone 5.5%</b>	
Kerr-McGee Corp. 6,900	286	Alltel Corp. 900	43
• Newfield Exploration Co. 7,400	294	■ Amdocs Ltd. 12,600	270
Pogo Producing Co. 800	34	AT&T Corp. 3,100	58
	<b>614</b>	AT&T Wireless Group 20,000	145
		Avaya, Inc. 5,200	67
		BellSouth Corp. 11,200	295
		Century Telephone Enterprises, Inc. 8,400	300
		• Commonwealth Telephone Enterprises, Inc. 5,180	211
		• Crown Castle International Corp. 20,000	253
		SBC Communications, Inc. 7,600	182
		■ Sprint Corp. 20,000	320
		• Time Warner Telecom, Inc., Class A 19,986	207
		Verizon Communications, Inc. 2,200	74
			<b>2,425</b>
<b>Optical &amp; Photo 1.1%</b>		<b>Travel &amp; Recreation 2.7%</b>	
■ Eastman Kodak Co. 9,600	235	Brunswick Corp. 10,500	311
• Ingram Micro, Inc., Class A 16,100	238	• Harrah's Entertainment, Inc. 7,100	309
	<b>473</b>	Mariott International, Inc., Class A 6,500	281
		■ MGM Mirage 8,400	298
			<b>1,199</b>
<b>Paper &amp; Forest Products 0.6%</b>		<b>Trucking &amp; Freight 1.4%</b>	
■ International Paper Co. 1,200	47	• CNF, Inc. 8,400	294
• Packaging Corp. of America 10,100	199	Landstar System, Inc. 4,399	321
	<b>246</b>		<b>615</b>
<b>Producer Goods &amp; Manufacturing 4.0%</b>		<b>Utilities: Electric &amp; Gas 4.4%</b>	
Briggs & Stratton Corp. 5,100	332	Constellation Energy Group, Inc. 8,700	316
③ Deere & Co. 5,700	345	• Edison International 15,800	311
■ Fisher Scientific International, Inc. 7,200	290	Energy East Corp. 6,600	148
Graco, Inc. 5,800	221	■ Exelon Corp. 4,500	286
Harsco Corp. 4,400	169	Great Plains Energy, Inc. 10,000	319
Herman Miller, Inc. 9,500	218	Kinder Morgan, Inc. 1,400	75
Hon Industries, Inc. 4,900	201	Questar Corp. 6,800	216
	<b>1,776</b>	UGI Corp. 8,250	254
			<b>1,925</b>
<b>Retail 5.8%</b>			
• Barnes & Noble, Inc. 11,100	331		
Borders Group, Inc. 13,000	294		
Claire's Stores, Inc. 3,800	147		
Dollar General Corp. 14,000	315		
■ Federated Department Stores, Inc. 6,100	290		
The Gap, Inc. 16,000	305		
The Neiman-Marcus Group, Inc., Class A 6,000	285		
• Rite Aid Corp. 2,100	12		
• Saks, Inc. 20,000	278		
• Staples, Inc. 300	8		
Tandy Corp. 10,000	300		
	<b>2,565</b>		

## Schwab Hedged Equity Fund™

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

### Short-Term Investment 0.9% of net assets

Provident Institutional Funds—  
TempFund 392,593 **393**

**End of investments.** For totals, please see the first page of holdings for this fund.

### Short Sales 26.3% of net assets

#### Aerospace / Defense 0.4%

The Boeing Co. 4,100 **158**

#### Air Transportation 0.3%

JetBlue Airways Corp. 2,192 **126**

#### Alcoholic Beverages 0.4%

Brown-Forman Corp. 600 51  
Constellation Brands, Inc.,  
Class A 3,200 100  
**151**

#### Automobile Products / Motor Vehicles 1.7%

Genuine Parts Co. 2,000 64  
Goodyear Tire & Rubber Co. 16,400 112  
Navistar International Corp. 3,700 149  
O'Reilly Automotive, Inc. 2,257 98  
⑤ Superior Industries International,  
Inc. 6,300 268  
United Auto Group, Inc. 2,900 75  
**766**

#### Banks 0.7%

Greater Bay Bancorp. 4,352 117  
Southwest Bancorp of Texas, Inc. 5,313 191  
**308**

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

### Business Machines & Software 0.4%

Comverse Technology, Inc. 9,000 162  
Icon Office Solutions, Inc. 800 7  
Juniper Networks, Inc. 1,200 22  
**191**

### Business Services 2.3%

Bearingpoint, Inc. 20,000 188  
Brocade Communications Systems,  
Inc. 900 6  
FTI Consulting, Inc. 600 12  
Interpublic Group of Cos., Inc. 7,100 106  
Mercury Interactive Corp. 4,100 190  
National Instruments Corp. 3,500 149  
Netscreen Technologies, Inc. 6,320 168  
PeopleSoft, Inc. 1,800 37  
Performance Food Group Co. 3,999 149  
Sylvan Learning Systems, Inc. 100 3  
**1,008**

### Chemical 1.0%

Celgene Corp. 1,000 42  
Great Lakes Chemical Corp. 10,800 232  
Lyondell Petrochemical Co. 10,300 147  
**421**

### Construction 0.1%

Beazer Homes USA, Inc. 500 50  
The Stanley Works 100 3  
**53**

### Consumer Durables 0.5%

Newell Rubbermaid, Inc. 10,200 **233**

### Containers 0.0%

Owens - Illinois, Inc. 1,000 **12**

### Electronics 1.2%

Advanced Fibre Communications,  
Inc. 2,400 58  
Advanced Micro Devices, Inc. 1,400 21

See financial notes. 57

## Schwab Hedged Equity Fund™

### Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security and Number of Shares	Mkt. Value (\$ x 1,000)
Nvidia Corp. 7,900	140		
OmniVision Technologies, Inc. 300	17		
Power Intergrations, Inc. 2,100	73		
Skyworks Solutions, Inc. 5,600	48		
Western Digital Corp. 11,300	152		
	<b>509</b>		
<b>Energy: Raw Materials 1.0%</b>		<b>Household Products 0.1%</b>	
Evergreen Resources, Inc. 1,600	44	Alberto Culver Co., Class B 400	<b>25</b>
Grant Prideco, Inc. 300	4		
Helmerich & Payne, Inc. 4,900	130		
Key Energy Group, Inc. 4,500	39		
Noble Drilling Corp. 1,000	34		
Rowan Cos., Inc. 1,100	26		
Tidewater, Inc. 5,600	154		
	<b>431</b>		
<b>Food &amp; Agriculture 1.2%</b>		<b>Insurance 1.0%</b>	
Del Monte Foods Co. 6,800	65	American National Insurance Co. 300	25
Sara Lee Corp. 200	4	The Commerce Group, Inc. 300	12
④ Scotts Co., Class A 4,800	277	Erie Indemnity Co. 1,400	56
Sensient Technologies Corp. 9,800	188	Hilb, Rogal & Hamilton Co. 400	12
	<b>534</b>	Jefferson-Pilot Corp. 200	10
		MGIC Investment Corp. 4,600	236
		St. Paul Cos., Inc. 2,000	76
		UnumProvident Corp. 700	11
			<b>438</b>
		<b>Media 0.7%</b>	
		Cablevision Systems New York Group, Class A 6,500	131
		Entravision Communications Corp. 3,400	33
		Scholastic Corp. 2,696	83
		Valassis Communications, Inc. 1,600	42
			<b>289</b>
		<b>Miscellaneous Finance 1.3%</b>	
		Americredit Co. 4,500	60
		③ Astoria Financial Corp. 8,100	281
		Janus Capital Group, Inc. 1,300	18
		Leucadia National Corp. 100	4
		MAF Bancorp, Inc. 4,498	189
		Staten Island Bancorp, Inc. 100	2
		Waddell & Reed Financial, Inc. 500	11
			<b>565</b>
		<b>Non-Durables &amp; Entertainment 0.5%</b>	
		The Cheesecake Factory, Inc. 2,000	80
		Krispy Kreme Doughnuts, Inc. 1,900	82
		Ruby Tuesday, Inc. 2,800	77
			<b>239</b>
	<b>1,403</b>		



## Schwab Hedged Equity Fund™

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

### **Oil: Domestic 1.3%**

Ashland Oil, Inc.	5,000	186
Murphy Oil Corp.	3,000	177
National Oilwell, Inc.	800	15
Premcor, Inc.	5,400	128
Spinnaker Exploration Co.	3,100	79
		<b>585</b>

### **Paper & Forest Products 0.0%**

Smurfit-Stone Container Corp.	100	<b>2</b>
-------------------------------	-----	----------

### **Producer Goods & Manufacturing 1.5%**

AGCO Corp.	3,800	68
Avery Dennison Corp.	2,700	142
Fastenal Co.	4,992	222
Grainger, Inc.	1,900	87
Pentair, Inc.	100	4
Teleflex, Inc.	3,100	143
Timken Co.	400	7
		<b>673</b>

### **Railroad & Shipping 0.4%**

CSX Corp.	3,900	124
Norfolk Southern Corp.	1,900	38
		<b>162</b>

### **Retail 1.5%**

99 Cents Only Stores	9,600	286
Carmax, Inc.	2,400	76
Fred's, Inc.	200	8
Kohls Corp.	900	50
Pier 1 Imports, Inc.	2,200	51
Target Corp.	500	20
Whole Foods Market, Inc.	2,500	148
Winn Dixie Stores, Inc.	800	6
		<b>645</b>

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

### **Telephone 0.0%**

Sonus Networks, Inc.	300	3
Telephone & Data Systems, Inc.	100	6
United States Cellular Corp.	300	10
		<b>19</b>

### **Tobacco 0.3%**

UST, Inc.	4,200	<b>143</b>
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### **Travel & Recreation 1.2%**

Carnival Corp.	6,400	224
Mandalay Resort Group	7,600	298
		<b>522</b>

### **Utilities: Electric & Gas 2.1%**

Allegheny Power System, Inc.	8,400	89
Consolidated Edison, Inc.	1,500	61
El Paso Energy Corp.	6,300	46
Equitable Resources, Inc.	3,900	161
Northeast Utilities	300	5
Piedmont Natural Gas Co., Inc.	600	24
Pinnacle West Capital Co.	3,500	128
Public Service Enterprise Group, Inc.	2,100	86
Scana Corp.	4,100	140
Teco Energy, Inc.	9,300	122
Texas Genco Holding, Inc.	1,300	39
TXU Corp.	1,100	25
		<b>926</b>

**End of short sale positions.** For totals, please see the first page of holdings for this fund.

## Schwab Hedged Equity Fund™

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$45,894
Deposits with broker for short sales	9,185
Receivables:	
Fund shares sold	500
Interest	5
Dividends	32
Prepaid expenses	+ 12
<b>Total assets</b>	<b>55,628</b>

#### Liabilities

Securities sold short, at market value	11,537
Payables:	
Dividends on short sales	4
Fund shares redeemed	68
Investment adviser and administrator fees	3
Transfer agent and shareholder service fees	1
Accrued expenses	+ 47
<b>Total liabilities</b>	<b>11,660</b>

#### Net Assets

<b>Total assets</b>	55,628
<b>Total liabilities</b>	- 11,660
<b>Net assets</b>	<b>\$43,968</b>

#### Net Assets by Source

Capital received from investors	37,821
Net realized capital losses	(385)
Net unrealized capital gains	6,532

#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$43,968		3,815		\$11.53

Unless stated, all numbers x 1,000.

The fund paid \$38,655 for these securities. Not counting short-term obligations and government securities, the fund paid \$47,778 for securities during the report period and received \$42,802 from securities it sold or that matured.

The proceeds for securities sold short is \$10,830.

These derive from investments and short sales.

#### Federal Tax Data

<b>Portfolio cost</b>	\$38,781
<b>Net unrealized gains and losses:</b>	
Gains	\$7,503
Losses	+ (390)
	<b>\$7,113</b>

#### Undistributed earnings:

Ordinary income	\$-
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount:
2010	\$46
2011	+ 214
	<b>\$260</b>

#### Reclassifications:

Net investment income not yet distributed	\$338
Reclassified as:	
Capital received from investors	(\$338)

## Schwab Hedged Equity Fund™

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends		\$488
Interest	+	62
<b>Total investment income</b>		<b>550</b>

#### Net Realized Gains and Losses

Net realized losses on short sales	(1,725)
Net realized gains on investments sold	1,490
<b>Net realized losses</b>	<b>(235)</b>

#### Net Unrealized Gains and Losses

Net unrealized gains on investments	7,974
Net unrealized losses on short sales	+ (1,271)
<b>Net unrealized gains</b>	<b>6,703</b>

#### Expenses

Investment adviser and administrator fees	656
Transfer agent and shareholder service fees	94
Trustees' fees	5
Custodian and portfolio accounting fees	61
Professional fees	39
Registration fees	11
Shareholder reports	30
Other expenses	+ 4
Total expenses before short sales	900
Dividends on short sales	138
Expense reduction	+ (150)
<b>Net expenses</b>	<b>888</b>

#### Increase in Net Assets from Operations

Total investment income	550
Net expenses	— 888
Net investment loss	<u>(338)</u>
Net realized losses	(235)
Net unrealized gains	+ 6,703
Increase in net assets from operations	<u>\$6,130</u>

Unless stated, all numbers x 1,000.

Calculated as 1.75% of average daily net assets.

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

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 29, 2004, to 2.00% of average daily net assets. This limit doesn't include interest, taxes, certain non-routine expenses and expenses for dividends on securities sold short.

These add up to a net gain on investments of \$6,468.

## Schwab Hedged Equity Fund™

Statement of

### Changes in Net Assets

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

#### Operations

	11/1/02–10/31/03		9/3/02*–10/31/02	
Net investment loss		(\$338)		(\$35)
Net realized losses		(235)		(150)
Net unrealized gains or losses	+	6,703		(171)
<b>Increase or decrease in net assets from operations</b>		<b>\$6,130</b>		<b>(\$356)</b>

#### Transactions in Fund Shares

	11/1/02–10/31/03		9/3/02–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	1,672	\$17,074	3,397	\$33,733
Shares redeemed	+ (1,153)	(11,663)	(101)	(950)
<b>Net transactions in fund shares</b>	<b>519</b>	<b>\$5,411</b>	<b>3,296</b>	<b>\$32,783</b>

#### Shares Outstanding and Net Assets

	11/1/02–10/31/03		9/3/02–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,296	\$32,427	—	\$ —
Total increase	+ 519	11,541	3,296	32,427
<b>End of period</b>	<b>3,815</b>	<b>\$43,968</b>	<b>3,296</b>	<b>\$32,427</b>

Unless stated, all numbers x 1,000.

The fund charges 1.50% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	\$42
<b>Prior period</b>	\$14

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.

There is no distributable net investment income at the end of the current and prior period.

\* Commencement of operations.

# Communications Focus Fund

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	7/3/00 <sup>1</sup> – 10/31/00
<b>Per-Share Data (\$)</b>				
Net asset value at beginning of period	2.84	4.16	8.13	10.00
Income or loss from investment operations:				
Net investment income or loss	0.02	0.03	(0.00) <sup>2</sup>	0.00 <sup>2</sup>
Net realized and unrealized gains or losses	0.74	(1.35)	(3.97)	(1.87)
Total income or loss from investment operations	0.76	(1.32)	(3.97)	(1.87)
Less distributions:				
Dividends from net investment income	(0.03)	—	(0.00) <sup>2</sup>	—
Net asset value at end of period	3.57	2.84	4.16	8.13
Total return (%)	26.87	(31.73)	(48.82)	(18.70) <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	1.03 <sup>4</sup>	0.89	0.89 <sup>5</sup>	0.89 <sup>6</sup>
Gross operating expenses	1.77	1.68	1.30	1.71 <sup>6</sup>
Net investment income or loss	0.45	0.69	(0.02)	0.07 <sup>6</sup>
Portfolio turnover rate	179	94	154	45 <sup>3</sup>
Net assets, end of period (\$ x 1,000,000)	11	9	16	32

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

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

<sup>3</sup> Not annualized.

<sup>4</sup> The ratio of net operating expenses would have been 1.04% if certain non-routine expenses (interest expense) had been included.

<sup>5</sup> The ratio of net operating expenses would have been 0.90% if certain non-routine expenses (interest expense) had been included.

<sup>6</sup> Annualized.

## Communications Focus Fund

### Portfolio Holdings as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>100.0% Common Stock</b>	10,466	11,084
<b>0.2% Short-Term Investment</b>	16	16
<b>100.2% Total Investments</b>	<b>10,482</b>	<b>11,100</b>
<b>7.5% Collateral Invested for Securities on Loan</b>	831	831
<b>(7.7)% Other Assets and Liabilities, Net</b>		(849)
<b>100.0% Total Net Assets</b>		<b>11,082</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

#### Common Stock 100.0% of net assets

#### Business Machines & Software 3.1%

- PTEK Holdings, Inc. 40,000 **348**

#### Business Services 3.1%

- Aether Systems, Inc. 71,000 **341**

#### Construction 3.5%

- ⑥ SBA Communications Corp. 96,500 **392**

#### Electronics 3.1%

- Hungarian Telephone & Cable 34,900 **339**

#### Media 7.3%

- EchoStar Communications Corp., Class A 9,300 356
- ① PanAmSat Corp. 22,100 458

**814**

#### Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

#### Telephone 79.9%

Alltel Corp.	7,300	345
• ⑨ AT&T Corp.	20,500	381
• AT&T Wireless Services, Inc.	50,734	368
• ④ BellSouth Corp.	15,937	419
• CenturyTel, Inc.	9,600	343
• ⑩ Cincinnati Bell, Inc.	74,300	380
• Citizens Communications Co.	28,600	356
• Commonwealth Telephone Enterprises, Inc.	8,100	330
• ③ Crown Castle International Corp.	33,800	428
• CT Communications, Inc.	24,900	346
• Dobson Communications Corp., Class A	42,300	367
• ⑦ General Communication, Inc., Class A	39,000	385
• Hickory Tech Corp.	30,900	369
• ⑤ Nextel Communications, Inc., Class A	16,900	409
• North Pittsburgh Systems, Inc.	20,300	373
• Price Communications Corp.	24,100	303
• ② Primus Telecommunications Group, Inc.	49,400	456
• SBC Communications, Inc.	14,404	345
• Sprint Corp. (FON Group)	23,300	373
• Sprint Corp. (PCS Group)	73,600	320
• Talk America Holdings, Inc.	28,700	358
• ⑧ Time Warner Telecom, Inc., Class A	37,000	383
• US LEC Corp., Class A	69,000	364
• Verizon Communications, Inc.	10,382	349
		<b>8,850</b>

## Communications Focus Fund

Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
---------------------------------	----------------------------	----------------------------

### Short-Term Investment

0.2% of net assets

Brown Brothers Harriman, Grand Cayman Time Deposit 0.50%, 11/01/03	16	16
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**End of investments.** For totals, please see the first page of holdings for this fund.

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

### Collateral Invested for Securities on Loan

7.5% of net assets

#### Other Investment Companies

Securities Lending Investment Fund 830,650	831
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**End of collateral invested for securities on loan.**  
For totals, please see the first page of holdings for this fund.

## Communications Focus Fund

Statement of

### Assets and liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$782 of securities on loan)	\$11,100
Collateral held for securities on loan	831
Receivables:	
Dividends	15
Reimbursement from adviser	4
Prepaid expenses	5
<b>Total assets</b>	<b>11,955</b>

#### Liabilities

Collateral held for securities on loan	831
Payables:	
Fund shares redeemed	13
Accrued expenses	29
<b>Total liabilities</b>	<b>873</b>

#### Net Assets

<b>Total assets</b>	11,955
<b>Total liabilities</b>	873
<b>Net assets</b>	<b>\$11,082</b>

#### Net Assets by Source

Capital received from investors	37,051
Net investment income not yet distributed	43
Net realized capital losses	(26,630)
Net unrealized capital gains	618

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$11,082		3,103		\$3.57

Unless stated, all numbers x 1,000.

The fund paid \$10,482 for these securities. Not counting short-term obligations and government securities, the fund paid \$17,697 for securities during the report period and received \$18,215 from securities it sold or that matured.

#### Federal Tax Data

<b>Portfolio Cost</b>	\$10,814
<b>Net unrealized gains and losses:</b>	
Gains	\$1,264
Losses	(978)
	<b>\$286</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$43
Long-term capital gains	\$—
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount
2008	\$1,226
2009	13,397
2010	8,364
2011	3,311
	<b>\$26,298</b>



## Communications Focus Fund

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$146
Interest	+ 1
<b>Total investment income</b>	<b>147</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	<b>(2,109)</b>
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#### Net Unrealized Gains and Losses

Net unrealized gains on investments	<b>4,443</b>
-------------------------------------	--------------

#### Expenses

Investment adviser and administrator fees	54
Transfer agent and shareholder service fees	25
Trustees' fees	4
Custodian fees	36
Portfolio accounting fees	1
Professional fees	26
Registration fees	10
Shareholder reports	19
Other expenses	+ 1
Total expenses	176
Expense reduction	- 73
<b>Net expenses</b>	<b>103</b>

#### Increase in Net Assets from Operations

Total investment income	147
Net expenses	— 103
Net investment income	<u>44</u>
Net realized losses	(2,109)
Net unrealized gains	+ 4,443
Increase in net assets from operations	<u>\$2,378</u>

Unless stated, all numbers x 1,000.

An additional \$4 was withheld for foreign taxes.

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.

For the fund's independent trustees only.

Includes \$53 from the investment adviser (CSIM) and \$12 from the transfer agent and shareholder service agent (Schwab). In addition, the total expenses reimbursed by the investment adviser was \$8. These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 28, 2005, to 1.10% of average daily net assets. Prior to March 1, 2003, this limit was 0.89%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$2,334.

## Communications Focus Fund

Statements of

### Changes in Net Assets

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

#### Operations

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$44	\$86
Net realized losses	(2,109)	(6,355)
Net unrealized gains	+ 4,443	1,679
<b>Increase or decrease in net assets from operations</b>	<b>2,378</b>	<b>(4,590)</b>

#### Distributions Paid

Dividends from net investment income	<b>\$87</b>	<b>\$—</b>
--------------------------------------	-------------	------------

#### Transactions in Fund Shares

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	825	\$2,570	655	\$2,313
Shares reinvested	27	78	—	—
Shares redeemed	+ (1,019)	(3,138)	(1,190)	(4,283)
<b>Net transactions in fund shares</b>	<b>(167)</b>	<b>(\$490)</b>	<b>(535)</b>	<b>(\$1,970)</b>

#### Shares Outstanding and Net Assets

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,270	\$9,281	3,805	\$15,841
Total increase or decrease	+ (167)	1,801	(535)	(6,560)
<b>End of period</b>	<b>3,103</b>	<b>\$11,082</b>	<b>3,270</b>	<b>\$9,281</b>

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 tax-basis components of distributions paid are:

##### Current period:

Ordinary Income	\$87
Long-term capital gains	\$—

##### Prior period:

Ordinary Income	\$—
Long-term capital gains	\$—

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	<b>\$6</b>
<b>Prior period</b>	<b>\$4</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$43 and \$86 at the end of the current period and prior period, respectively.

# Financial Services Focus Fund

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	7/3/00¹– 10/31/00
<b>Per-Share Data (\$)</b>				
Net asset value at beginning of period	9.44	9.75	11.86	10.00
Income or loss from investment operations:				
Net investment income	0.11	0.12	0.09	0.04
Net realized and unrealized gains or losses	2.37	(0.28)	(1.76)	1.82
Total income or loss from investment operations	2.48	(0.16)	(1.67)	1.86
Less distributions:				
Dividends from net investment income	(0.15)	(0.09)	(0.06)	—
Distributions from net realized gains	—	(0.06)	(0.38)	—
Total distributions	(0.15)	(0.15)	(0.44)	—
Net asset value at end of period	11.77	9.44	9.75	11.86
Total return (%)	26.68	(1.78)	(14.51)	18.60²
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	1.03³	0.89	0.89	0.89⁴
Gross operating expenses	1.49	1.32	1.23	1.99⁴
Net investment income	1.05	1.20	0.75	1.04⁴
Portfolio turnover rate	181	131	151	40²
Net assets, end of period (\$ x 1,000,000)	18	17	21	24

¹ Commencement of operations.

² Not annualized.

³ The ratio of net operating expenses would have been 1.04% if certain non-routine expenses (interest expense) had been included.

⁴ Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>100.1% Common Stock</b>	16,183	18,472
<b>100.1% Total Investments</b>	<b>16,183</b>	<b>18,472</b>
<b>1.4% Collateral Invested for Securities on Loan</b>	249	249
<b>(1.5)% Other Assets and Liabilities, Net</b>		(271)
<b>100.0% Total Net Assets</b>		<b>18,450</b>

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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**Common Stock** 100.1% of net assets**Banks 32.8%**

Anchor Bancorp Wisconsin, Inc.	14,000	349
Associated Banc-Corp.	9,000	370
BancFirst Corp.	2,500	135
Bancorpsouth, Inc.	16,000	376
Bank of America Corp.	4,480	339
5 Bank of Hawaii Corp.	10,100	398
4 City National Corp.	6,700	403
Doral Financial Corp.	7,400	374
First Bancorp Puerto Rico	11,200	373
First Community Bancshares, Inc. Virginia	4,400	156
• FirstFed Financial Corp.	8,400	378
National City Corp.	11,700	382
OceanFirst Financial Corp.	11,200	293
8 Popular, Inc.	8,800	396
Second Bancorp., Inc.	8,000	222
UnionBanCal Corp.	6,900	374

Security and Number of Shares		Mkt. Value (\$ x 1,000)
Wachovia Corp.	8,000	367
Zions Bancorp.	6,000	368
		<hr/> 6,053

**Business Machines & Software 2.0%**

Landamerica Financial Group, Inc.	7,500	<b>375</b>
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**Insurance 29.7%**

Aetna, Inc.	5,700	326
AFLAC, Inc.	10,500	383
AMBAC Financial Group, Inc.	5,000	354
Delphi Financial Group, Inc., Class A	7,000	353
Fidelity National Financial, Inc.	12,000	371
First American Corp.	13,100	375
10 Metlife, Inc.	12,200	383
Odyssey Re Holdings Corp.	17,500	367
Old Republic International Corp.	10,000	360
Principal Financial Group, Inc.	11,800	370
The Progressive Corp.	4,800	354
Reinsurance Group of America, Inc.	8,500	340
7 Safeco Corp.	10,800	396
Stancorp Financial Group, Inc.	5,900	372
• Stewart Information Services Corp.	11,900	371
		<b>5,475</b>

**Miscellaneous Finance 34.9%**

• Affiliated Managers Group, Inc.	5,200	377
Berkshire Hills Bancorp, Inc.	3,000	108
• 3 Capital Corp. of the West	10,800	414
9 Cash America International, Inc.	20,200	386
Citigroup, Inc.	7,375	350
• CompuCredit Corp.	18,700	370
1 Countrywide Financial Corp.	4,300	452
• Delta Financial Corp.	25,000	189
• E*TRADE Group, Inc.	34,200	352
Fannie Mae	5,120	367
First Financial Holdings, Inc.	3,000	90

## Financial Services Focus Fund

Security and Number of Shares	Mkt. Value (\$ x 1,000)
Franklin Resources, Inc. 7,600	360
GreenPoint Financial Corp. 12,250	382
Independence Community Bank Corp. 9,800	360
⑥ IndyMac Bancorp, Inc. 13,500	397
Lehman Brothers Holdings, Inc. 4,900	353
MBNA Corp. 14,390	356
Nuveen Investments, Inc., Class A 12,700	356
• ② WFS Financial, Inc. 9,500	414
	<b>6,433</b>
<b>Real Property 0.7%</b>	
• Trammell Crow Co. 10,000	<b>136</b>

**End of investments.** For totals, please see the first page of holdings for this fund.

Security and Number of Shares	Mkt. Value (\$ x 1,000)
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### Collateral Invested for Securities on Loan

1.4% of net assets

### Other Investment Companies

Securities Lending Investment Fund 248,710	<b>249</b>
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### End of collateral invested for securities on loan.

For totals, please see the first page of holdings for this fund.

## Financial Services Focus Fund

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$237 of securities on loan)	\$18,472
Collateral held for securities on loan	249
Receivables:	
Fund shares sold	35
Dividends	18
Prepaid expenses	+ 5
<b>Total assets</b>	<b>18,779</b>

#### Liabilities

Collateral held for securities on loan	249
Cash overdraft	40
Payables:	
Fund shares redeemed	8
Accrued expenses	+ 32
<b>Total liabilities</b>	<b>329</b>

#### Net Assets

<b>Total assets</b>	18,779
<b>Total liabilities</b>	- 329
<b>Net assets</b>	<b>\$18,450</b>

#### Net Assets by Source

Capital received from investors	16,958
Net investment income not yet distributed	119
Net realized capital losses	(916)
Net unrealized capital gains	2,289

#### Net Asset Value (NAV)

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$18,450		1,567		\$11.77

Unless stated, all numbers x 1,000.

The fund paid \$16,183 for these securities. Not counting short-term obligations and government securities, the fund paid \$30,081 for securities during the report period and received \$32,579 from securities it sold or that matured.

#### Federal Tax Data

<b>Portfolio Cost</b>	\$16,188
<b>Net unrealized gains and losses:</b>	
Gains	\$2,410
Losses	+ (126)
	<b>\$2,284</b>
<b>Undistributed earnings:</b>	
Ordinary income	\$119
Long-term capital gains	\$-
<b>Capital losses utilized</b>	<b>\$37</b>
<b>Unused capital losses:</b>	
Expires 10/31 of:	Loss amount
2010	\$911

## Financial Services Focus Fund

### Statement of Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$347
Securities on loan	+ 1
<b>Total investment income</b>	<b>348</b>

#### Net Realized Gains and Losses

Net realized gains on investments sold	<b>326</b>
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#### Net Unrealized Gains and Losses

Net unrealized gains on investments	<b>3,471</b>
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#### Expenses

Investment adviser and administrator fees	90
Transfer agent and shareholder service fees	42
Trustees' fees	4
Custodian fees	52
Portfolio accounting fees	3
Professional fees	25
Registration fees	12
Shareholder reports	16
Other expenses	+ 3
Total expenses	<u>247</u>
Expense reduction	- 75
<b>Net expenses</b>	<u><b>172</b></u>

#### Increase in Net Assets from Operations

Total investment income		348
Net expenses	—	172
Net investment income		<u>176</u>
Net realized gains		326
Net unrealized gains	+	3,471
Increase in net assets from operations		<u>\$3,973</u>

Unless stated, all numbers x 1,000.

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.

For the fund's independent trustees only.

Includes \$69 from the investment adviser (CSIM) and \$5 from the transfer agent and shareholder service agent (Schwab). In addition, the total expenses reimbursed by the investment adviser was \$1. These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 28, 2005, to 1.10% of average daily net assets. Prior to March 1, 2003, this limit was 0.89%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$3,797.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$176	\$251
Net realized gains or losses	326	(668)
Net unrealized gains	+ 3,471	224
<b>Increase or decrease in net assets from operations</b>	<b>3,973</b>	<b>(193)</b>

**Distributions Paid**

Dividends from net investment income	260	193
Distributions from net realized gains	+ —	123
<b>Total distributions paid</b>	<b>\$260</b>	<b>\$316</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	231	\$2,407	237	\$2,445
Shares reinvested	25	236	29	290
Shares redeemed	+ (509)	(5,079)	(633)	(6,384)
<b>Net transactions in fund shares</b>	<b>(253)</b>	<b>(\$2,436)</b>	<b>(367)</b>	<b>(\$3,649)</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	1,820	\$17,173	2,187	\$21,331
Total increase or decrease	+ (253)	1,277	(367)	(4,158)
<b>End of period</b>	<b>1,567</b>	<b>\$18,450</b>	<b>1,820</b>	<b>\$17,173</b>

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 tax-basis components of distributions paid are:

**Current period:**

Ordinary income	\$260
Long-term capital gains	\$—

**Prior period:**

Ordinary income	\$316
Long-term capital gains	\$—

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	\$4
<b>Prior period</b>	\$4

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$119 and \$203 at the end of the current period and prior period, respectively.



# Health Care Focus Fund

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	7/3/00 <sup>1</sup> – 10/31/00
<b>Per-Share Data (\$)</b>				
Net asset value at beginning of period	7.12	9.00	10.27	10.00
Income or loss from investment operations:				
Net investment income or loss	0.01	0.03	0.00 <sup>2</sup>	(0.00) <sup>2</sup>
Net realized and unrealized gains or losses	1.33	(1.90)	(1.10)	0.27
Total income or loss from investment operations	1.34	(1.87)	(1.10)	0.27
Less distributions:				
Dividends from net investment income	(0.03)	(0.01)	(0.00) <sup>2</sup>	—
Distributions from net realized gains	—	—	(0.17)	—
Total distributions	(0.03)	(0.01)	(0.17)	—
Net asset value at end of period	8.43	7.12	9.00	10.27
Total return (%)	18.96	(20.84)	(10.94)	2.70 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	1.04	0.89	0.89	0.89 <sup>4</sup>
Gross operating expenses	1.34	1.18	1.17	2.04 <sup>4</sup>
Net investment income or loss	0.13	0.25	0.06	(0.02) <sup>4</sup>
Portfolio turnover rate	200	99	92	41 <sup>3</sup>
Net assets, end of period (\$ x 1,000,000)	25	21	32	28

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

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

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>100.1% Common Stock</b>	22,165	25,030
<b>100.1% Total Investments</b>	<b>22,165</b>	<b>25,030</b>
<b>(0.1)% Other Assets and Liabilities, Net</b>		(26)
<b>100.0% Total Net Assets</b>		<b>25,004</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

**Common Stock** 100.1% of net assets

**Business Services 13.4%**

• Genesis Health Ventures, Inc.	23,000	619
• Gentiva Health Services, Inc.	55,000	627
⑥ IMS Health, Inc.	29,700	699
• Invitrogen Corp.	10,000	636
• ① Ventiv Health, Inc.	92,900	780
		<b>3,361</b>

**Healthcare / Drugs & Medicine 76.6%**

• Anthem, Inc.	9,600	657
• Arqule, Inc.	115,000	598
Arrow International, Inc.	23,000	607
Bausch & Lomb, Inc.	12,500	602
⑨ Becton Dickinson & Co.	18,300	669
CNS, Inc.	53,000	639
• Coventry Health Care, Inc.	11,600	635
• ⑦ Cytoc Corp.	54,000	698
• ⑤ DaVita, Inc.	20,200	709
• ④ DJ Orthopedics, Inc.	40,400	725

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

• Health Net, Inc.	19,400	613
• Henry Schein, Inc.	10,500	652
ICN Pharmaceuticals, Inc.	32,300	624
Johnson & Johnson	8,880	447
• Lincare Holdings, Inc.	15,700	611
• ② Microtek Medical Holdings, Inc.	192,000	753
• Mid Atlantic Medical Services, Inc.	9,800	572
• MIM Corp.	83,000	489
Mylan Laboratories, Inc.	24,450	590
• Nutraceutical International Corp.	55,000	642
Owens & Minor, Inc.	30,500	620
• Oxford Health Plans, Inc.	14,700	595
• Pacificare Health Systems, Inc.	10,200	607
• Pediatrix Medical Group, Inc.	12,000	641
• PSS World Medical, Inc.	68,500	638
• Sierra Health Services, Inc.	27,300	636
• ⑧ Sybron Dental Specialties, Inc.	29,500	679
• Third Wave Technologies, Inc.	89,800	313
• ③ UnitedHealth Group, Inc.	14,300	728
• Universal Health Services, Class B	13,000	612
• WellPoint Health Networks, Inc.	6,200	551
		<b>19,152</b>

**Insurance 2.3%**

Aetna, Inc.	10,100	<b>580</b>
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**Non-Durables & Entertainment 5.1%**

• Service Corp. International	133,800	649
• Stewart Enterprises, Inc., Class A	153,000	624
		<b>1,273</b>

**Producer Goods & Manufacturing 2.7%**

• ⑩ Fisher Scientific International, Inc.	16,500	<b>664</b>
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**End of investments.** For totals, please see the first page of holdings for this fund.

## Health Care Focus Fund

Statement of

### Assets and Liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value	\$25,030
Receivables:	
Fund shares sold	6
Dividends	2
Investments sold	179
Prepaid expenses	+ 5
<b>Total assets</b>	<b>25,222</b>

#### Liabilities

Cash overdraft	172
Payables:	
Fund shares redeemed	16
Accrued expenses	<u>30</u>
<b>Total liabilities</b>	<b>218</b>

#### Net Assets

Total assets	25,222
Total liabilities	— 218
Net assets	<u>\$25,004</u>

#### Net Assets by Source

Capital received from investors	31,244
Net realized capital losses	(9,105)
Net unrealized capital gains	2,865

#### Net Asset Value (NAV)

<b>Net Assets</b>	+	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$25,004		2,967		\$8.43

Unless stated, all numbers x 1,000.

The fund paid \$22,165 for these securities. Not counting short-term obligations and government securities, the fund paid \$44,025 for securities during the report period and received \$44,353 from securities it sold or that matured.

#### Federal Tax Data

**Portfolio Cost** \$22,175

#### Net unrealized gains and losses:

Gains	\$3,366
Losses	+ (511)
	<u>\$2,855</u>

#### Undistributed earnings:

Ordinary income	\$-
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2009	\$1,467
2010	3,990
2011	+ 3,638
	<u>\$9,095</u>

#### Reclassifications:

Net investment income	
not yet distributed	\$6
Reclassified as:	
Capital received from investors	(\$6)

See financial notes. 77

## Health Care Focus Fund

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$255
Interest	1
Securities on loan	+ 1
<b>Total investment income</b>	<b>257</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	<b>(2,899)</b>
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#### Net Unrealized Gains and Losses

Net unrealized gains on investments	<b>6,783</b>
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#### Expenses

Investment adviser and administrator fees	119
Transfer agent and shareholder service fees	55
Trustees' fees	5
Custodian fees	39
Portfolio accounting fees	3
Professional fees	27
Registration fees	13
Shareholder reports	30
Other expenses	+ 3
Total expenses	<u>294</u>
Expense reduction	- 66
<b>Net expenses</b>	<u><b>228</b></u>

#### Increase in Net Assets from Operations

Total investment income	257
Net expenses	— 228
Net investment income	<u>29</u>
Net realized losses	(2,899)
Net unrealized gains	+ 6,783
Increase in net assets from operations	<u>\$3,913</u>

Unless stated, all numbers x 1,000.

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.

For the fund's independent trustees only.

Includes \$64 from the investment adviser (CSIM) and \$1 from the transfer agent and shareholder service agent (Schwab). In addition, the total expense reimbursed by the investment adviser was \$1. It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 28, 2005, to 1.10% of average daily net assets. Prior to March 1, 2003, this limit was 0.89%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$3,884.

## Health Care Focus Fund

### Statements of Changes in Net Assets

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

#### Operations

	11/1/02–10/31/03	11/1/01–10/31/02
Net investment income	\$29	\$69
Net realized losses	(2,899)	(3,607)
Net unrealized gains or losses	+ 6,783	(3,051)
<b>Increase or decrease in net assets from operations</b>	<b>3,913</b>	<b>(6,589)</b>

#### Distributions Paid

Dividends from net investment income	<b>\$99</b>	<b>\$19</b>
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#### Transactions in Fund Shares

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	612	\$4,654	640	\$5,425
Shares reinvested	13	90	2	17
Shares redeemed	+ (672)	(5,019)	(1,184)	(9,378)
<b>Net transactions in fund shares</b>	<b>(47)</b>	<b>(\$275)</b>	<b>(542)</b>	<b>(\$3,936)</b>

#### Shares Outstanding and Net Assets

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,014	\$21,465	3,556	\$32,009
Total increase or decrease	+ (47)	3,539	(542)	(10,544)
<b>End of period</b>	<b>2,967</b>	<b>\$25,004</b>	<b>3,014</b>	<b>\$21,465</b>

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 tax-basis components of distributions paid are:

##### Current period:

Ordinary Income	\$99
Long-term capital gains	\$–

##### Prior period:

Ordinary Income	\$19
Long-term capital gains	\$–

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	<b>\$5</b>
<b>Prior period</b>	<b>\$7</b>

Dollar amounts are net of the redemption proceeds.

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

Includes distributable net investment income in the amount of \$– and \$64 at the end of the current period and prior period, respectively.

# Technology Focus Fund

## Financial Statements

### Financial Highlights

	11/1/02– 10/31/03	11/1/01– 10/31/02	11/1/00– 10/31/01	7/3/00 <sup>1</sup> – 10/31/00
<b>Per-Share Data (\$)</b>				
Net asset value at beginning of period	2.90	3.86	8.52	10.00
Income or loss from investment operations:				
Net investment loss	(0.02)	(0.02)	(0.03)	(0.02)
Net realized and unrealized gains or losses	1.44	(0.94)	(4.63)	(1.46)
Total income or loss from investment operations	1.42	(0.96)	(4.66)	(1.48)
Net asset value at end of period	4.32	2.90	3.86	8.52
Total return (%)	48.97	(24.87)	(54.69)	(14.80) <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>				
Ratios to average net assets:				
Net operating expenses	1.04	0.89	0.89	0.89 <sup>3</sup>
Gross operating expenses	1.25	1.15	1.16	1.52 <sup>3</sup>
Net investment loss	(0.65)	(0.57)	(0.65)	(0.63) <sup>3</sup>
Portfolio turnover rate	165	117	120	37 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	43	26	39	48

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

## Technology Focus Fund

### Portfolio Holdings as of October 31, 2003

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

We use the symbols below to designate certain characteristics. 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)	Market Value (\$x1,000)
<b>100.0% Common Stock</b>	<b>36,335</b>	<b>43,019</b>
<b>0.3% Short-Term Investment</b>	<b>152</b>	<b>152</b>
<b>100.3% Total Investments</b>	<b>36,487</b>	<b>43,171</b>
<b>1.8% Collateral Invested for Securities on Loan</b>	<b>770</b>	<b>770</b>
<b>(2.1)% Other Assets and Liabilities, Net</b>		<b>(905)</b>
<b>100.0% Total Net Assets</b>		<b>43,036</b>

Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

#### Common Stock 100.0% of net assets

#### Aerospace / Defense 5.5%

Lockheed Martin Corp.	14,900	692
Rockwell Collins, Inc.	30,400	834
United Technologies Corp.	9,700	822
		<b>2,348</b>

#### Business Machines & Software 17.5%

⑨ Adobe Systems, Inc.	19,900	872
• Artesyn Technologies, Inc.	68,000	560
• ③ Cisco Systems, Inc.	47,260	992
• Digi International, Inc.	57,000	524
• Intergraph Corp.	30,000	782
• Lexmark International, Inc., Class A	11,600	854
• Oracle Corp.	57,148	683
• Storage Technology Corp.	25,000	602
• ⑦ Sybase, Inc.	50,400	902
• Xerox Corp.	73,300	770
		<b>7,541</b>

#### Security and Number of Shares

Mkt. Value  
(\$ x 1,000)

#### Business Services 31.0%

• Akamai Technologies, Inc.	98,000	774
• Amdocs Ltd.	26,000	558
• Ariba, Inc.	109,800	357
• Centra Software, Inc.	37,000	107
• ⑤ Citrix Systems, Inc.	36,300	917
• Concord EFS, Inc.	25,000	267
• CSG Systems International, Inc.	43,500	500
• Digital Impact, Inc.	80,000	232
• ② Epicor Software Corp.	100,000	1,011
• Factset Research Systems, Inc.	14,000	611
• Forrester Research, Inc.	21,000	358
• Gartner, Inc., Class B	30,000	366
• infoUSA, Inc.	64,000	525
• Intuit, Inc.	14,600	730
• Macrovision Corp.	30,000	659
• Mobius Management Systems, Inc.	19,000	245
• MRO Software, Inc.	35,900	454
• Progress Software Corp.	28,000	618
• SS&C Technologies, Inc.	33,000	726
• Sycamore Networks, Inc.	138,000	690
• SYKES Enterprises, Inc.	42,500	396
• Synopsys, Inc.	26,000	825
• ① Transaction Systems Architects, Inc., Class A	70,000	1,400
		<b>13,326</b>

#### Electronics 34.7%

• Amkor Technology, Inc.	33,900	639
• ④ Atmel Corp.	171,400	967
• ⑧ Benchmark Electronics, Inc.	18,000	877
• Checkpoint Systems, Inc.	44,400	836
• Computer Network Technology Corp.	25,000	247
• Comtech Telecommunications	24,500	722
• Gerber Scientific, Inc.	30,000	237
• GlobespanVirata, Inc.	80,000	493
• Hutchinson Technology, Inc.	18,000	603
• ⑥ Intel Corp.	27,660	914
• Komag, Inc.	40,000	754

See financial notes. 81

## Technology Focus Fund

### Portfolio Holdings continued

Security and Number of Shares	Mkt. Value (\$ x 1,000)	Security Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
• Littelfuse, Inc. 10,000	266			
• LSI Logic Corp. 42,300	391			
• Mattson Technology, Inc. 59,000	838			
MTS Systems Corp. 20,000	352			
• National Semiconductor Corp. 7,500	305			
• ON Semiconductor Corp. 145,000	623			
PerkinElmer, Inc. 38,600	695			
• Plantronics, Inc. 30,000	834			
• QuickLogic Corp. 32,000	162			
• Radisys Corp. 36,000	704			
• Rofin-Sinar Technologies, Inc. 30,000	713			
Scientific-Atlanta, Inc. 25,000	740			
• Solectron Corp. 100,000	554			
• Tekelec 30,000	483			
	<b>14,949</b>			
<b>Healthcare / Drugs &amp; Medicine 0.3%</b>				
• Allscripts Healthcare Solutions, Inc. 23,000	119			
<b>Media 1.0%</b>				
• CNET Networks, Inc. 30,000	244			
• Raindance Communications, Inc. 60,000	175			
	<b>419</b>			
<b>Producer Goods &amp; Manufacturing 5.9%</b>				
Ametek, Inc. 16,400	772			
• Catalyst Semiconductor, Inc. 60,000	434			
• Compucom Systems, Inc. 115,000	587			
• Safeguard Scientifics, Inc. 125,000	476			
• Tyler Technologies, Inc. 35,000	277			
	<b>2,546</b>			
<b>Telephone 4.1%</b>				
• ⑩ Avaya, Inc. 67,100	868			
• Ditech Communications Corp. 50,000	528			
• Inet Technologies, Inc. 15,000	202			
• Net2Phone, Inc. 30,000	173			
	<b>1,771</b>			
<b>Short-Term Investment</b>				
0.3% of net assets				
Bank of America, London Time Deposit				
0.50%, 11/01/03		152		<b>152</b>
<b>End of investments.</b> For totals, please see the first page of holdings for this fund.				
<b>Collateral Invested for Securities on Loan</b>				
1.8% of net assets				
<b>Other Investment Companies</b>				
Securities Lending Investment Fund 769,500				<b>770</b>
<b>End of collateral invested for securities on loan.</b>				
For totals, please see the first page of holdings for this fund.				



## Technology Focus Fund

Statement of

### Assets and liabilities

As of October 31, 2003. All numbers x 1,000 except NAV.

#### Assets

Investments, at market value (including \$743 of securities on loan)	\$43,171
Collateral held for securities on loan	770
Receivables:	
Fund shares sold	56
Dividends	3
Investments sold	354
Prepaid expenses	+ 6
<b>Total assets</b>	<b>44,360</b>

#### Liabilities

Collateral held for securities on loan	770
Payables:	
Fund shares redeemed	11
Investments bought	506
Accrued expenses	+ 37
<b>Total liabilities</b>	<b>1,324</b>

#### Net Assets

<b>Total assets</b>	44,360
<b>Total liabilities</b>	- 1,324
<b>Net assets</b>	<b>\$43,036</b>

#### Net Assets by Source

Capital received from investors	80,152
Net realized capital losses	(43,800)
Net unrealized capital gains	6,684

#### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$43,036		9,963		\$4.32

Unless stated, all numbers x 1,000.

The fund paid \$36,487 for these securities. Not counting short-term obligations and government securities, the fund paid \$54,557 for securities during the report period and received \$50,510 from securities it sold or that matured.

#### Federal Tax Data

<b>Portfolio Cost</b>	\$36,588
<b>Net unrealized gains and losses:</b>	
Gains	\$8,091
Losses	+ (1,508)
	<b>\$6,583</b>

#### Undistributed earnings:

Ordinary income	\$-
Long-term capital gains	\$-

#### Unused capital losses:

Expires 10/31 of:	Loss amount
2008	\$723
2009	18,131
2010	18,148
2011	+ 6,697
	<b>\$43,699</b>

#### Reclassifications:

Net investment income not yet distributed	\$200
Reclassified as:	
Capital received from investors	(\$200)

See financial notes. 83

## Technology Focus Fund

### Statement of

### Operations

For November 1, 2002 through October 31, 2003. All numbers x 1,000.

#### Investment Income

Dividends	\$117
Interest	1
Securities on loan	+ 1
<b>Total investment income</b>	<b>119</b>

#### Net Realized Gains and Losses

Net realized losses on investments sold	<b>(3,310)</b>
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#### Net Unrealized Gains and Losses

Net unrealized gains on investments	<b>16,615</b>
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#### Expenses

Investment adviser and administrator fees	165
Transfer agent and shareholder service fees	77
Trustees' fees	5
Custodian fees	56
Portfolio accounting fees	4
Professional fees	27
Registration fees	13
Shareholder reports	32
Other expenses	+ 4
Total expenses	<u>383</u>
Expense reduction	- 64
<b>Net expenses</b>	<u><b>319</b></u>

#### Increase in Net Assets from Operations

Total investment income	119
Net expenses	— 319
Net investment loss	<u>(200)</u>
Net realized losses	(3,310)
Net unrealized gains	+ 16,615
Increase in net assets from operations	<u>\$13,105</u>

Unless stated, all numbers x 1,000.

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.

For the fund's independent trustees only.

Includes \$62 from the investment adviser (CSIM) and \$2 from the transfer agent and shareholder service agent (Schwab). It reflects a guarantee by CSIM and the transfer agent and shareholder service agent (Schwab) to limit the operating expenses of this fund through February 28, 2005, to 1.10% of average daily net assets. Prior to March 1, 2003, this limit was 0.89%. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$13,305.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/02–10/31/03		11/1/01–10/31/02	
Net investment loss		(\$200)		(\$211)
Net realized losses		(3,310)		(14,163)
Net unrealized gains	+	16,615		4,018
<b>Increase or decrease in net assets from operations</b>		<b>\$13,105</b>		<b>(\$10,356)</b>

**Transactions in Fund Shares**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	VALUE	SHARES	VALUE
Shares sold	3,313	\$11,831	2,770	\$10,781
Shares redeemed	+ (2,226)	(7,601)	(3,948)	(13,544)
<b>Net transactions in fund shares</b>	<b>1,087</b>	<b>\$4,230</b>	<b>(1,178)</b>	<b>(\$2,763)</b>

**Shares Outstanding and Net Assets**

	11/1/02–10/31/03		11/1/01–10/31/02	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	8,876	\$25,701	10,054	\$38,820
Total increase or decrease	+ 1,087	17,335	(1,178)	(13,119)
<b>End of period</b>	<b>9,963</b>	<b>\$43,036</b>	<b>8,876</b>	<b>\$25,701</b>

Unless stated, all numbers x 1,000.

The fund charges 0.75% of early withdrawal fees on shares redeemed 180 days or less after the purchase:

<b>Current period</b>	\$17
<b>Prior period</b>	\$15

Dollar amounts are net of the redemption proceeds.

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

There is no distributable net investment income 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.

**Both Schwab Dividend Equity Fund™ and Schwab Small-Cap 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 Hedged Equity Fund™, Communications Focus Fund, Financial Services Focus Fund, HealthCare Focus Fund and Technology Focus 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.

### Fund Operations

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

**The funds 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.

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.

### 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 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™  
 Schwab U.S. MarketMasters Fund™  
 Schwab Balanced MarketMasters Fund™  
 Schwab Small-Cap MarketMasters Fund™  
 Schwab International MarketMasters Fund™

#### **Schwab Core Equity Fund™**

**Schwab Dividend Equity Fund™**  
**Schwab Small-Cap Equity Fund™**  
**Schwab Hedged Equity Fund™**  
 Communications Focus Fund  
 Financial Services Focus Fund  
 Health Care Focus Fund  
 Technology Focus Fund

Institutional Select S&P 500 Fund  
 Institutional Select Large-Cap Value Index Fund  
 Institutional Select Small-Cap Value Index Fund

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 (“variation margin”).

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

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

**The Schwab Hedged Equity Fund™ may sell securities short (sell securities it does not own).** When it does so, the fund also places assets worth at least 100% of the value of the short securities into a segregated account, as collateral. If the market value of the short securities subsequently falls, the fund can realize a gain by closing the position. However, if the value rises, the fund typically would have to add to its collateral or close out its short position at a loss. The potential for losses associated with short positions is much greater than the original value of the securities sold short and may exceed amounts recorded in the Statements of Assets and Liabilities.

**The Communications Focus 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.

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

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

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

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and

lending transactions within the SchwabFunds\*. 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 SchwabFunds.

**Trustees may include people who are officers and/or directors of the investment adviser or Schwab.** Federal securities law limits the percentage of such “interested persons” who may serve on a trust’s board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in each fund’s Statement of Operations.

**The funds may borrow money from banks and custodians.** The funds may obtain temporary bank loans through the trusts to which they belong, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trusts have custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The funds pay interest on the amounts they borrow at rates that are negotiated periodically.

Fund	Amount outstanding at 10/31/03 (\$ × 1,000)	Average borrowing* (\$ × 1,000)	Weighted average interest rate* (%)
<b>Schwab Core Equity Fund™</b>	—	481	1.39
<b>Schwab Hedged Equity Fund™</b>	—	313	1.62
<b>Communications Focus Fund</b>	—	47	1.63
<b>Financial Services Focus Fund</b>	40	52	1.63
<b>Health Care Focus Fund</b>	172	46	1.65
<b>Technology Focus Fund</b>	—	73	1.67

\* 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 for which no market quotations are readily available:** valued at fair value, as determined in good faith by the fund’s investment adviser using guidelines adopted by the fund’s Board of Trustees.

- **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.

**If the 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 auditors*

### **To the Board of Trustees and Shareholders of:**

Schwab Core Equity Fund™  
Schwab Dividend Equity Fund™  
Schwab Small-Cap Equity Fund™  
Schwab Hedged Equity Fund™  
Communications Focus Fund  
Financial Services Focus Fund  
Health Care Focus Fund  
Technology Focus 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 Core Equity Fund, Schwab Dividend Equity Fund, Schwab Small-Cap Equity Fund, Schwab Hedged Equity Fund, Communications Focus Fund, Financial Services Focus Fund, Health Care Focus Fund and Technology Focus Fund (eight of the portfolios constituting Schwab Capital Trust) (hereafter collectively referred to as the “funds”) at October 31, 2003, and the results of each of their operations, 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 auditing standards generally accepted in the United States of America, which 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, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

### **PricewaterhouseCoopers LLP**

San Francisco, CA  
December 12, 2003



## Fund Trustees

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 SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.<sup>1</sup>

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

Each of the SchwabFunds (of which there were 49 as of 10/31/03) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

### Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Charles R. Schwab</b> <sup>2</sup> 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp.; CEO, Director, Schwab Holdings, Inc.; Chair, Director, Charles Schwab & Co., Inc.; Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, The Gap, Inc. (clothing retailer), Siebel Systems (software); Trustee, Stanford University. <i>Until 6/03</i> : Director, Xsign, Inc. (electronic payment systems). <i>Until 5/03</i> : Co-Chair, The Charles Schwab Corporation. <i>Until 5/02</i> : Director, Vodafone AirTouch PLC (telecom). <i>Until 3/02</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 7/01</i> : Director, The Charles Schwab Trust Company. <i>Until 1/99</i> : Director, Schwab Retirement Plan Services, Inc., Mayer & Schweitzer, Inc. (securities brokerage subsidiary of The Charles Schwab Corp.), Performance Technologies, Inc. (technology), TrustMark, Inc.

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

<sup>2</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Funds Using Schwab Equity Ratings™

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

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Dawn G. Lepore</b> <sup>1</sup> 3/21/54	Trustee:2003 (all trusts)	Vice Chair, EVP, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.
<b>Jeffrey M. Lyons</b> <sup>1</sup> 2/22/55	Trustee: 2002 (all trusts).	EVP, Asset Management Products and Services, Charles Schwab & Co., Inc. <i>Until 9/01</i> : EVP, Mutual Funds, Charles Schwab & Co., Inc.

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

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
<b>Randall W. Merk</b> 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
<b>Tai-Chin Tung</b> 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; VP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
<b>Stephen B. Ward</b> 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
<b>Koji E. Felton</b> 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

<sup>1</sup> In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Messrs. Schwab and Lyons, as well as some of Mr. Lyons's immediate family members, also own stock of The Charles Schwab Corporation.

## Funds Using Schwab Equity Ratings™

Individuals Who Are Independent Trustees		
Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
<b>Mariann Byerwalter</b> 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, Director, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
<b>Donald F. Dorward</b> 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
<b>William A. Hasler</b> 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Director, Non-Executive Chairman, Solelectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Networks (telecommunications); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. Director, Digital Microwave Corp. (network equipment). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
<b>Robert G. Holmes</b> 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
<b>Gerald B. Smith</b> 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Director, Pennzoil-Quaker State Co. (oil and gas), Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products); Member, audit committee, Northern Border Partners, L.P. (energy).
<b>Donald R. Stephens</b> 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investments).
<b>Michael W. Wilsey</b> 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

## Glossary

Words and phrases that appear in financial reports often have specific meanings that are different from their everyday meanings. The glossary below tells you what is meant by the following terms when they are used in this report.

**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."

**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.

## Notes

## Notes

## Contact Schwab

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### Methods for Placing Orders

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

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

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



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