

# Schwab Equity Index Funds

## **Semiannual Report**

April 30, 2004

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>

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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®.

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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).

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<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

When I look at the current economic trends, I see a lot of positive indicators. Corporate profits, revenues, capital spending and the employment numbers have been strong. With the GDP and capital spending also strong, we seem to be in the early stages of what could be a long-term economic recovery. However, even though stock market and economic cycles have historically been in synch, this now seems to be less certain.

The stock market, reflecting the uncertainty around the globe, has become increasingly volatile. Whether it's the war in Iraq or global terrorism, investors are exposed to frightening images over and over again throughout the day. This may play on investors' emotions, potentially contributing to the market's recent volatility.

Given this, and because it can be so difficult to fight your emotions, I believe it's more important than ever to stay diversified. By being diversified across and within all asset classes, you have an "all-weather" portfolio that can offer you some balance in any market climate. There are very obvious reasons why diversification is useful, but what I believe is its understated beauty is that it gives many of you the discipline you need to stick with a well thought out strategy.

I have been a fan of mutual funds throughout my long investing career. I say this because I firmly believe that mutual funds are a cost-effective and convenient way for investors to achieve a diversified portfolio. And as we face increasing uncertainty in the world and in the stock markets, this is perhaps more important than ever.

Overall, despite the likelihood of short-term market volatility, I maintain complete faith in the strength of the U. S. economy. I always have believed and continue to believe that the stock market is the best place for long-term investing, and that with a wise investing plan – and a well diversified portfolio – you will be well-positioned to meet your financial goals.

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 six months ended April 30, 2004



**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 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The stock market's continued recovery during the report period was welcome news to long-term investors, especially those of you who had suffered through declining share prices before then.

For years, investors sold stocks and stock mutual funds when the economy was weak or when geopolitical tensions heightened, despite the fact that stock and fund prices often were relatively cheap during those dark hours. Over the past year, however, I've spoken with many individual investors who benefited from sticking with their long-term asset-allocation plans. As a result, they were able to participate in the past year's stock market gains. They learned how difficult it is to successfully "time the market" and determine when to "be in cash." Many have given up this chase altogether and have benefited both financially and emotionally.

Given the ongoing geopolitical situation, however, it's quite understandable that many investors are nervous, and some are again acting more on their emotions than on sound investment principles. When you invest in SchwabFunds®, you can be assured that our portfolio managers understand your concerns and are diligent in their approach to the investment process. Key to this is their knowledge of and adherence to each fund's objective and their vigilant focus on remaining true to it. In short, each of our portfolio manager's responsibility is to remain consistent in implementing their investment strategies, despite the market's fluctuations.

There's one more thing I want to address in this letter and that is, as of July 19, 2004, following a distinguished ten-year career at Schwab, Geri Hom, senior portfolio manager, has decided to retire. Jeff Mortimer, senior vice-president and chief investment officer, equities of Charles Schwab Investment Management, Inc., assumes Geri's responsibilities for overall management of the funds.

I expect these changes to be seamless to our shareholders, as SchwabFunds® has been and will continue to be managed by teams of seasoned professionals, who remain committed to their investing styles. We thank you for your trust in us as we help you reach your long- or short-term financial goals.

Sincerely,

*Randall W. Merk*



**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, which had improved during the second half of 2003, picked up steam at the end of the year and continued to show signs of recovery through the current report period of November 1, 2003 through April 30, 2004. The securities market reflected the positive news through first-quarter 2004. During that time, the market started to bounce around a little, as evidenced by the volatility in the S&P 500® Index in February and March. Toward the end of the report period, in late April, the market fell precipitously and many of the funds' 2004 gains were lost. Nonetheless, its earlier performance was strong enough to push the broader market up 6.27% for the report period, as measured by the S&P 500® Index.

While the economy officially emerged from recession in 2001, the recovery didn't fully materialize until 2003. And it wasn't until late in 2003 when investors started buying companies with good solid fundamentals. During this time, both the manufacturing and services sectors exhibited strong growth. Capital spending showed signs of life amid rising corporate profits.

The economy continued to expand in 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise, despite a mid-quarter pause in the upward trend in consumer confidence, and higher commodity prices were holding. Mortgage refinancing activity, while still significant, started to show signs of waning as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid growth.

On the currency front, the dollar rebounded from its lows, due to two reasons. First, the U. S. economy grew more than most other countries' economies did. The second reason is the expectation that interest rates will rise, which has served to stimulate inflows of foreign capital.

The Federal Reserve (Fed) left interest rates unchanged during the period. Inflation began to accelerate, alleviating Fed fears of possible deflation. Consequent expectations that the Fed would soon begin to raise interest rates weighed on markets toward the end of the period. Nevertheless, economic fundamentals remained sound. With delayed job growth underway, the economy was improving on all fronts. Strong

*With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq.*

personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq. Business profits exhibited another strong quarterly gain and investment in equipment and inventories remained healthy. In sum, it appeared that the economy, indeed, was back on track.

## The Funds

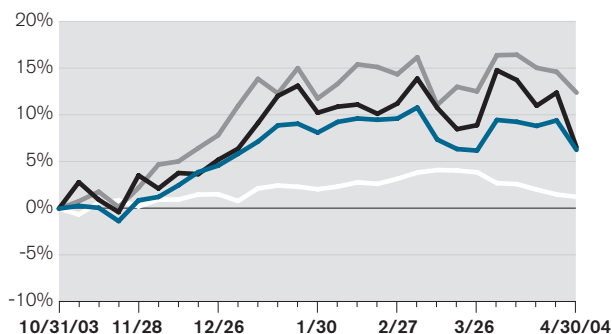
The equities market started off strong at the beginning of the period that ran from November 1, 2003 through April 30, 2004. Toward the middle of first-quarter 2004, however, the market, as evidenced by the S&P 500® Index, became fairly volatile and bounced around until the end of April, when it dropped precipitously, giving up some of its earlier gains. Nonetheless, performance of all of the Equity Index Funds was positive over the report period, closely tracking their benchmarks.

The S&P 500® Index closed at 1107.30, up 6.27% for the period. First-quarter earnings came in very strong. As of the end of April, 410 of the 500 companies in the index had reported earnings, which were an average 8.4% higher than analysts' estimates.

### 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.

- 6.27% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.54% **Russell 2000® Index:** measures U.S. small-cap stocks
- 12.39% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.25% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and you cannot invest in them directly. Remember that past performance is not an indication of future results. Data source: Charles Schwab & Co., Inc.

## Performance at a Glance

Total return for the six months ended 4/30/04

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

### **Schwab S&P 500 Fund**

Investor Shares . . . . .	<b>6.06%</b>
Select Shares . . . . .	<b>6.16%</b>
e.Shares . . . . .	<b>6.13%</b>
Benchmark . . . . .	<b>6.27%</b>

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

### **Schwab 1000 Fund**

Investor Shares . . . . .	<b>5.84%</b>
Select Shares . . . . .	<b>5.89%</b>
Benchmark . . . . .	<b>6.04%</b>

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

### **Schwab Small-Cap Index Fund**

Investor Shares . . . . .	<b>4.07%</b>
Select Shares . . . . .	<b>4.14%</b>
Benchmark . . . . .	<b>4.16%</b>

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

### **Schwab Total Stock Market Index Fund**

Investor Shares . . . . .	<b>6.35%</b>
Select Shares . . . . .	<b>6.41%</b>
Benchmark . . . . .	<b>6.40%</b>

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

### **Schwab International Index Fund**

Investor Shares . . . . .	<b>11.61%</b>
Select Shares . . . . .	<b>11.68%</b>
Benchmark . . . . .	<b>12.06%</b>

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

In terms of performance, the top industry, as measured by the S&P 500® Index, was energy, up 22.44% for the period, due in part to the soaring price of a barrel of oil. Coming in second was telecommunications services, which was up 12.38%, followed by the consumer staples industry, which grew 10.42%. The worst performing industry over the period was information technology, which was down 3.96%.

**The Schwab S&P 500 Fund** was up 6.06% for the period, closely tracking the S&P 500® Index. While small cap led the way up until April, “bigger became better,” as small-cap stocks’ edge was replaced by large-cap stocks. The best performing sector was energy, which was up 22.44% for the period. The worst performing sector was information technology, down 3.96%

**The Schwab 1000 Fund** was up 5.84%, closely tracking its benchmark, the Schwab 1000 Index®. The best performing sector was energy, which was up 22.44% for the report period. The weakest sector was information technology, which was down 3.96%.

**The Schwab Small-Cap Index Fund** was up 4.07% for the period, closely tracking its benchmark, the Schwab Small-Cap Index®. Small-cap stocks were in favor for most of the period, but lost much of their first-quarter sheen in April, when the market started to favor larger-cap stocks. The top performing sector was energy, which was up 34.57% for the period. Within the sector, crude-oil producers returned the most. Conversely, the weakest sector was telecommunications services, which was down 22.65%. Because the fund was underweight, however, it negatively impacted returns by only 0.22%.

**Schwab Total Stock Market Index Fund** was up 6.35%, closely tracking its benchmark, the Wilshire 5000 Total Market Index. The fund benefited from its exposure to small-cap stocks, which led the market for most of the report period. The best performing sector was energy, followed by health care and telecommunications.

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

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

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

**The Schwab International Index Fund** closely tracked its benchmark, the Schwab International Index®. All countries in the index contributed positively to results, with Sweden, Spain and Italy being the strongest performers. The sectors of strength included energy, which was up 20.05%, and the utilities sector, which was up 18.05%. The weakest sectors, information technology, up 6.84%, and materials, up 6.64%, were still in positive territory for the period.

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



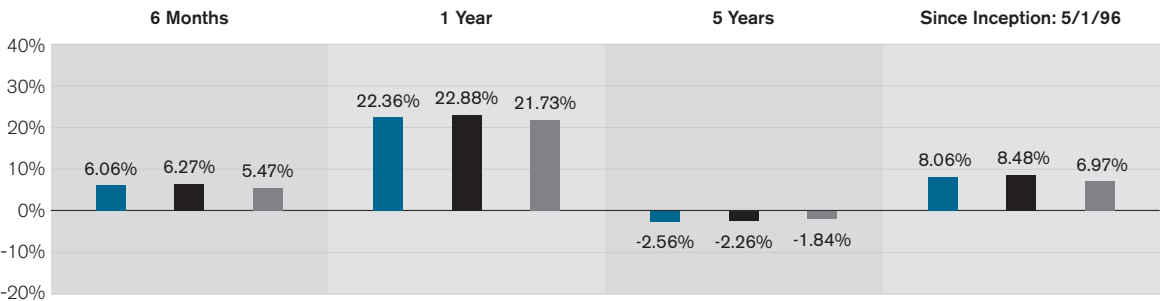
# Schwab S&P 500 Fund

## Investor Shares Performance as of 4/30/04

### 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**



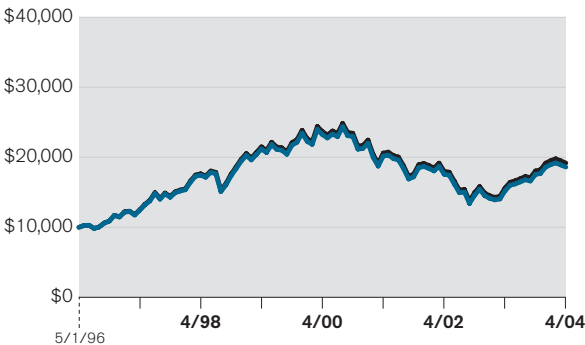
Total Returns After Tax	6 Months	1 Year	5 Years	Since Inception
Pre-Liquidation (still own shares)	5.86%	22.13%	-2.92%	7.68%
Post-Liquidation (shares were sold)	4.19%	14.83%	-2.35%	6.85%

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

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

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

- \$18,601 **Investor Shares**
- \$19,187 **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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

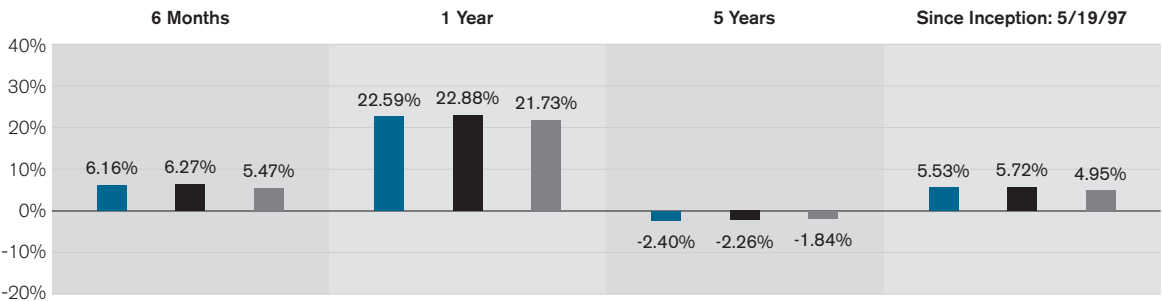
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares Performance as of 4/30/4

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**



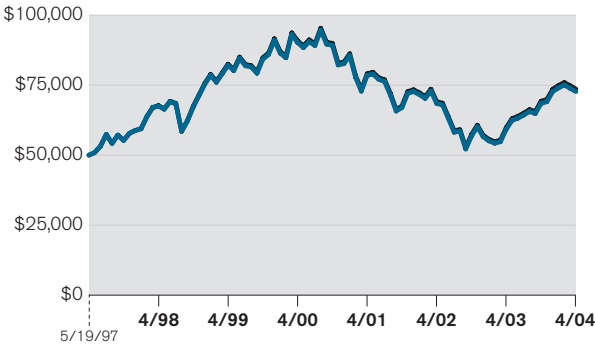
Total Returns After Tax	6 Months	1 Year	5 Years	Since Inception
Pre-Liquidation (still own shares)	5.94%	22.34%	-2.81%	5.09%
Post-Liquidation (shares were sold)	4.28%	15.01%	-2.25%	4.54%

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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.

- \$72,695 **Select Shares**
- \$73,627 **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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

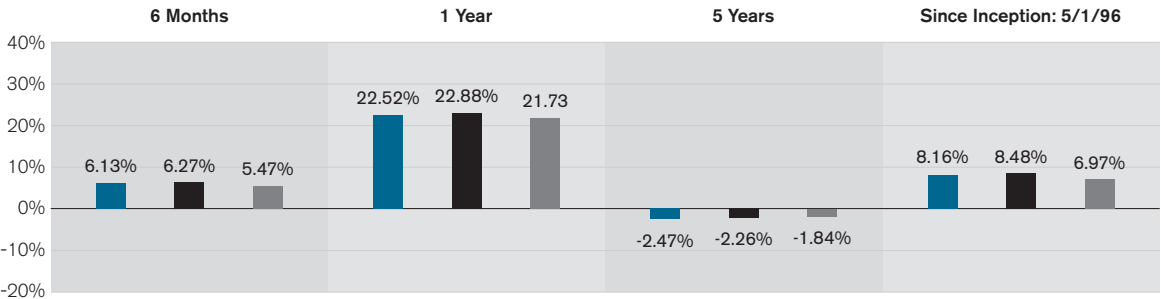
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

e.Shares Performance as of 4/30/04

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**



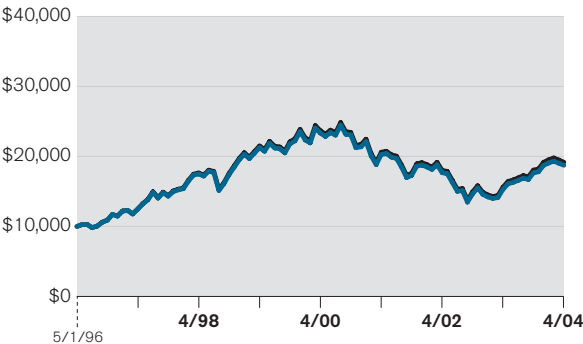
Total Returns After Tax	6 Months		1 Year		5 Years		Since Inception	
Pre-Liquidation (still own shares)	5.91%	3.29%	22.27%	19.51%	-2.87%	-2.94%	7.74%	n/a
Post-Liquidation (shares were sold)	4.25%	2.29%	14.95%	12.89%	-2.30%	-2.05%	6.92%	n/a

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

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

- \$18,738 **e.Shares**
- \$19,187 **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 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

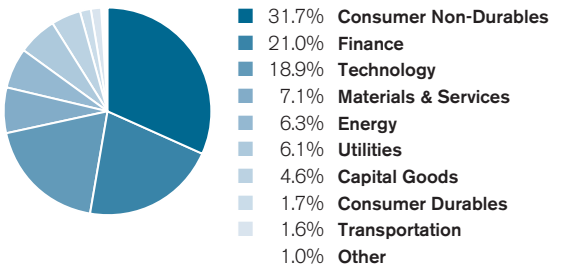
Number of Holdings	501
Weighted Average Market Cap (\$ x 1,000,000)	\$89,407
Price/Earnings Ratio (P/E)	20.4
Price/Book Ratio (P/B)	3.1
Portfolio Turnover Rate <sup>2</sup>	2%

Top Holdings<sup>3</sup>

Security	% of Net Assets
1 General Electric Co.	3.0%
2 Microsoft Corp.	2.7%
3 Exxon Mobil Corp.	2.7%
4 Pfizer, Inc.	2.6%
5 Citigroup, Inc.	2.4%
6 Wal-Mart Stores, Inc.	2.4%
7 American International Group, Inc.	1.8%
8 Intel Corp.	1.6%
9 Bank of America Corp.	1.6%
10 Johnson & Johnson	1.6%
Total	22.4%

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.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

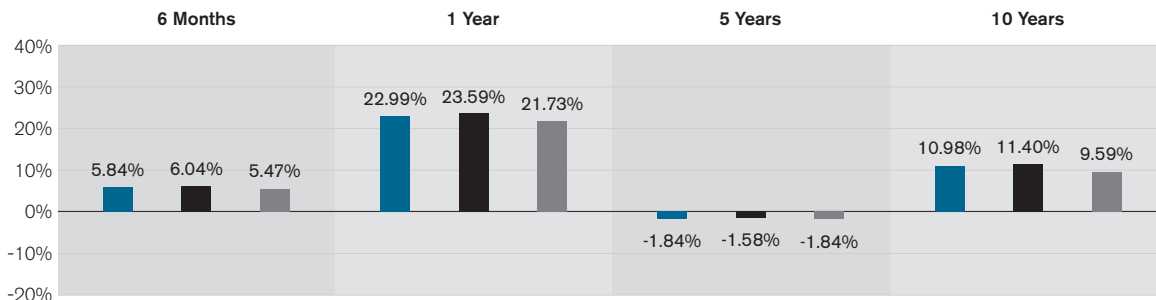
# Schwab 1000 Fund

## Investor Shares Performance as of 4/30/04

### 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®**  
 ■ Fund Category: **Morningstar Large-Cap Blend**



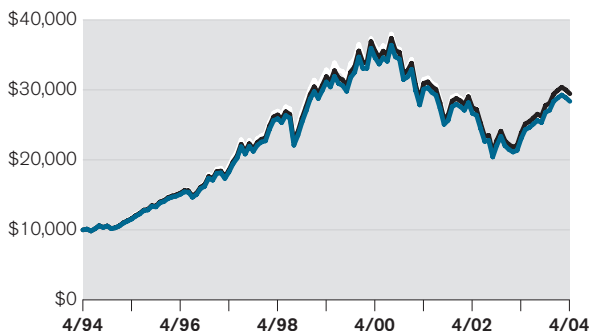
Total Returns After Tax	6 Months	1 Year	5 Years	10 Years
<b>Pre-Liquidation</b> (still own shares)	5.66%	22.79%	-2.14%	10.53%
<b>Post-Liquidation</b> (shares were sold)	4.02%	15.21%	-1.72%	9.53%

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

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

■ \$28,363 **Investor Shares**  
 ■ \$29,450 **Schwab 1000 Index®**  
 □ \$29,325 **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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

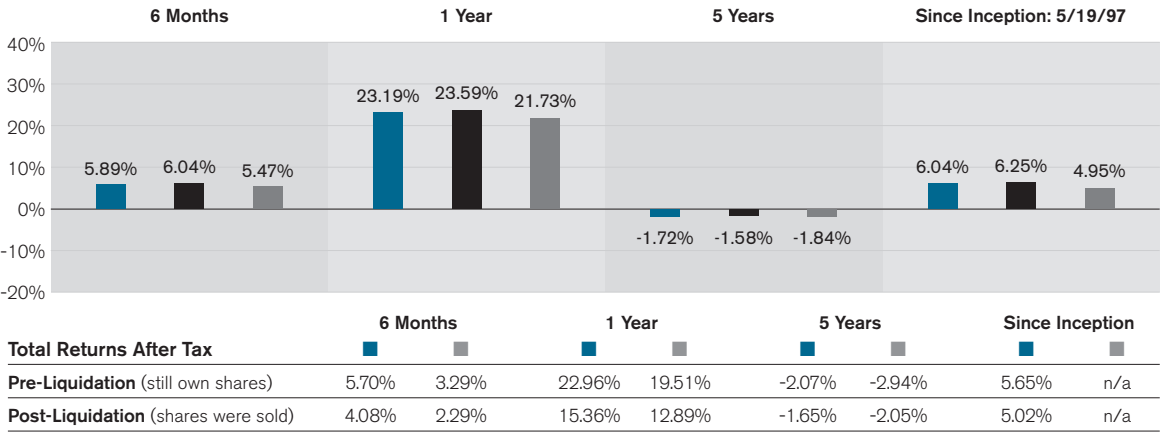
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares Performance as of 4/30/04

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.

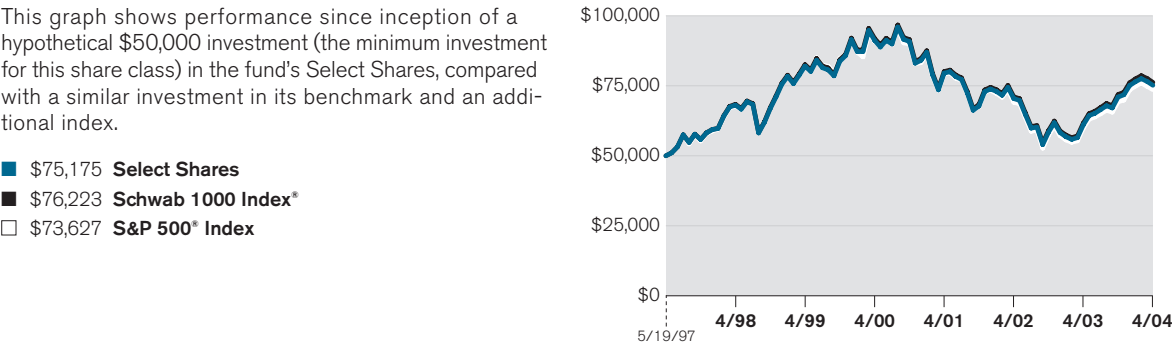
■ Fund: **Select Shares**  
■ Benchmark: **Schwab 1000 Index®**  
■ Fund Category: **Morningstar Large-Cap Blend**



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

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

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



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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

## Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>

## Statistics

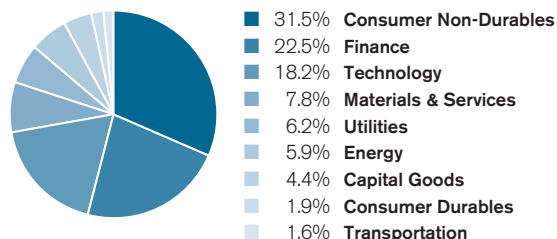
Number of Holdings	996
Weighted Average Market Cap (\$ x 1,000,000)	\$79,389
Price/Earnings Ratio (P/E)	21.0
Price/Book Ratio (P/B)	2.9
Portfolio Turnover Rate <sup>2</sup>	3%

Top Holdings<sup>3</sup>

Security	% of Net Assets
① General Electric Co.	2.6%
② Microsoft Corp.	2.4%
③ Exxon Mobil Corp.	2.4%
④ Pfizer, Inc.	2.3%
⑤ Citigroup, Inc.	2.1%
⑥ Wal-Mart Stores, Inc.	2.1%
⑦ American International Group, Inc.	1.6%
⑧ Intel Corp.	1.4%
⑨ Bank of America Corp.	1.4%
⑩ Johnson & Johnson	1.4%
<b>Total</b>	<b>19.7%</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.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

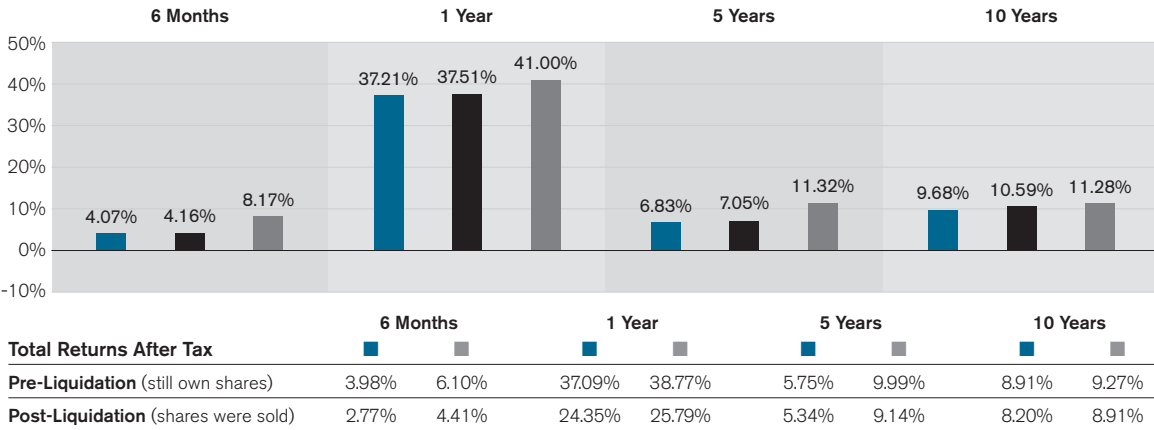
# Schwab Small-Cap Index Fund

## Investor Shares Performance as of 4/30/04

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

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

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

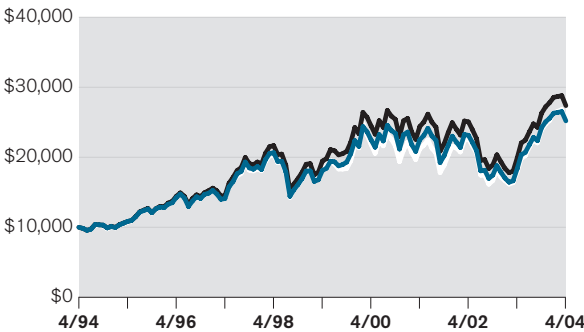


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### Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

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

- \$25,200 **Investor Shares**
- \$27,376 **Schwab Small-Cap Index®**
- \$25,458 **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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 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.



Select Shares Performance as of 4/30/04

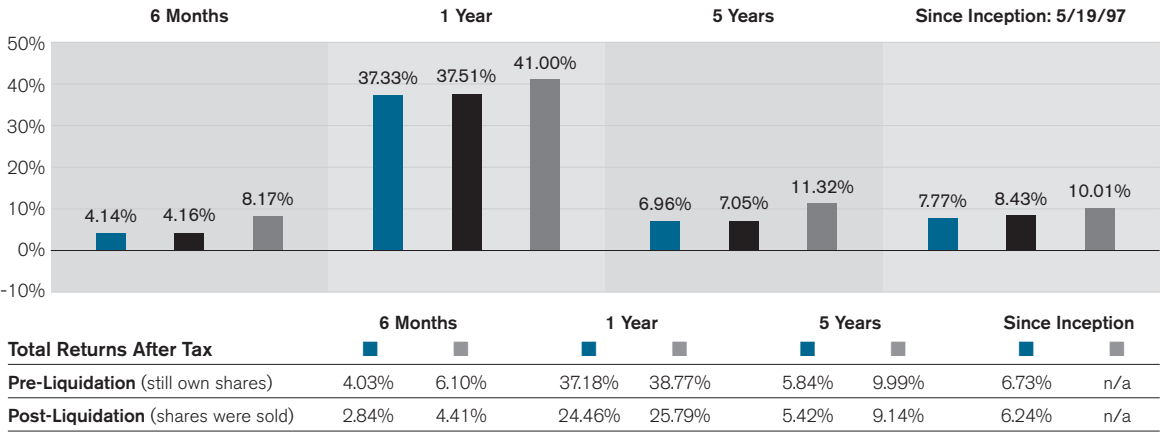
Pre- and Post-Tax Average Annual Total Returns<sup>1, 2</sup>

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**



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

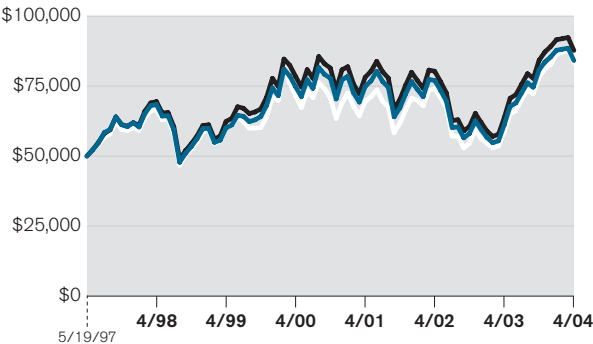
Performance of a Hypothetical \$50,000 Investment<sup>2</sup>

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

- \$84,120 **Select Shares**

\$87,745 **Schwab Small-Cap Index®**

\$83,427 **Russell 2000® 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 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

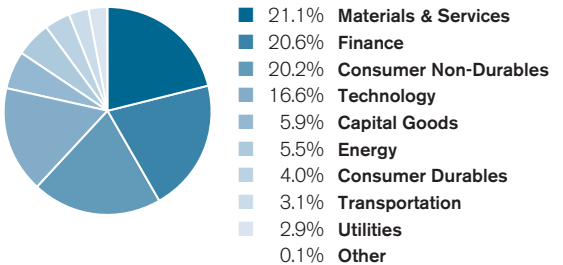
Number of Holdings	996
Weighted Average Market Cap (\$ x 1,000,000)	\$823
Price/Earnings Ratio (P/E)	48.9
Price/Book Ratio (P/B)	2.1
Portfolio Turnover Rate <sup>2</sup>	36%

Top Holdings<sup>3</sup>

Security	% of Net Assets
1 UnitedGlobalCom, Inc., Class A	0.4%
2 MGI Pharma, Inc.	0.3%
3 United Defense Industries, Inc.	0.3%
4 Onyx Pharmaceuticals, Inc.	0.2%
5 Pediatrix Medical Group, Inc.	0.2%
6 Ask Jeeves, Inc.	0.2%
7 Hughes Supply, Inc.	0.2%
8 Resmed, Inc.	0.2%
9 Tularik, Inc.	0.2%
10 Cathay Bancorp., Inc.	0.2%
Total	2.4%

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.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

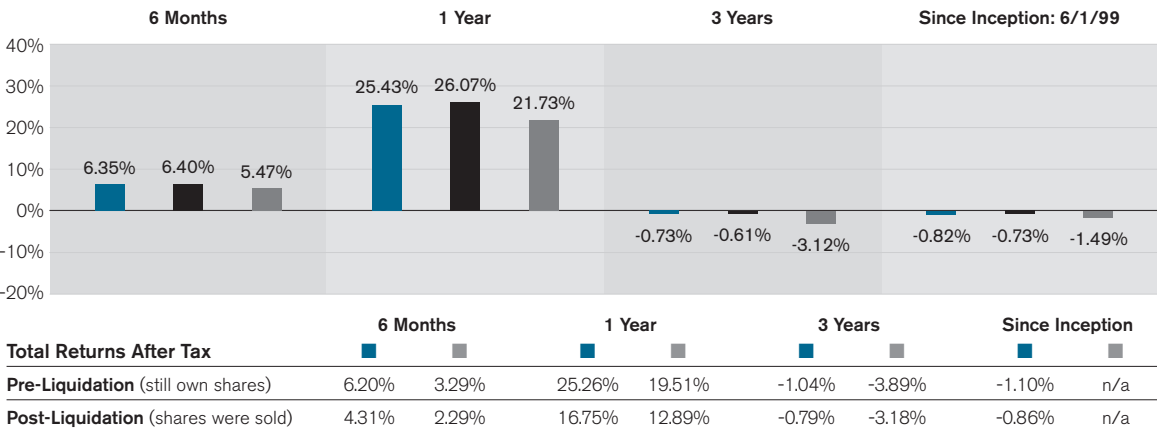
# Schwab Total Stock Market Index Fund

## Investor Shares Performance as of 4/30/04

### 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**

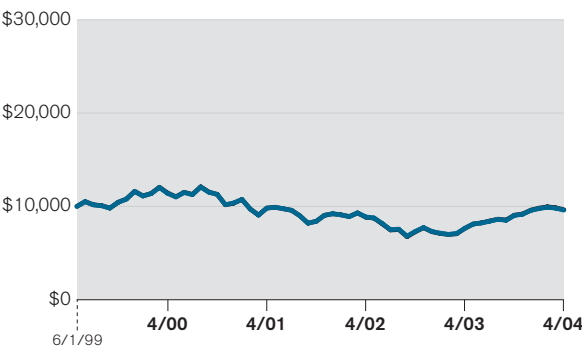


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### Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

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

- \$9,603 **Investor Shares**
- \$9,644 **Wilshire 5000 Total Market 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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

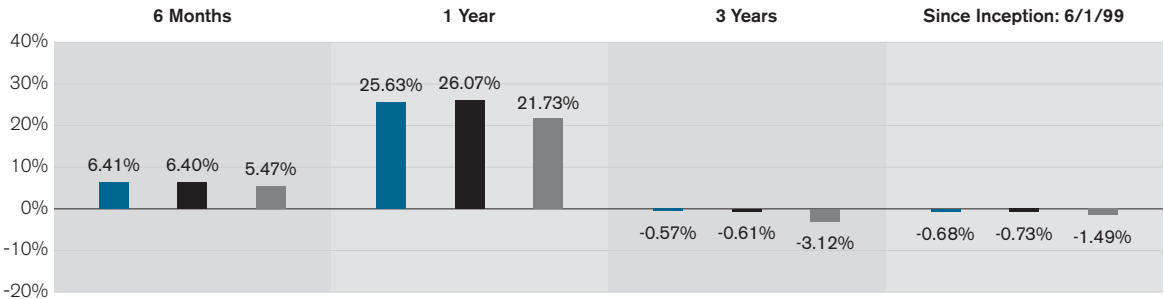
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares Performance as of 4/30/04

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**



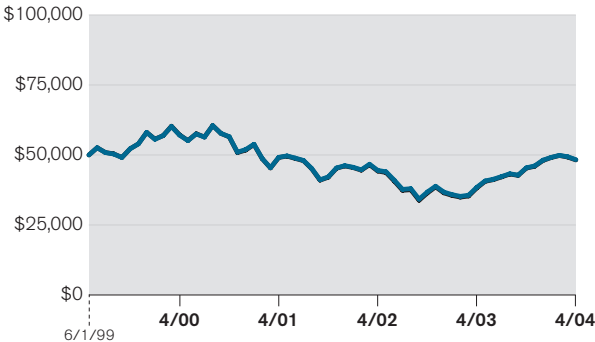
Total Returns After Tax	6 Months		1 Year		3 Years		Since Inception	
Pre-Liquidation (still own shares)	6.24%	3.29%	25.43%	19.51%	-0.92%	-3.89%	-1.00%	n/a
Post-Liquidation (shares were sold)	4.37%	2.29%	16.90%	12.89%	-0.68%	-3.18%	-0.76%	n/a

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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.

- \$48,345 **Select Shares**
- \$48,221 **Wilshire 5000 Total Market 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 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

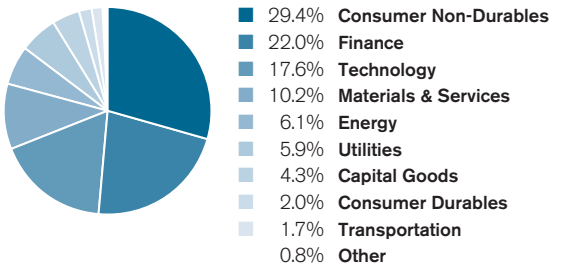
Number of Holdings	3,088
Weighted Average Market Cap (\$ x 1,000,000)	\$70,892
Price/Earnings Ratio (P/E)	21.4
Price/Book Ratio (P/B)	2.8
Portfolio Turnover Rate <sup>2</sup>	0%

Top Holdings<sup>3</sup>

Security	% of Net Assets
1 General Electric Co.	2.3%
2 Microsoft Corp.	2.1%
3 Exxon Mobil Corp.	2.1%
4 Pfizer, Inc.	2.0%
5 Citigroup, Inc.	1.9%
6 Wal-Mart Stores, Inc.	1.8%
7 American International Group, Inc.	1.4%
8 Intel Corp.	1.2%
9 Bank of America Corp.	1.2%
10 Johnson & Johnson	1.2%
Total	17.2%

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 holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Rounded to the nearest whole number. Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

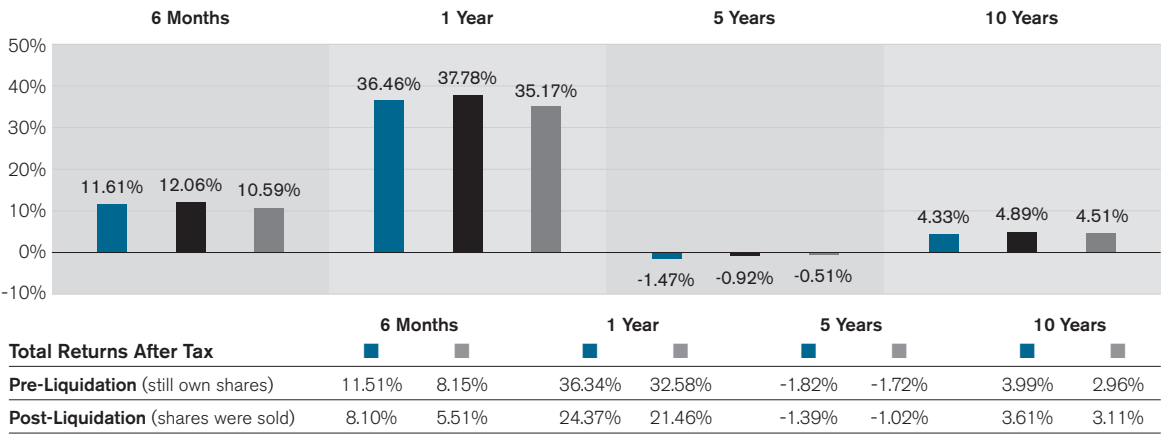
# Schwab International Index Fund

## Investor Shares Performance as of 4/30/04

### 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<sup>®</sup>**
- Fund Category: **Morningstar Foreign Large-Cap Blend**

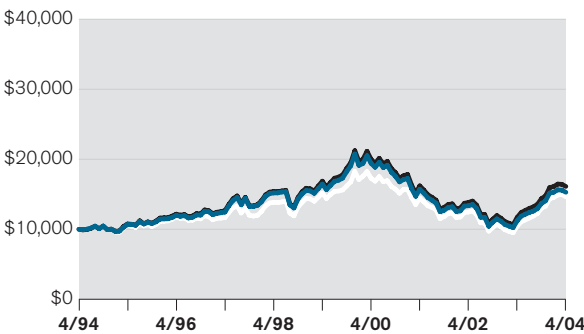


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### Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

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

- \$15,286 **Investor Shares**
- \$16,118 **Schwab International Index<sup>®</sup>**
- \$14,635 **MSCI-EAFE<sup>®</sup> 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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

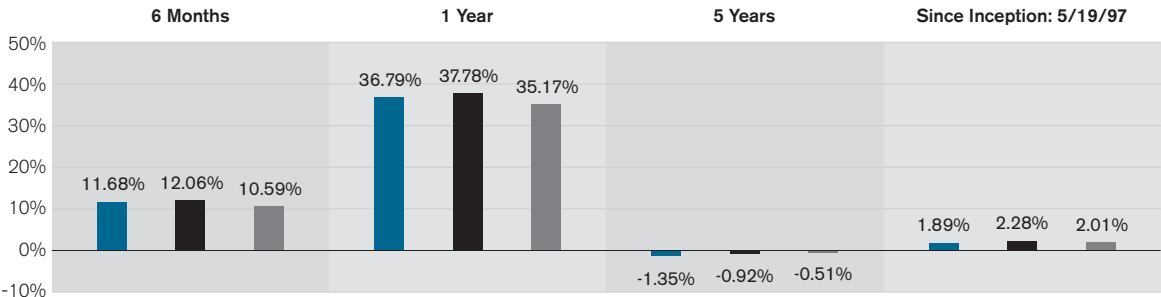
<sup>2</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower.

Select Shares Performance as of 4/30/04

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<sup>®</sup>**
- Fund Category: **Morningstar Foreign Large-Cap Blend**



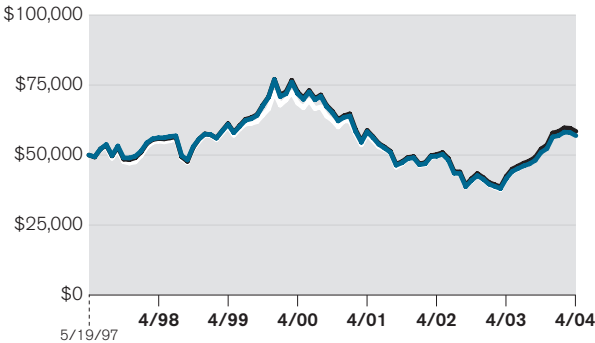
Total Returns After Tax	6 Months		1 Year		5 Years		Since Inception	
Pre-Liquidation (still own shares)	11.56%	8.15%	36.63%	32.58%	-1.75%	-1.72%	1.50%	n/a
Post-Liquidation (shares were sold)	8.17%	5.51%	24.62%	21.46%	-1.32%	-1.02%	1.43%	n/a

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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.

- \$56,935 **Select Shares**
- \$58,470 **Schwab International Index<sup>®</sup>**
- \$58,034 **MSCI-EAFE<sup>®</sup> 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 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc. Some funds in this category may not use tax-efficient strategies.

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

## Fund Facts as of 4/30/04

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

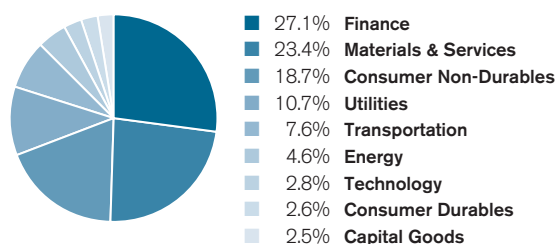
Security	% of Net Assets
① BP PLC	3.1%
② Vodafone Group PLC	2.7%
③ HSBC Holdings PLC	2.5%
④ GlaxoSmithKline PLC	2.0%
⑤ Total Fina Elf SA	1.9%
⑥ Novartis AG, Registered	1.7%
⑦ Nestle SA, Registered	1.6%
⑧ Royal Dutch Petroleum Co.	1.6%
⑨ Toyota Motor Corp.	1.6%
⑩ Royal Bank of Scotland Group PLC	1.3%
<b>Total</b>	<b>20.0%</b>

## Statistics

<b>Number of Holdings</b>	359
<b>Weighted Average Market Cap (\$ x 1,000,000)</b>	\$52,737
<b>Price/Earnings Ratio (P/E)</b>	22.8
<b>Price/Book Ratio (P/B)</b>	2.1
<b>Portfolio Turnover Rate<sup>3</sup></b>	1%

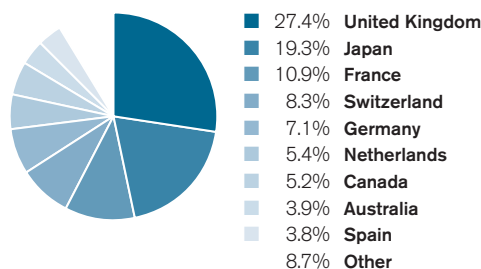
## Sector Weightings % of Portfolio

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.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

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

<sup>3</sup> Not annualized.



# Schwab S&P 500 Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	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	16.36	13.79	16.45	22.15	21.17	17.05
Income or loss from investment operations:						
Net investment income	0.11	0.20	0.20	0.17	0.17	0.17
Net realized and unrealized gains or losses	0.87	2.57	(2.68)	(5.70)	1.06	4.10
Total income or loss from investment operations	0.98	2.77	(2.48)	(5.53)	1.23	4.27
Less distributions:						
Dividends from net investment income	(0.21)	(0.20)	(0.18)	(0.17)	(0.18)	(0.15)
Distributions from net realized gains	–	–	–	–	(0.07)	–
Total distributions	(0.21)	(0.20)	(0.18)	(0.17)	(0.25)	(0.15)
Net asset value at end of period	17.13	16.36	13.79	16.45	22.15	21.17
Total return (%)	6.06 <sup>1</sup>	20.39	(15.32)	(25.11)	5.81	25.20
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.37 <sup>2</sup>	0.36	0.35	0.35	0.36 <sup>3</sup>	0.35
Gross operating expenses	0.45 <sup>2</sup>	0.46	0.46	0.46	0.52	0.62
Net investment income	1.31 <sup>2</sup>	1.45	1.21	0.95	0.81	1.01
Portfolio turnover rate	2 <sup>1</sup>	3	8	4	9	3
Net assets, end of period (\$ x 1,000,000)	3,800	3,510	2,760	3,070	3,617	3,183

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

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

## Financial Highlights

Select Shares	11/1/03– 4/30/04*	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	16.41	13.83	16.50	22.21	21.23	17.09
Income or loss from investment operations:						
Net investment income	0.12	0.24	0.22	0.20	0.20	0.20
Net realized and unrealized gains or losses	0.88	2.57	(2.69)	(5.71)	1.06	4.12
Total income or loss from investment operations	1.00	2.81	(2.47)	(5.51)	1.26	4.32
Less distributions:						
Dividends from net investment income	(0.23)	(0.23)	(0.20)	(0.20)	(0.21)	(0.18)
Distributions from net realized gains	—	—	—	—	(0.07)	—
Total distributions	(0.23)	(0.23)	(0.20)	(0.20)	(0.28)	(0.18)
Net asset value at end of period	17.18	16.41	13.83	16.50	22.21	21.23
Total return (%)	6.16 <sup>1</sup>	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 <sup>2</sup>	0.19	0.19	0.19	0.20 <sup>3</sup>	0.19
Gross operating expenses	0.30 <sup>2</sup>	0.31	0.31	0.31	0.36	0.47
Net investment income	1.49 <sup>2</sup>	1.63	1.37	1.11	0.98	1.17
Portfolio turnover rate	2 <sup>1</sup>	3	8	4	9	3
Net assets, end of period (\$ x 1,000,000)	4,018	3,692	3,029	3,563	4,357	3,750

\* Unaudited.

<sup>1</sup> Not annualized.<sup>2</sup> Annualized.<sup>3</sup> The ratio of net operating expenses would have been 0.19% if certain non-routine expenses (proxy fees) had not been included.

e.Shares	11/1/03– 4/30/04*	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	16.37	13.79	16.46	22.17	21.21	17.08
Income or loss from investment operations:						
Net investment income	0.12	0.23	0.23	0.20	0.20	0.20
Net realized and unrealized gains or losses	0.87	2.56	(2.71)	(5.71)	1.04	4.09
Total income or loss from investment operations	0.99	2.79	(2.48)	(5.51)	1.24	4.29
Less distributions:						
Dividends from net investment income	(0.22)	(0.21)	(0.19)	(0.20)	(0.21)	(0.16)
Distributions from net realized gains	—	—	—	—	(0.07)	—
Total distributions	(0.22)	(0.21)	(0.19)	(0.20)	(0.28)	(0.16)
Net asset value at end of period	17.14	16.37	13.79	16.46	22.17	21.21
Total return (%)	6.13 <sup>1</sup>	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 <sup>2</sup>	0.28	0.28	0.28	0.29 <sup>3</sup>	0.28
Gross operating expenses	0.30 <sup>2</sup>	0.31	0.31	0.31	0.36	0.48
Net investment income	1.40 <sup>2</sup>	1.54	1.28	1.02	0.88	1.08
Portfolio turnover rate	2 <sup>1</sup>	3	8	4	9	3
Net assets, end of period (\$ x 1,000,000)	254	246	220	304	441	435

\* Unaudited.

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

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>99.8% Common Stock</b>	7,378,765	8,052,162
<b>0.1% Short-Term Investment</b>	7,073	7,073
<b>0.0% U.S. Treasury Obligations</b>	844	844
<b>99.9% Total Investments</b>	<b>7,386,682</b>	<b>8,060,079</b>
<b>8.2% Collateral Invested for Securities on Loan</b>	663,201	663,201
<b>(8.1)% Other Assets and Liabilities, Net</b>		(652,365)
<b>100.0% Total Net Assets</b>		<b>8,070,915</b>

Security and Number of Shares

Value  
(\$ x 1,000)

**Common Stock** 99.8% of net assets**Aerospace / Defense 1.7%**

The Boeing Co.	661,222	28,227
Crane Co.	44,919	1,384
General Dynamics Corp.	156,982	14,697
Goodrich Corp.	92,739	2,670
Lockheed Martin Corp.	352,596	16,819
Northrop Grumman Corp.	145,372	14,427
Raytheon Co.	323,772	10,445
Rockwell Automation, Inc.	147,698	4,828
Rockwell Collins, Inc.	139,398	4,496
Textron, Inc.	108,629	5,994
United Technologies Corp.	401,913	34,669
		<b>138,656</b>

Security and Number of Shares

Value  
(\$ x 1,000)

**Air Transportation 1.1%**

Delta Air Lines, Inc.	94,113	585
FedEx Corp.	232,042	16,686
Sabre Holdings Corp.	110,153	2,599
Southwest Airlines Co.	614,218	8,771
United Parcel Service, Inc., Class B	880,769	61,786
		<b>90,427</b>

**Alcoholic Beverages 0.5%**

Adolph Coors Co., Class B	28,531	1,875
Anheuser-Busch Cos., Inc.	636,634	32,621
Brown-Forman Corp., Class B	95,468	4,474
		<b>38,970</b>

**Apparel 0.3%**

Jones Apparel Group, Inc.	100,343	3,673
Liz Claiborne, Inc.	83,728	2,939
Nike, Inc., Class B	207,117	14,902
Reebok International Ltd.	47,859	1,741
VF Corp.	84,078	3,881
		<b>27,136</b>

**Automotive Products / Motor Vehicles 1.2%**

Cooper Tire & Rubber Co.	56,866	1,216
Cummins, Inc.	33,451	2,001
Dana Corp.	115,009	2,318
Danaher Corp.	121,589	11,249
Delphi Corp.	433,000	4,417
Eaton' Corp.	118,896	7,060
Ford Motor Co.	1,430,712	21,976
General Motors Corp.	437,828	20,762
Genuine Parts Co.	136,090	4,872
Goodyear Tire & Rubber Co.	135,681	1,182
Harley-Davidson, Inc.	236,933	13,344
• Navistar International Corp.	54,800	2,474
Visteon Corp.	99,156	1,077
		<b>93,948</b>

**Banks 7.4%**

AmSouth Bancorp.	275,065	6,057
⑨ Bank of America Corp.	1,598,036	128,626
The Bank of New York Co., Inc.	606,514	17,674

Security and Number of Shares	Value (\$ x 1,000)
Bank One Corp. 874,615	43,180
BB&T Corp. 429,459	14,812
Comerica, Inc. 137,259	7,087
Fifth Third Bancorp 440,705	23,648
First Horizon National Corp. 96,900	4,260
Huntington Bancshares, Inc. 179,750	3,847
J.P. Morgan Chase & Co. 1,608,324	60,473
KeyCorp, Inc. 329,765	9,794
M&T Bank Corp. 93,704	7,965
Marshall & Ilsley Corp. 177,996	6,545
Mellon Financial Corp. 335,413	9,941
National City Corp. 475,473	16,485
North Fork Bancorp., Inc. 119,300	4,428
Northern Trust Corp. 171,112	7,234
PNC Financial Services Group, Inc. 215,427	11,439
Regions Financial Corp. 174,436	6,055
SouthTrust Corp. 259,207	8,056
State Street Corp. 264,511	12,908
SunTrust Banks, Inc. 222,349	15,131
Synovus Financial Corp. 235,632	5,624
U.S. Bancorp 1,504,491	38,575
Union Planters Corp. 149,052	4,143
Wachovia Corp. 1,027,321	47,000
Wells Fargo & Co. 1,321,957	74,638
Zions Bancorp. 70,147	3,965
	<b>599,590</b>

#### Business Machines & Software 8.8%

Adobe Systems, Inc. 187,789	7,763
• Apple Computer, Inc. 288,676	7,428
Autodesk, Inc. 87,954	2,946
• BMC Software, Inc. 176,808	3,059
• Cisco Systems, Inc. 5,375,783	112,193
• Compuware Corp. 296,522	2,268
• Comverse Technology, Inc. 148,815	2,435
• Dell, Inc. 2,000,832	69,449
• EMC Corp. 1,895,155	21,150
• Gateway, Inc. 290,537	1,400
Hewlett-Packard Co. 2,383,978	46,964

Security and Number of Shares	Value (\$ x 1,000)
International Business Machines Corp. 1,328,593	117,142
• Lexmark International, Inc., Class A 100,530	9,094
▲② Microsoft Corp. 8,439,190	219,166
• NCR Corp. 73,899	3,303
• Network Appliance, Inc. 270,447	5,036
• Novell, Inc. 291,365	2,809
• Oracle Corp. 4,090,649	45,897
Pitney Bowes, Inc. 183,015	8,007
• Siebel Systems, Inc. 384,366	3,951
• Sun Microsystems, Inc. 2,575,758	10,045
• Unisys Corp. 260,027	3,388
• Xerox Corp. 625,160	8,396
	<b>713,289</b>

#### Business Services 4.3%

• Affiliated Computer Services, Inc., Class A 106,375	5,159
• Allied Waste Industries, Inc. 247,115	3,111
• Apollo Group, Inc., Class A 136,300	12,387
Automatic Data Processing, Inc. 463,682	20,314
• Cendant Corp. 787,454	18,647
• Cintas Corp. 134,305	6,038
• Citrix Systems, Inc. 130,566	2,487
Computer Associates International, Inc. 456,066	12,227
• Computer Sciences Corp. 146,718	6,002
• Convergys Corp. 110,751	1,608
Deluxe Corp. 38,466	1,589
• eBay, Inc. 505,070	40,315
Electronic Data Systems Corp. 376,521	6,886
Equifax, Inc. 107,607	2,637
First Data Corp. 693,388	31,473
• Fiserv, Inc. 152,764	5,585
H&R Block, Inc. 138,187	6,234
IMS Health, Inc. 187,907	4,745
• Interpublic Group of Cos., Inc. 325,157	5,102
• Intuit, Inc. 157,279	6,680
• Mercury Interactive Corp. 70,943	3,019
• Monster Worldwide, Inc. 87,965	2,253
Omnicom Group, Inc. 147,364	11,717

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
• Parametric Technology Corp. 206,030	944
Paychex, Inc. 297,062	11,074
• PeopleSoft, Inc. 284,601	4,804
• Robert Half International, Inc. 132,524	3,614
• Sungard Data Systems, Inc. 222,305	5,795
• Symantec Corp. 245,302	11,051
Tyco International Ltd. 1,562,900	42,902
• Veritas Software Corp. 332,242	8,861
Waste Management, Inc. 450,805	12,803
• Yahoo!, Inc. 519,229	26,200
	<b>344,263</b>

**Chemicals 1.4%**

Air Products & Chemicals, Inc. 179,301	8,931
Dow Chemical Co. 727,450	28,872
E.I. du Pont de Nemours & Co. 781,438	33,563
Eastman Chemical Co. 59,183	2,519
Ecolab, Inc. 198,798	5,924
Great Lakes Chemical Corp. 38,937	978
• Hercules, Inc. 82,003	911
• Monsanto Co. 209,498	7,246
PPG Industries, Inc. 132,163	7,839
Praxair, Inc. 253,588	9,269
Rohm & Haas Co. 174,959	6,785
Sigma-Aldrich Corp. 54,726	3,100
	<b>115,937</b>

**Construction 0.4%**

Centex Corp. 97,736	4,686
Fluor Corp. 64,302	2,454
KB Home 36,866	2,541
Masco Corp. 352,973	9,887
Pulte Homes, Inc. 97,150	4,777
The Sherwin-Williams Co. 114,364	4,352
The Stanley Works 65,640	2,790
Vulcan Materials Co. 78,918	3,649
	<b>35,136</b>

**Consumer Durables 0.2%**

Black & Decker Corp. 62,086	3,592
Leggett & Platt, Inc. 150,312	3,397

Security and Number of Shares	Value (\$ x 1,000)
Maytag Corp. 61,971	1,729
Newell Rubbermaid, Inc. 213,537	5,048
Whirlpool Corp. 53,431	3,500
	<b>17,266</b>

**Containers 0.1%**

Ball Corp. 44,056	2,908
Bemis Co. 81,458	2,200
• Pactiv Corp. 122,064	2,801
• Sealed Air Corp. 65,771	3,228
	<b>11,137</b>

**Electronics 5.4%**

• ADC Telecommunications, Inc. 632,138	1,580
• Advanced Micro Devices, Inc. 272,013	3,868
• Agilent Technologies, Inc. 370,875	10,017
• Altera Corp. 294,881	5,901
American Power Conversion Corp. 153,555	2,865
Analog Devices, Inc. 291,783	12,430
• Andrew Corp. 120,024	2,034
• Applied Materials, Inc. 1,317,642	24,021
• Applied Micro Circuits Corp. 238,073	1,050
• Broadcom Corp., Class A 237,433	8,966
• CIENA Corp. 365,772	1,514
⑧ Intel Corp. 5,071,605	130,492
ITT Industries, Inc. 72,010	5,710
• Jabil Circuit, Inc. 157,319	4,152
• JDS Uniphase Corp. 1,107,285	3,366
• KLA-Tencor Corp. 155,010	6,459
Linear Technology Corp. 243,108	8,662
• LSI Logic Corp. 293,990	2,187
• Lucent Technologies, Inc. 3,338,204	11,250
Maxim Integrated Products, Inc. 256,749	11,808
• Micron Technology, Inc. 477,135	6,499
Molex, Inc. 146,907	4,375
Motorola, Inc. 1,834,252	33,475
• National Semiconductor Corp. 139,054	5,672
• Novellus Systems, Inc. 119,539	3,462
• Nvidia Corp. 125,865	2,585
PerkinElmer, Inc. 97,208	1,871

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•PMC – Sierra, Inc. 133,386	1,621	General Mills, Inc. 295,030	14,383
•Power-One, Inc. 62,573	538	H.J. Heinz Co. 274,171	10,471
•QLogic Corp. 74,738	2,017	Hershey Foods Corp. 101,553	9,027
Qualcomm, Inc. 629,918	39,345	Kellogg Co. 322,527	13,836
•Sanmina – SCI Corp. 406,629	4,074	McCormick & Co., Inc. 106,601	3,641
Scientific – Atlanta, Inc. 117,199	3,796	The Pepsi Bottling Group, Inc. 205,842	6,025
•Solelectron Corp. 648,709	3,179	PepsiCo, Inc. 1,336,294	72,815
Symbol Technologies, Inc. 178,827	2,146	Sara Lee Corp. 617,438	14,250
Tektronix, Inc. 65,499	1,939	Supervalu, Inc. 102,901	3,168
•Tellabs, Inc. 322,453	2,815	Sysco Corp. 505,610	19,340
•Teradyne, Inc. 148,524	3,027	Wm. Wrigley Jr. Co. 174,311	10,755
Texas Instruments, Inc. 1,355,447	34,022		<b>313,985</b>
•Thermo Electron Corp. 127,063	3,710		
•Thomas & Betts Corp. 44,556	1,071		
•Waters Corp. 96,300	4,155		
•Xilinx, Inc. 270,166	9,086		
	<b>432,812</b>		
<b>Energy: Raw Materials 1.6%</b>		<b>Gold 0.2%</b>	
Anadarko Petroleum Corp. 195,717	10,486	Newmont Mining Corp. 338,551	<b>12,662</b>
Apache Corp. 252,380	10,567		
Baker Hughes, Inc. 264,086	9,687	<b>Healthcare / Drugs &amp; Medicine 13.5%</b>	
•BJ Services Co. 123,400	5,491	Abbott Laboratories 1,221,333	53,763
Burlington Resources, Inc. 154,522	10,395	Allergan, Inc. 102,596	9,034
Devon Energy Corp. 182,337	11,159	AmerisourceBergen Corp. 89,453	5,178
EOG Resources, Inc. 90,133	4,439	•Amgen, Inc. 1,006,839	56,655
Halliburton Co. 344,508	10,266	•Anthem, Inc. 108,740	9,632
•Noble Corp. 103,457	3,844	Applied Biosystems Group –	
Occidental Petroleum Corp. 302,110	14,260	Applera Corp. 161,833	3,005
•Rowan Cos., Inc. 80,970	1,806	Bausch & Lomb, Inc. 39,537	2,484
Schlumberger Ltd. 459,787	26,911	Baxter International, Inc. 475,802	15,059
Valero Energy Corp. 99,400	6,338	Becton Dickinson & Co. 198,976	10,058
	<b>125,649</b>	•Biogen Idec, Inc. 255,518	15,076
		Biomet, Inc. 201,056	7,942
		•Boston Scientific Corp. 641,532	26,425
		Bristol-Myers Squibb Co. 1,521,108	38,180
		C.R. Bard, Inc. 41,129	4,371
		Cardinal Health, Inc. 340,774	24,962
		•Caremark Rx, Inc. 349,244	11,822
		•Chiron Corp. 146,078	6,778
		Eli Lilly & Co. 877,927	64,800
		•Express Scripts, Inc. 60,000	4,640
		•Forest Laboratories, Inc. 287,240	18,521
		•Genzyme Corp. 177,186	7,718
		Guidant Corp. 243,874	15,367

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
HCA, Inc. 387,922	15,761	AMBAC Financial Group, Inc. 83,554	5,765
Health Management Associates, Inc., Class A 190,429	4,405	7 American International Group, Inc. 2,040,650	146,213
• Humana, Inc. 124,343	2,026	AON Corp. 246,426	6,422
10 Johnson & Johnson 2,321,356	125,423	Chubb Corp. 146,077	10,079
• King Pharmaceuticals, Inc. 187,724	3,238	CIGNA Corp. 108,571	7,004
Manor Care, Inc. 71,759	2,328	Cincinnati Financial Corp. 133,568	5,475
McKesson Corp. 227,183	7,465	Hartford Financial Services Group, Inc. 227,367	13,888
• Medco Health Solutions, Inc. 212,639	7,527	Jefferson-Pilot Corp. 110,614	5,485
• Medimmune, Inc. 193,581	4,692	Lincoln National Corp. 141,597	6,355
Medtronic, Inc. 947,824	47,827	Loews Corp. 146,787	8,515
Merck & Co., Inc. 1,738,242	81,697	Marsh & McLennan Cos., Inc. 415,520	18,740
Mylan Laboratories, Inc. 209,700	4,804	MBIA, Inc. 113,393	6,678
4 Pfizer, Inc. 5,961,311	213,177	Metlife, Inc. 594,118	20,497
• Quest Diagnostics 81,055	6,837	MGIC Investment Corp. 77,579	5,711
Schering-Plough Corp. 1,148,084	19,207	• Principal Financial Group, Inc. 250,724	8,851
• St. Jude Medical, Inc. 134,142	10,230	The Progressive Corp. 170,968	14,963
Stryker Corp. 157,897	15,621	Prudential Financial, Inc. 423,600	18,613
• Tenet Healthcare Corp. 360,505	4,240	Safeco Corp. 108,621	4,756
UnitedHealth Group, Inc. 488,166	30,012	St. Paul Cos., Inc. 517,355	21,041
• Watson Pharmaceuticals, Inc. 83,237	2,964	Torchmark Corp. 90,710	4,720
• WellPoint Health Networks, Inc. 123,422	13,785	UnumProvident Corp. 230,026	3,577
Wyeth 1,043,082	39,710	XL Capital Ltd., Class A 108,565	8,289
• Zimmer Holdings, Inc. 190,692	15,227		
	<b>1,089,673</b>		<b>413,515</b>
<b>Household Products 2.4%</b>		<b>Media 3.6%</b>	
Alberto-Culver Co., Class B 70,426	3,321	Clear Channel Communications, Inc. 483,722	20,070
Avon Products, Inc. 185,527	15,584	• Comcast Corp., Class A 1,759,010	52,946
Clorox Co. 165,110	8,549	Dow Jones & Co., Inc. 64,009	2,950
Colgate-Palmolive Co. 415,539	24,051	Gannett Co., Inc. 213,769	18,529
The Gillette Co. 789,877	32,322	Knight-Ridder, Inc. 61,087	4,730
International Flavors & Fragrances, Inc. 72,428	2,626	The McGraw-Hill Cos., Inc. 148,062	11,676
▲ Procter & Gamble Co. 1,009,813	106,788	Meredith Corp. 39,218	1,998
	<b>193,241</b>	New York Times Co., Class A 117,850	5,399
<b>Insurance 5.1%</b>		R.R. Donnelley & Sons Co. 167,196	4,919
ACE Ltd. 220,000	9,645	• Time Warner, Inc. 3,557,976	59,845
Aetna, Inc. 121,847	10,083	Tribune Co. 258,439	12,374
AFLAC, Inc. 401,064	16,937	• Univision Communications, Inc., Class A 251,484	8,513
The Allstate Corp. 549,300	25,213	Viacom, Inc., Class B 1,368,169	52,880
		The Walt Disney Co. 1,604,605	36,954
			<b>293,783</b>



Security and Number of Shares

Value  
(\$ x 1,000)

**Miscellaneous 0.7%**

3M Co. 612,276 **52,950**

**Miscellaneous Finance 7.8%**

American Express Co. 1,003,981 49,145  
 The Bear Stearns Cos., Inc. 81,229 6,510  
 Capital One Financial Corp. 181,711 11,908  
 ■ The Charles Schwab Corp. 1,063,150 10,940  
 Charter One Financial, Inc. 173,453 5,788  
 ⑤ Citigroup, Inc. 4,025,639 193,593  
 Countrywide Financial Corp. 217,331 12,888  
 • E\*TRADE Group, Inc. 285,500 3,243  
 Fannie Mae 758,727 52,140  
 Federated Investors, Inc.,  
 Class B 85,300 2,508  
 Franklin Resources, Inc. 193,688 10,620  
 Freddie Mac 537,902 31,413  
 Golden West Financial Corp. 120,305 12,645  
 Goldman Sachs Group, Inc. 377,500 36,523  
 Janus Capital Group, Inc. 186,007 2,827  
 Lehman Brothers Holdings,  
 Inc. 217,704 15,979  
 MBNA Corp. 1,001,693 24,421  
 Merrill Lynch & Co., Inc. 759,334 41,179  
 Moody's Corp. 116,409 7,510  
 Morgan Stanley 858,439 44,115  
 • Provident Financial Corp. 223,272 2,708  
 SLM Corp. 351,683 13,473  
 T. Rowe Price Group, Inc. 99,307 5,092  
 Washington Mutual, Inc. 701,921 27,649

**624,817****Non-durables & Entertainment 1.2%**

Darden Restaurants, Inc. 126,412 2,865  
 • Electronic Arts, Inc. 234,756 11,883  
 Fortune Brands, Inc. 112,791 8,600  
 Hasbro, Inc. 133,312 2,518  
 International Game Technology 272,552 10,286  
 Mattel, Inc. 335,693 5,694  
 McDonald's Corp. 988,796 26,925  
 • Starbucks Corp. 309,259 12,018  
 Wendy's International, Inc. 89,337 3,484  
 • Yum! Brands, Inc. 229,498 8,902

**93,175**

Security and Number of Shares

Value  
(\$ x 1,000)

**Non-Ferrous Metals 0.4%**

Alcoa, Inc. 683,687 21,024  
 Engelhard Corp. 95,939 2,786  
 Freeport-McMoran Copper & Gold,  
 Inc., Class B 134,615 4,106  
 • Phelps Dodge Corp. 72,480 4,771

**32,687****Oil: Domestic 1.0%**

Amerada Hess Corp. 70,261 4,998  
 Ashland, Inc. 53,145 2,546  
 ConocoPhillips 533,248 38,021  
 Kerr-McGee Corp. 77,570 3,796  
 Marathon Oil Corp. 265,479 8,909  
 • Nabors Industries Ltd. 115,107 5,106  
 Sunoco, Inc. 59,302 3,730  
 • Transocean, Inc. 249,199 6,920  
 Unocal Corp. 201,422 7,259

**81,285****Oil: International 3.7%**

ChevronTexaco Corp. 838,357 76,710  
 ③ Exxon Mobil Corp. 5,126,147 218,117

**294,827****Optical & Photo 0.2%**

• Corning, Inc. 1,052,175 11,606  
 Eastman Kodak Co. 224,974 5,802

**17,408****Paper & Forest Products 0.9%**

Boise Cascade Corp. 66,153 2,231  
 Georgia-Pacific Corp. 197,318 6,926  
 International Paper Co. 376,813 15,193  
 Kimberly-Clark Corp. 391,300 25,611  
 • Louisiana-Pacific Corp. 83,408 1,968  
 MeadWestvaco Corp. 155,777 4,073  
 Temple-Inland, Inc. 41,926 2,590  
 Weyerhaeuser Co. 172,097 10,188

**68,780**

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Producer Goods &amp; Manufacturing 4.8%</b>			
• American Standard Cos., Inc. 55,900	5,880	• AutoZone, Inc. 68,977	6,040
Avery Dennison Corp. 87,772	5,638	• Bed, Bath & Beyond, Inc. 234,687	8,712
Caterpillar, Inc. 271,101	21,073	Best Buy Co., Inc. 255,472	13,859
Cooper Industries Ltd., Class A 72,442	3,978	• Big Lots, Inc. 87,567	1,240
Deere & Co. 190,292	12,947	Circuit City Stores, Inc. 158,574	1,852
Dover Corp. 157,706	6,313	• Costco Wholesale Corp. 357,933	13,405
Emerson Electric Co. 328,181	19,763	CVS Corp. 311,627	12,038
▲ General Electric Co. 7,972,970	238,790	Dillards, Inc., Class A 62,888	1,058
Honeywell International, Inc. 671,080	23,206	Dollar General Corp. 260,124	4,880
Illinois Tool Works, Inc. 242,165	20,877	Family Dollar Stores, Inc. 132,990	4,274
Ingersoll-Rand Co., Class A 136,964	8,841	Federated Department Stores, Inc. 142,646	6,990
Johnson Controls, Inc. 147,168	8,074	The Gap, Inc. 699,936	15,406
• Millipore Corp. 37,784	1,981	Home Depot, Inc. 1,778,011	62,568
Pall Corp. 96,974	2,306	J.C. Penney Co., Inc. Holding Co. 212,006	7,179
Parker Hannifin Corp. 91,418	5,054	• Kohl's Corp. 267,771	11,190
Snap-On, Inc. 44,189	1,493	• Kroger Co. 581,385	10,174
W.W. Grainger, Inc. 72,199	3,783	Limited Brands, Inc. 363,498	7,503
	<b>389,997</b>	Lowe's Cos., Inc. 613,519	31,940
<b>Railroad &amp; Shipping 0.4%</b>		The May Department Stores Co. 225,801	6,955
Burlington Northern Santa Fe Corp. 292,277	9,557	Nordstrom, Inc. 108,076	3,851
CSX Corp. 167,740	5,160	• Office Depot, Inc. 243,533	4,264
Norfolk Southern Corp. 302,882	7,215	RadioShack Corp. 130,108	4,002
Union Pacific Corp. 201,337	11,865	• Safeway, Inc. 345,477	7,929
	<b>33,797</b>	Sears, Roebuck & Co. 174,110	6,973
<b>Real Property 0.4%</b>		• Staples, Inc. 389,842	10,042
Apartment Investment & Management Co., Class A 72,500	2,042	Target Corp. 711,815	30,871
Equity Office Properties Trust 314,006	7,904	Tiffany & Co. 113,553	4,429
Equity Residential 217,429	5,971	TJX Cos., Inc. 392,966	9,655
Plum Creek Timber Co., Inc. 144,500	4,271	• Toys 'R' Us, Inc. 166,616	2,574
ProLogis 142,400	4,189	▲ Wal-Mart Stores, Inc. 3,381,741	192,759
Simon Property Group, Inc. 159,700	7,699	Walgreen Co. 802,744	27,679
	<b>32,076</b>	Winn-Dixie Stores, Inc. 105,395	803
			<b>543,431</b>
<b>Retail 6.7%</b>		<b>Steel 0.1%</b>	
Albertson's, Inc. 286,510	6,693	Allegheny Technologies, Inc. 60,584	619
• Automation, Inc. 214,100	3,644	Nucor Corp. 62,905	3,737

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

United States Steel Corp. 87,046	2,492
Worthington Industries, Inc. 69,657	1,257
	<b>8,105</b>

**Telephone 3.6%**

Alltel Corp. 243,668	12,266
AT&T Corp. 621,840	10,665
• AT&T Wireless Services, Inc. 2,134,931	29,483
• Avaya, Inc. 331,475	4,535
BellSouth Corp. 1,435,308	37,045
CenturyTel, Inc. 113,133	3,267
• Citizens Communications Co. 218,457	2,849
• Nextel Communications, Inc., Class A 860,271	20,526
• Qwest Communications International, Inc. 1,381,642	5,554
SBC Communications, Inc. 2,584,833	64,362
Sprint Corp. (FON Group) 1,110,436	19,866
Verizon Communications, Inc. 2,158,022	81,444
	<b>291,862</b>

**Tobacco 1.2%**

Altria Group, Inc. 1,599,865	88,600
R.J. Reynolds Tobacco Holdings, Inc. 67,900	4,398
UST, Inc. 127,974	4,762
	<b>97,760</b>

**Travel & Recreation 0.6%**

Brunswick Corp. 73,572	3,025
Carnival Corp. 491,712	20,981
Harrah's Entertainment, Inc. 86,097	4,579
Hilton Hotels Corp. 296,097	5,179
Marriott International, Inc., Class A 182,134	8,589
Starwood Hotels & Resorts Worldwide, Inc. 161,921	6,443
	<b>48,796</b>

**Trucking & Freight 0.1%**

Paccar, Inc. 134,955	7,620
Ryder Systems, Inc. 50,813	1,869
	<b>9,489</b>

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

**Utilities: Electric & Gas 2.9%**

• The AES Corp. 481,690	4,176
• Allegheny Energy, Inc. 99,242	1,367
Ameren Corp. 141,580	6,190
American Electric Power Co., Inc. 307,485	9,360
• Calpine Corp. 317,541	1,378
Centerpoint Energy, Inc. 235,015	2,536
Cinergy Corp. 140,058	5,314
• CMS Energy Corp. 123,846	1,029
Consolidated Edison, Inc. 175,470	7,231
Constellation Energy Group, Inc. 132,786	5,110
Dominion Resources, Inc. 254,282	16,226
DTE Energy Co. 134,383	5,244
Duke Energy Corp. 708,612	14,923
• Dynegy, Inc., Class A 291,051	1,153
Edison International 255,377	5,976
El Paso Corp. 502,325	3,521
Entergy Corp. 178,608	9,752
Exelon Corp. 258,396	17,297
FirstEnergy Corp. 258,545	10,109
FPL Group, Inc. 143,198	9,110
KeySpan Corp. 126,365	4,568
Kinder Morgan, Inc. 96,339	5,801
Nicor, Inc. 35,789	1,216
NiSource, Inc. 204,355	4,120
Peoples Energy Corp. 27,820	1,163
• PG&E Corp. 328,320	9,035
Pinnacle West Capital Corp. 70,250	2,744
PPL Corp. 138,648	5,941
Progress Energy, Inc. 193,355	8,270
Public Service Enterprise Group, Inc. 185,439	7,955
Sempra Energy 178,781	5,676
The Southern Co. 575,055	16,539
TECO Energy, Inc. 142,669	1,816
TXU Corp. 253,950	8,670
Williams Cos., Inc. 399,773	4,118
Xcel Energy, Inc. 311,475	5,211
	<b>229,845</b>

**Portfolio Holdings** continued

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

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

Provident Institutional TempFund 7,072,638	<b>7,073</b>
-----------------------------------------------	--------------

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

**U.S. Treasury Obligations**  
 0.0% of net assets

▲ U.S. Treasury Bills, 0.90%-0.92%, 06/17/04	844	<b>844</b>
-------------------------------------------------	-----	------------

**End of investments.**
**Collateral Invested for Securities on Loan**  
 8.2% of net assets

**Commercial Paper & Other Corporate  
Obligations 4.3%**

American Express Credit Corp. 1.07%, 05/13/04	16,235	16,235
Bank of America 1.05%, 09/20/04	9,486	9,486
Canadian Imperial Bank Corp. 1.72%, 05/25/05	18,682	18,678
1.06%, 05/28/04	41,306	41,300
1.04%, 01/31/05	35,113	35,108
Concord Minutemen Capital Corp. 1.04%, 05/20/04	20,215	20,198
Credit Lyonnais 1.08%, 09/30/04	5,490	5,490
Crown Point Funding Corp. 1.04%, 05/10/04	23,119	23,101
Fairway Finance Corp. 1.04%, 05/13/04	989	988

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

Foreningssparbanken AB 1.06%, 05/17/04	64,980	64,971
General Electric Capital Corp. 1.06%, 05/10/04	17,713	17,730
Societe Generale 1.14%, 05/03/04	11,658	11,655
Svenska Handelsbanken 1.39%, 10/27/04	19,082	19,080
Westdeutsche Landesbank AG 1.50%, 01/10/05	12,314	12,311
1.05%, 09/23/04	18,694	18,690
1.05%, 09/29/04	22,626	22,620
1.05%, 10/12/04	11,613	11,612

**349,253**
**Short-Term Investment 0.5%**

Deutsche Bank, Time Deposit 1.04%, 05/03/04	43,647	<b>43,647</b>
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Security and Number of Shares

**Other Investment Companies 3.4%**

Institutional Money Market Trust 270,300,842	<b>270,301</b>
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**End of collateral invested from securities on loan.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$633,780 of securities on loan)	\$8,060,079
Collateral invested for securities on loan	663,201
Receivables:	
Fund shares sold	6,568
Interest	7
Dividends	8,995
Investments sold	11,114
Income from securities on loan	80
Prepaid expenses	+ 106
<b>Total assets</b>	<b>8,750,150</b>

**Liabilities**

Collateral invested for securities on loan	663,201
Payables:	
Fund shares redeemed	4,432
Interest expense	2
Investments bought	11,013
Due to brokers for futures	72
Investment adviser and administrator fees	68
Transfer agent and shareholder service fees	44
Accrued expenses	+ 403
<b>Total liabilities</b>	<b>679,235</b>

**Net Assets**

<b>Total assets</b>	8,750,150
<b>Total liabilities</b>	– 679,235
<b>Net assets</b>	<b>\$8,070,915</b>

**Net Assets by Source**

Capital received from investors	8,106,930
Net investment income not yet distributed	34,390
Net realized capital losses	(743,692)
Net unrealized capital gains	673,287

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$3,799,523		221,767		\$17.13
Select Shares	\$4,017,675		233,799		\$17.18
e.Shares	\$253,717		14,806		\$17.14

Unless stated, all numbers x 1,000.

The fund paid \$7,386,682 for these securities.

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

Purchases	\$366,220
Sales/maturities	\$144,385

The fund's total security transactions with other SchwabFunds® during the period were \$1,168.

These derive from investments and futures. As of the report date, the fund had thirty-six open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate contract value of \$9,955 and net unrealized losses of \$110.

**Federal Tax Data**

<b>Portfolio Cost</b>	\$7,575,524
<b>Net unrealized gains and losses:</b>	
Gains	\$1,787,522
Losses	+ (1,302,967)
	<b>\$484,555</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$66,060
Interest	44
Securities on loan	+ 627
<b>Total investment income</b>	<b>66,731</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(112,970)
Net realized gains on futures contracts	+ 890
<b>Net realized losses</b>	<b>(112,080)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	512,732
Net unrealized losses on futures contracts	+ (494)
<b>Net unrealized gains</b>	<b>512,238</b>

**Expenses**

Investment adviser and administrator fees	6,845
Transfer agent and shareholder service fees:	
Investor Shares	4,696
Select Shares	1,976
e.Shares	128
Trustees' fees	26
Custodian fees	101
Portfolio accounting fees	553
Professional fees	34
Registration fees	81
Shareholder reports	342
Interest expense	7
Other expenses	+ 65
Total expenses	14,854
Expense reduction	- 3,784
<b>Net expenses</b>	<b>11,070</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	66,731
<b>Net expenses</b>	- 11,070
<b>Net investment income</b>	<b>55,661</b>
<b>Net realized losses</b>	(112,080)
<b>Net unrealized gains</b>	+ 512,238
<b>Increase in net assets from operations</b>	<b>\$455,819</b>

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 \$878 from the investment adviser (CSIM) and \$2,906 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:

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

This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$400,158.

Statements of

**Changes in net assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$55,661	\$99,392
Net realized losses	(112,080)	(59,341)
Net unrealized gains	+ 512,238	1,201,943
<b>Increase in net assets from operations</b>	<b>455,819</b>	<b>1,241,994</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	46,375	40,628
Select Shares	52,459	49,532
e.Shares	+ 3,356	3,378
<b>Total dividends from net investment income</b>	<b>\$102,190</b>	<b>\$93,538</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	28,062	\$482,466	50,095	\$730,445
Select Shares	30,726	529,624	51,800	753,457
e.Shares	+ 2,097	36,208	4,668	67,061
<b>Total shares sold</b>	<b>60,885</b>	<b>\$1,048,298</b>	<b>106,563</b>	<b>\$1,550,963</b>

**Shares Reinvested**

Investor Shares	2,680	\$44,333	2,857	\$39,062
Select Shares	2,844	47,146	3,300	45,211
e.Shares	+ 182	3,018	224	3,062
<b>Total shares reinvested</b>	<b>5,706</b>	<b>\$94,497</b>	<b>6,381</b>	<b>\$87,335</b>

**Shares Redeemed**

Investor Shares	(23,530)	(\$404,419)	(38,573)	(\$558,964)
Select Shares	(24,715)	(425,815)	(49,150)	(705,422)
e.Shares	+ (2,480)	(42,659)	(5,869)	(84,347)
<b>Total shares redeemed</b>	<b>(50,725)</b>	<b>(\$872,893)</b>	<b>(93,592)</b>	<b>(\$1,348,733)</b>

<b>Net transactions in fund shares</b>	<b>15,866</b>	<b>\$269,902</b>	<b>19,352</b>	<b>\$289,565</b>
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**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	454,506	\$7,447,384	435,154	\$6,009,363
Total increase	+ 15,866	623,531	19,352	1,438,021
<b>End of period</b>	<b>470,372</b>	<b>\$8,070,915</b>	<b>454,506</b>	<b>\$7,447,384</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$93,538
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	\$140	\$236
Select Shares	126	302
e.Shares	+ 7	+ 22
<b>Total</b>	<b>\$273</b>	<b>\$560</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 \$34,390 and \$80,919 at the end of 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	2.5%
Growth Portfolio	1.8%
Balanced Portfolio	1.1%
Conservative Portfolio	0.5%

See financial notes. 37

# Schwab 1000 Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	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	30.25	25.25	29.57	39.95	37.12	29.90
Income or loss from investment operations:						
Net investment income	0.17	0.33	0.31	0.26	0.26	0.26
Net realized and unrealized gains or losses	1.58	4.99	(4.36)	(10.40)	2.83	7.21
Total income or loss from investment operations	1.75	5.32	(4.05)	(10.14)	3.09	7.47
Less distributions:						
Dividends from net investment income	(0.34)	(0.32)	(0.27)	(0.24)	(0.26)	(0.25)
Net asset value at end of period	31.66	30.25	25.25	29.57	39.95	37.12
Total return (%)	5.84 <sup>1</sup>	21.34	(13.87)	(25.50)	8.34	25.12
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.51 <sup>2</sup>	0.49	0.46	0.46	0.47 <sup>3</sup>	0.46
Gross operating expenses	0.51 <sup>2</sup>	0.51	0.52	0.51	0.51	0.51
Net investment income	1.11 <sup>2</sup>	1.27	1.04	0.78	0.63	0.78
Portfolio turnover rate	3 <sup>1</sup>	5	9	8	9	3
Net assets, end of period (\$ x 1,000,000)	4,226	3,974	3,223	3,852	5,083	4,925

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

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



Select Shares	11/1/03– 4/30/04*	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	30.27	25.26	29.58	39.98	37.16	29.93
Income or loss from investment operations:						
Net investment income	0.20	0.37	0.35	0.31	0.29	0.30
Net realized and unrealized gains or losses	1.57	4.99	(4.36)	(10.41)	2.84	7.22
Total income or loss from investment operations	1.77	5.36	(4.01)	(10.10)	3.13	7.52
Less distributions:						
Dividends from net investment income	(0.38)	(0.35)	(0.31)	(0.30)	(0.31)	(0.29)
Net asset value at end of period	31.66	30.27	25.26	29.58	39.98	37.16
Total return (%)	5.89 <sup>1</sup>	21.52	(13.77)	(25.40)	8.46	25.29
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.36 <sup>2</sup>	0.35	0.35	0.35	0.36 <sup>3</sup>	0.35
Gross operating expenses	0.36 <sup>2</sup>	0.36	0.37	0.36	0.36	0.37
Net investment income	1.26 <sup>2</sup>	1.41	1.15	0.89	0.74	0.89
Portfolio turnover rate	3 <sup>1</sup>	5	9	8	9	3
Net assets, end of period (\$ x 1,000,000)	2,117	1,996	1,588	1,911	2,159	2,214

\* Unaudited.

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

**Portfolio Holdings** as of April 30, 2004, unaudited

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
- ▷ Security is valued at fair value (see Accounting Policies)

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.8%</b>	<b>Common Stock</b>	4,008,427	6,331,128
<b>0.1%</b>	<b>Short-Term Investment</b>	2,440	2,440
<b>0.0%</b>	<b>U.S. Treasury Obligations</b>	364	365
<b>99.9%</b>	<b>Total Investments</b>	<b>4,011,231</b>	<b>6,333,933</b>
<b>17.2%</b>	<b>Collateral Invested for Securities on Loan</b>	1,093,954	1,093,954
<b>(17.1)%</b>	<b>Other Assets and Liabilities, Net</b>		(1,084,771)
<b>100.0%</b>	<b>Total Net Assets</b>		<b>6,343,116</b>

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

**Common Stock** 99.8% of net assets

**Aerospace / Defense 1.5%**

The Boeing Co.	453,182	19,346
Crane Co.	31,950	984
General Dynamics Corp.	106,000	9,923
Goodrich Corp.	62,992	1,814
• L-3 Communications Holdings, Inc.	56,700	3,501
Lockheed Martin Corp.	243,784	11,628
Northrop Grumman Corp.	100,297	9,954
Raytheon Co.	225,200	7,265

Security and Number of Shares		Value (\$ x 1,000)
Rockwell Automation, Inc.	100,100	3,272
Rockwell Collins, Inc.	94,900	3,061
Textron, Inc.	72,900	4,023
United Technologies Corp.	277,327	23,922
		<b>98,693</b>

**Air Transportation 1.0%**

• AMR Corp.	85,500	970
FedEx Corp.	161,960	11,647
• JetBlue Airways Corp.	54,500	1,509
Sabre Holdings Corp.	77,000	1,816
Southwest Airlines Co.	422,225	6,029
United Parcel Service, Inc., Class B	607,000	42,581
		<b>64,552</b>

**Alcoholic Beverages 0.4%**

Adolph Coors Co., Class B	19,500	1,281
Anheuser-Busch Cos., Inc.	439,000	22,494
Brown-Forman Corp., Class B	64,956	3,044
• Constellation Brands, Inc., Class A	56,500	1,872
		<b>28,691</b>

**Apparel 0.4%**

• Coach, Inc.	99,628	4,244
Jones Apparel Group, Inc.	67,700	2,478
Liz Claiborne, Inc.	58,600	2,057
Nike, Inc., Class B	142,700	10,267
Reebok International Ltd.	31,600	1,149
• Timberland Co., Class A	18,700	1,173
VF Corp.	57,900	2,673
		<b>24,041</b>

**Automotive Products / Motor Vehicles 1.2%**

• American Axle & Manufacturing Holdings, Inc.	28,100	1,081
ArvinMeritor, Inc.	36,800	761
BorgWarner, Inc.	14,700	1,205
Carlisle Cos., Inc.	16,600	984
Cooper Tire & Rubber Co.	39,700	849

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Cummins, Inc. 22,600	1,352	FirstMerit Corp. 45,300	1,067
Dana Corp. 79,789	1,609	FNB Corp. 24,740	485
Danaher Corp. 82,300	7,614	Fulton Financial Corp. 58,087	1,197
Delphi Corp. 300,600	3,066	Greater Bay Bancorp 28,100	797
Donaldson Co., Inc. 46,600	1,278	Hibernia Corp., Class A 83,200	1,813
Eaton Corp. 81,400	4,834	Hudson City Bancorp, Inc. 102,400	3,461
Ford Motor Co. 986,570	15,154	Hudson United Bancorp 24,100	861
General Motors Corp. 302,734	14,356	Huntington Bancshares, Inc. 122,735	2,626
Gentex Corp. 41,200	1,620	J.P. Morgan Chase & Co. 1,105,490	41,566
Genuine Parts Co. 93,275	3,339	KeyCorp, Inc. 226,746	6,734
Harley-Davidson, Inc. 164,500	9,265	M&T Bank Corp. 64,301	5,466
Lear Corp. 36,300	2,200	Marshall & Ilsley Corp. 121,370	4,463
• Navistar International Corp. 36,800	1,662	Mellon Financial Corp. 232,688	6,897
Oshkosh Truck Corp. 18,700	957	Mercantile Bankshares Corp. 42,775	1,836
Polaris Industries, Inc. 23,200	995	National City Corp. 328,000	11,372
Thor Industries, Inc. 30,800	858	National Commerce Financial Corp. 110,050	2,926
	<b>75,039</b>	North Fork Bancorp., Inc. 81,300	3,018
<b>Banks 7.4%</b>		Northern Trust Corp. 118,150	4,995
AmSouth Bancorp. 188,275	4,146	Park National Corp. 7,400	854
Associated Banc-Corp. 39,325	1,610	Peoples Bank-Bridgeport 33,000	1,393
Bancorpsouth, Inc. 41,900	848	PNC Financial Services Group, Inc. 148,830	7,903
9 Bank of America Corp. 1,098,618	88,428	Popular, Inc. 71,200	2,990
Bank of Hawaii Corp. 29,950	1,309	Provident Financial Group, Inc. 26,300	1,036
The Bank of New York Co., Inc. 416,900	12,148	Regions Financial Corp. 119,265	4,140
Bank One Corp. 603,593	29,799	Sky Financial Group, Inc. 49,530	1,184
Banknorth Group, Inc. 86,800	2,659	The South Financial Group, Inc. 31,700	878
BB&T Corp. 295,181	10,181	SouthTrust Corp. 177,974	5,531
City National Corp. 26,300	1,621	State Street Corp. 181,200	8,843
The Colonial BancGroup, Inc. 66,800	1,151	SunTrust Banks, Inc. 152,956	10,409
Comerica, Inc. 93,974	4,852	Synovus Financial Corp. 161,962	3,866
Commerce Bancorp, Inc. N.J. 40,600	2,315	TCF Financial Corp. 38,000	1,883
Commerce Bancshares, Inc. 36,690	1,647	Trustmark Corp. 31,300	833
Compass Bancshares, Inc. 65,212	2,501	U.S. Bancorp 1,031,253	26,441
Cullen/Frost Bankers, Inc. 27,900	1,208	UCBH Holdings, Inc. 24,200	896
Doral Financial Corp. 57,900	1,899	Union Planters Corp. 101,100	2,811
Fifth Third Bancorp 304,930	16,363	UnionBanCal Corp. 78,100	4,173
First Horizon National Corp. 67,400	2,963	Valley National Bancorp 52,919	1,368
First Midwest Bancorp, Inc. Illinois 24,900	840	Wachovia Corp. 708,320	32,406

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Wells Fargo & Co. 911,632	51,471	• Oracle Corp. 2,816,014	31,596
Westamerica Bancorp. 17,600	855	• Peregrine Systems, Inc. 2,104	42
WestCorp., Inc. 27,300	1,204	• Pitney Bowes, Inc. 125,400	5,486
Whitney Holding Corp. 21,700	890	• Sandisk Corp. 85,000	1,964
Wilmington Trust Corp. 35,300	1,227	• Seagate Escrow Security 126,560	36
Zions Bancorp. 48,300	2,730	• Siebel Systems, Inc. 266,100	2,736
	<b>468,283</b>	• Storage Technology Corp. 59,400	1,560
		• Sun Microsystems, Inc. 1,757,600	6,855
<b>Business Machines &amp; Software 8.2%</b>		• Sybase, Inc. 51,900	887
• 3Com Corp. 200,150	1,233	• Tech Data Corp. 30,400	1,034
• Adobe Systems, Inc. 125,500	5,188	• The Titan Corp. 43,700	839
• Apple Computer, Inc. 198,800	5,115	• Total System Services, Inc. 105,500	2,342
• Ascential Software Corp. 31,900	542	• Unisys Corp. 177,250	2,310
• Autodesk, Inc. 59,900	2,007	• Xerox Corp. 424,750	5,704
• Avocent Corp. 25,200	809		<b>518,190</b>
• BEA Systems, Inc. 217,600	2,483		
• BMC Software, Inc. 121,300	2,098	<b>Business Services 4.4%</b>	
• Cisco Systems, Inc. 3,696,200	77,140	• Affiliated Computer Services, Inc., Class A 73,200	3,550
• Compuware Corp. 206,100	1,577	• Allied Waste Industries, Inc. 171,865	2,164
• Comverse Technology, Inc. 103,500	1,693	• Apollo Group, Inc., Class A 94,550	8,593
• Dell, Inc. 1,379,400	47,879	• Aramark Corp., Class B 53,800	1,539
• Diebold, Inc. 39,018	1,798	• Automatic Data Processing, Inc. 316,800	13,879
• EMC Corp. 1,294,000	14,441	• BearingPoint, Inc. 104,400	1,046
• Fair Isaac Corp. 38,925	1,313	• The BISYS Group, Inc. 63,500	921
• Foundry Networks, Inc. 70,000	791	• Brocade Communications Systems, Inc. 138,200	739
• Gateway, Inc. 201,400	971	• Career Education Corp. 53,700	3,437
• Hewlett-Packard Co. 1,642,040	32,348	• CDW Corp. 44,600	2,787
• IKON Office Solutions, Inc. 78,600	875	• Cendant Corp. 545,448	12,916
• Integrated Device Technology, Inc. 56,300	757	• Ceridian Corp. 80,200	1,715
• International Business Machines Corp. 914,300	80,614	• Certegy, Inc. 34,800	1,245
• Juniper Networks, Inc. 208,700	4,566	• Checkfree Corp. 42,800	1,286
• Lexmark International, Inc., Class A 69,000	6,242	• ChoicePoint, Inc. 46,966	2,063
• Maxtor Corp. 131,700	857	• Cintas Corp. 91,700	4,123
• Microchip Technology, Inc. 111,200	3,116	• Citrix Systems, Inc. 88,000	1,676
▲ ② Microsoft Corp. 5,802,900	150,701	• Cognizant Technology Solutions Corp. 35,100	1,519
• NCR Corp. 50,751	2,268	• Computer Associates International, Inc. 312,579	8,380
• Network Appliance, Inc. 185,000	3,445		
• Novell, Inc. 200,400	1,932		



**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
RPM International, Inc. 62,100	936		
Sigma-Aldrich Corp. 37,100	2,101		
Valspar Corp. 27,100	1,346		
	<b>88,841</b>		
<b>Construction 0.7%</b>		<b>Containers 0.2%</b>	
Centex Corp. 66,600	3,194	Ball Corp. 30,200	1,993
D.R. Horton, Inc. 126,433	3,641	Bemis Co. 56,800	1,534
Florida Rock Industries, Inc. 23,100	919	• Crown Holdings, Inc. 88,600	748
Fluor Corp. 44,100	1,683	• Owens-Illinois, Inc. 79,300	1,107
• Hovnanian Enterprises, Inc., Class A 32,400	1,165	• Pactiv Corp. 84,350	1,936
KB Home 24,900	1,716	• Sealed Air Corp. 45,499	2,233
Lafarge North America, Inc. 37,000	1,637	Sonoco Products Co. 52,141	2,296
Lennar Corp., Class A 84,400	3,954		<b>10,847</b>
Martin Marietta Materials, Inc. 26,200	1,133		
Masco Corp. 248,400	6,958	<b>Electronics 5.3%</b>	
MDC Holdings, Inc. 17,369	1,073	• Acxiom Corp. 45,600	1,055
• NVR, Inc. 3,900	1,759	• ADC Telecommunications, Inc. 431,800	1,080
Pulte Homes, Inc. 66,500	3,270	• Adelphia Communications, Class A 75,707	62
The Ryland Group, Inc. 13,300	1,050	• Advanced Fibre Communications, Inc. 46,700	780
The Sherwin-Williams Co. 78,100	2,972	• Advanced Micro Devices, Inc. 186,900	2,658
Standard-Pacific Corp. 17,700	893	• Agere Systems, Inc., Class A 895,900	2,025
The Stanley Works 43,400	1,845	• Agilent Technologies, Inc. 257,000	6,942
• Toll Brothers, Inc. 39,200	1,551	• Alliant Techsystems, Inc. 20,700	1,227
Vulcan Materials Co. 54,600	2,525	• Altera Corp. 203,100	4,064
• West Corp. 36,100	882	American Power Conversion Corp. 106,600	1,989
	<b>43,820</b>	• Amkor Technology, Inc. 93,300	754
		• Amphenol Corp., Class A 46,800	1,479
<b>Consumer Durables 0.3%</b>		Analog Devices, Inc. 199,000	8,477
Black & Decker Corp. 41,650	2,410	• Andrew Corp. 82,400	1,397
Ethan Allen Interiors, Inc. 20,000	832	• Applied Materials, Inc. 904,000	16,480
Furniture Brands International, Inc. 30,000	844	• Applied Micro Circuits Corp. 164,700	726
Hillenbrand Industries, Inc. 33,100	2,234	• Arrow Electronics, Inc. 60,500	1,529
Leggett & Platt, Inc. 103,000	2,328	• Atmel Corp. 252,900	1,477
Maytag Corp. 42,050	1,173	• Avid Technology, Inc. 16,500	792
• Mohawk Industries, Inc. 35,639	2,749	• Avnet, Inc. 64,300	1,391
Newell Rubbermaid, Inc. 147,209	3,480	AVX Corp. 93,200	1,323
• United Rentals, Inc. 41,400	712	• Broadcom Corp., Class A 164,400	6,208
Whirlpool Corp. 37,400	2,450	• Cadence Design Systems, Inc. 141,050	1,808
	<b>19,212</b>	• CIENA Corp. 254,200	1,052
		• Cymer, Inc. 19,300	617
		• Cypress Semiconductor Corp. 64,600	902
		• Emulex Corp. 44,500	742
		• Energizer Holdings, Inc. 45,300	1,962

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Fairchild Semiconductor International, Inc., Class A 63,200	1,231	Texas Instruments, Inc. 932,255	23,400
• Getty Images, Inc. 30,300	1,654	• Thermo Electron Corp. 87,384	2,552
Harman International Industries, Inc. 35,200	2,670	• Varian Semiconductor Equipment Associates, Inc. 19,200	625
Harris Corp. 35,800	1,613	• Vishay Intertechnology, Inc. 86,150	1,499
• Integrated Circuit Systems, Inc. 38,600	914	• Waters Corp. 65,100	2,809
⑧ Intel Corp. 3,488,300	89,754	• Western Digital Corp. 110,500	893
• Interactive Data Corp. 49,800	833	• Western Wireless Corp., Class A 45,400	945
• International Rectifier Corp. 34,400	1,364	• Xilinx, Inc. 185,600	6,242
Intersil Corp., Class A 74,600	1,473	• Zebra Technologies Corp., Class A 25,350	1,858
ITT Industries, Inc. 49,400	3,917		<b>339,236</b>
• Jabil Circuit, Inc. 107,100	2,826	<b>Energy: Raw Materials 1.4%</b>	
• JDS Uniphase Corp. 769,755	2,340	Anadarko Petroleum Corp. 134,680	7,216
• KLA-Tencor Corp. 104,400	4,350	Apache Corp. 173,820	7,278
• Lam Research Corp. 69,900	1,548	Arch Coal, Inc. 28,300	866
Linear Technology Corp. 169,500	6,039	Baker Hughes, Inc. 181,520	6,658
• LSI Logic Corp. 203,400	1,513	• BJ Services Co. 85,000	3,783
• Lucent Technologies, Inc. 2,265,519	7,635	Burlington Resources, Inc. 106,467	7,162
Maxim Integrated Products, Inc. 178,229	8,197	• Cooper Cameron Corp. 28,900	1,397
• Micron Technology, Inc. 327,600	4,462	Devon Energy Corp. 126,716	7,755
• MKS Instruments, Inc. 27,800	534	ENSCO International, Inc. 80,300	2,198
Molex, Inc. 102,121	3,041	EOG Resources, Inc. 61,800	3,044
Motorola, Inc. 1,252,586	22,860	• FMC Technologies, Inc. 35,600	970
• National Semiconductor Corp. 96,700	3,944	• Forest Oil Corp. 28,700	753
• Novellus Systems, Inc. 81,800	2,369	• Grant Prideco, Inc. 65,200	994
• Nvidia Corp. 86,900	1,785	Halliburton Co. 236,960	7,061
• Omnivision Technologies, Inc. 29,200	651	Massey Energy Co. 40,500	949
PerkinElmer, Inc. 68,100	1,311	• Noble Corp. 71,800	2,668
• QLogic Corp. 50,700	1,368	Noble Energy, Inc. 30,500	1,406
Qualcomm, Inc. 431,100	26,927	Occidental Petroleum Corp. 208,500	9,841
• Rambus, Inc. 52,600	980	Peabody Energy Corp. 33,100	1,552
• RF Micro Devices, Inc. 99,500	732	• Reliant Energy, Inc. 158,100	1,314
• Sanmina-SCI Corp. 277,452	2,780	• Rowan Cos., Inc. 56,000	1,249
Scientific-Atlanta, Inc. 81,400	2,637	• Smith International, Inc. 53,800	2,946
• Semtech Corp. 39,600	832	Tidewater, Inc. 32,500	917
• Silicon Laboratories, Inc. 26,700	1,259	• Tom Brown, Inc. 24,500	1,173
• Solectron Corp. 448,400	2,197	Valero Energy Corp. 68,488	4,367
Symbol Technologies, Inc. 123,770	1,485	• Weatherford International Ltd. 69,900	3,039
Tektronix, Inc. 45,400	1,344	Western Gas Resources, Inc. 17,900	975
• Tellabs, Inc. 223,900	1,955		<b>89,531</b>
• Teradyne, Inc. 102,600	2,091		

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Food &amp; Agriculture 3.8%</b>			
• 7-Eleven, Inc. 59,900	964	• Amylin Pharmaceuticals, Inc. 50,200	1,124
Archer-Daniels-Midland Co. 346,836	6,090	• Andrx Corp. 38,700	885
Campbell Soup Co. 220,200	6,084	• Anthem, Inc. 74,100	6,564
The Coca-Cola Co. 1,314,000	66,449	• Apogent Technologies, Inc. 48,500	1,572
Coca-Cola Enterprises, Inc. 244,100	6,591	• Applied Biosystems Group – Applera Corp. 111,600	2,072
ConAgra Foods, Inc. 289,959	8,377	• Barr Laboratories, Inc. 54,225	2,246
• Dean Foods Co. 83,750	2,812	Bausch & Lomb, Inc. 28,200	1,772
• Del Monte Foods Co. 111,695	1,235	Baxter International, Inc. 329,300	10,422
General Mills, Inc. 202,250	9,860	Beckman Coulter, Inc. 33,000	1,843
H.J. Heinz Co. 190,700	7,283	Becton Dickinson & Co. 136,300	6,890
Hershey Foods Corp. 69,700	6,196	• Biogen Idec, Inc. 177,660	10,482
Hormel Foods Corp. 74,400	2,268	Biomet, Inc. 137,100	5,415
The J.M. Smuckers Co. 26,800	1,402	• Boston Scientific Corp. 441,384	18,181
Kellogg Co. 220,900	9,477	Bristol-Myers Squibb Co. 1,044,200	26,209
Kraft Foods, Inc., Class A 150,100	4,940	C.R. Bard, Inc. 27,800	2,954
McCormick & Co., Inc. 74,500	2,545	Cardinal Health, Inc. 234,156	17,152
The Pepsi Bottling Group, Inc. 140,900	4,124	• Caremark Rx, Inc. 239,356	8,102
PepsiAmericas, Inc. 77,500	1,552	• Cephalon, Inc. 29,900	1,702
PepsiCo, Inc. 919,060	50,080	• Charles River Laboratories International, Inc. 24,600	1,132
• Performance Food Group Co. 24,600	864	• Chiron Corp. 100,612	4,668
Sara Lee Corp. 425,900	9,830	• Community Health Systems, Inc. 52,900	1,364
• The Scotts Co., Class A 17,200	1,134	Cooper Cos., Inc. 16,900	913
• Smithfield Foods, Inc. 59,400	1,580	• Covance, Inc. 33,300	1,124
Supervalu, Inc. 72,000	2,217	• Coventry Health Care, Inc. 48,300	2,021
Sysco Corp. 349,100	13,353	• Cytoc Corp. 58,900	1,260
Tootsie Roll Industries, Inc. 28,561	995	• Dade Behring Holdings, Inc. 21,900	1,007
Tyson Foods, Inc., Class A 188,082	3,525	• DaVita, Inc. 34,100	1,743
Wm. Wrigley Jr. Co. 122,500	7,558	Dentsply International, Inc. 42,550	2,062
	<b>239,385</b>	• Edwards Lifesciences Corp. 31,700	1,092
		Eli Lilly & Co. 603,568	44,549
<b>Gold 0.1%</b>		• Endo Pharmaceutical Holdings, Inc. 70,700	1,688
Newmont Mining Corp. 233,738	<b>8,742</b>	• Express Scripts, Inc. 42,100	3,256
<b>Healthcare / Drugs &amp; Medicine 13.1%</b>		• First Health Group Corp. 50,700	847
Abbott Laboratories 842,600	37,091	• Forest Laboratories, Inc. 198,100	12,774
• Accredo Health, Inc. 25,700	993	• Gen-Probe, Inc. 25,800	860
Allergan, Inc. 69,900	6,155	• Genzyme Corp. 120,200	5,236
AmerisourceBergen Corp. 59,995	3,473	• Gilead Sciences, Inc. 115,100	7,002
• Amgen, Inc. 692,840	38,986		



Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Guidant Corp. 168,772	10,634	• Respiroics, Inc. 18,800	985
HCA, Inc. 267,772	10,880	Schering-Plough Corp. 790,600	13,227
Health Management Associates, Inc., Class A 128,728	2,977	Select Medical Corp. 52,000	985
• Health Net, Inc. 60,900	1,549	• Sepracor, Inc. 45,600	2,180
• Henry Schein, Inc. 23,400	1,649	• St. Jude Medical, Inc. 94,500	7,207
• Human Genome Sciences, Inc. 69,400	847	• Steris Corp. 37,300	827
• Humana, Inc. 86,500	1,409	Stryker Corp. 107,000	10,586
• IDEXX Laboratories, Inc. 18,700	1,146	• Techne Corp. 22,100	861
• ImClone Systems, Inc. 40,300	2,695	• Tenet Healthcare Corp. 249,409	2,933
• Inamed Corp. 18,800	1,106	• Triad Hospitals, Inc. 40,500	1,377
• IVAX Corp. 105,325	2,243	UnitedHealth Group, Inc. 337,592	20,755
⑩ Johnson & Johnson 1,593,520	86,098	Universal Health Services, Class B 31,200	1,370
• King Pharmaceuticals, Inc. 129,266	2,230	Valeant Pharmaceuticals International 44,600	1,030
• Laboratory Corp. of America Holdings 80,300	3,191	• Varian Medical Systems, Inc. 36,400	3,125
• Lincare Holdings, Inc. 52,700	1,830	• Watson Pharmaceuticals, Inc. 58,000	2,065
Manor Care, Inc. 47,800	1,551	• WellPoint Health Networks, Inc. 83,450	9,321
• Martek Biosciences Corp. 14,800	940	Wyeth 718,400	27,350
McKesson Corp. 156,228	5,134	• Zimmer Holdings, Inc. 131,700	10,516
• Medco Health Solutions, Inc. 144,922	5,130		<b>833,148</b>
Medicis Pharmaceutical Corp., Class A 29,400	1,262		
• Medimmune, Inc. 132,750	3,218	<b>Household Products 2.2%</b>	
Medtronic, Inc. 654,100	33,006	Alberto-Culver Co., Class B 47,250	2,228
Merck & Co., Inc. 1,194,308	56,132	Avon Products, Inc. 126,400	10,618
• Millennium Pharmaceuticals, Inc. 161,620	2,423	Church & Dwight Co., Inc. 21,700	975
Mylan Laboratories, Inc. 144,312	3,306	Clorox Co. 113,300	5,867
• NBTY, Inc. 35,700	1,327	Colgate-Palmolive Co. 285,900	16,548
• Neurocrine Biosciences, Inc. 19,000	1,247	The Estee Lauder Cos., Inc., Class A 65,200	2,980
Omnicare, Inc. 55,000	2,281	The Gillette Co. 544,810	22,294
Oxford Health Plans, Inc. 43,400	2,363	International Flavors & Fragrances, Inc. 50,200	1,820
• Pacificare Health Systems, Inc. 45,000	1,609	▲ Procter & Gamble Co. 694,500	73,443
• Patterson Dental Co. 36,700	2,705		<b>136,773</b>
④ Pfizer, Inc. 4,099,512	146,599	<b>Insurance 4.9%</b>	
• Pharmaceutical Product Development, Inc. 30,100	890	Aetna, Inc. 83,765	6,932
• Pharmaceutical Resources, Inc. 18,300	738	AFLAC, Inc. 277,000	11,698
• Protein Design Labs, Inc. 50,300	1,231	• Alleghany Corp. 4,020	1,055
• Quest Diagnostics 55,700	4,698	• Allmerica Financial Corp. 28,500	991
• Renal Care Group, Inc. 26,100	1,291	The Allstate Corp. 379,348	17,412

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
AMBAC Financial Group, Inc. 57,400	3,961	Stancorp Financial Group, Inc. 15,700	971
American Financial Group, Inc. 39,200	1,203	Torchmark Corp. 60,700	3,159
7 American International Group, Inc. 1,402,771	100,509	Transatlantic Holdings, Inc. 28,100	2,515
American National Insurance Co. 14,300	1,348	Unitrin, Inc. 36,200	1,435
AON Corp. 168,312	4,386	UnumProvident Corp. 158,871	2,470
Arthur J. Gallagher & Co. 48,400	1,560	W.R. Berkley Corp. 44,750	1,812
Brown & Brown, Inc. 36,900	1,439		<b>311,774</b>
Chubb Corp. 102,700	7,086		
CIGNA Corp. 75,300	4,858	<b>Media 4.4%</b>	
Cincinnati Financial Corp. 90,420	3,706	• American Tower Corp., Class A 113,800	1,417
• CNA Financial Corp. 119,900	3,286	Belo Corp., Class A 61,400	1,748
Erie Indemnity Co., Class A 34,300	1,585	• Cablevision Systems Corp., NY Group, Class A 117,700	2,569
Fidelity National Financial, Inc. 87,584	3,206	Clear Channel Communications, Inc. 332,129	13,780
First American Corp. 42,000	1,139	• Comcast Corp., Class A 1,213,380	36,523
Hartford Financial Services Group, Inc. 156,700	9,571	• Cox Communications, Inc., Class A 319,986	10,460
HCC Insurance Holdings, Inc. 34,300	1,098	• The DIRECTV Group, Inc. 491,783	8,803
Jefferson-Pilot Corp. 75,587	3,748	Dow Jones & Co., Inc. 43,850	2,021
Lincoln National Corp. 95,400	4,282	The E.W. Scripps Co., Class A 43,375	4,578
Loews Corp. 99,400	5,766	• EchoStar Communications Corp., Class A 132,000	4,381
• Markel Corp. 5,300	1,553	• Emmis Communications Corp., Class A 29,400	688
Marsh & McLennan Cos., Inc. 286,400	12,917	• Entercom Communications Corp. 27,500	1,254
MBIA, Inc. 77,300	4,552	• Fox Entertainment Group, Inc., Class A 230,000	6,406
Mercury General Corp. 29,100	1,484	Gannett Co., Inc. 147,500	12,785
Metlife, Inc. 409,800	14,138	Harte-Hanks, Inc. 46,900	1,124
MGIC Investment Corp. 52,900	3,895	• InterActiveCorp 339,727	10,827
• Mony Group, Inc. 25,400	786	John Wiley & Sons, Class A 33,100	1,013
Nationwide Financial Services, Inc., Class A 30,200	1,039	Knight-Ridder, Inc. 42,800	3,314
Odyssey Re Holdings Corp. 34,900	828	Lee Enterprises, Inc. 24,000	1,147
Old Republic International Corp. 97,162	2,256	McClatchy Co., Class A 24,700	1,754
The PMI Group, Inc. 51,000	2,195	The McGraw-Hill Cos., Inc. 104,750	8,261
• Principal Financial Group, Inc. 173,200	6,114	Media General, Inc., Class A 12,700	913
The Progressive Corp. 117,800	10,310	Meredith Corp. 27,000	1,375
Protective Life Corp. 36,900	1,327	• Metro-Goldwyn-Mayer, Inc. 132,655	2,788
Prudential Financial, Inc. 291,900	12,826	New York Times Co., Class A 79,826	3,657
Radian Group, Inc. 50,300	2,339	• PanAmSat Corp. 80,600	1,860
Reinsurance Group of America, Inc. 32,500	1,262	R.R. Donnelley & Sons Co. 115,400	3,395
Safeco Corp. 74,300	3,254		
St. Paul Cos., Inc. 356,822	14,512		

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Radio One, Inc., Class A 56,200	1,072	Golden West Financial Corp. 81,400	8,556
• Time Warner, Inc. 2,446,330	41,147	Goldman Sachs Group, Inc. 260,300	25,184
Tribune Co. 177,600	8,504	GreenPoint Financial Corp. 71,500	2,788
• Univision Communications, Inc., Class A 172,910	5,853	Independence Community Bank Corp. 44,000	1,603
• Valassis Communications, Inc. 28,000	865	IndyMac Bancorp, Inc. 29,900	962
Viacom, Inc., Class B 942,279	36,419	International Bancshares Corp. 20,800	1,109
The Walt Disney Co. 1,101,121	25,359	Investors Financial Services Corp. 35,100	1,364
Washington Post, Class B 5,200	4,784	Janus Capital Group, Inc. 129,200	1,964
• Westwood One, Inc. 53,600	1,583	Jefferies Group, Inc. 29,200	996
• XM Satellite Radio Holdings, Inc., Class A 97,200	2,329	• Knight Trading Group, Inc. 61,500	715
	<b>276,756</b>	Legg Mason, Inc. 35,600	3,277
<b>Miscellaneous 0.6%</b>		Lehman Brothers Holdings, Inc. 147,570	10,832
3M Co. 420,900	<b>36,399</b>	Leucadia National Corp. 37,300	1,838
<b>Miscellaneous Finance 8.5%</b>		MBNA Corp. 689,280	16,805
A.G. Edwards, Inc. 42,143	1,542	Merrill Lynch & Co., Inc. 522,600	28,341
• Affiliated Managers Group, Inc. 17,250	840	Moody's Corp. 79,900	5,154
Allied Capital Corp. 68,500	1,625	Morgan Stanley 589,910	30,315
American Capital Strategies Ltd. 34,700	911	New York Community Bancorp, Inc. 145,182	3,640
American Express Co. 693,900	33,966	Nuveen Investments, Inc., Class A 49,800	1,276
• AmeriCredit Corp. 84,000	1,362	• Provident Financial Corp. 155,700	1,889
• Ameritrade Holding Corp. 226,600	2,774	Raymond James Financial, Inc. 39,150	983
Astoria Financial Corp. 42,500	1,463	SEI Investments Co. 56,500	1,668
The Bear Stearns Cos., Inc. 55,771	4,469	SLM Corp. 243,750	9,338
• Berkshire Hathaway, Inc., Class A 620	57,902	Sovereign Bancorp., Inc. 164,100	3,279
• BOK Financial Corp. 30,686	1,199	Student Loan Corp. 10,800	1,529
Capital One Financial Corp. 125,850	8,247	T. Rowe Price Group, Inc. 66,700	3,420
■ The Charles Schwab Corp. 730,497	7,517	Waddell & Reed Financial, Inc., Class A 44,200	983
Charter One Financial, Inc. 119,404	3,984	Washington Federal, Inc. 41,229	963
Chicago Mercantile Exchange 17,700	2,076	Washington Mutual, Inc. 484,410	19,081
CIT Group, Inc. 114,500	3,935	Webster Financial Corp. 24,500	1,066
⑤ Citigroup, Inc. 2,769,201	133,171	Wesco Financial Corp. 3,900	1,546
Countrywide Financial Corp. 148,119	8,783		<b>538,566</b>
• E*TRADE Group, Inc. 196,400	2,231	<b>Non-Durables &amp; Entertainment 1.3%</b>	
Eaton Vance Corp. 36,900	1,347	• Activision, Inc. 71,400	1,075
Fannie Mae 523,200	35,954	Applebee's International, Inc. 29,450	1,142
Federated Investors, Inc., Class B 58,250	1,712	• Brinker International, Inc. 51,800	1,992
Franklin Resources, Inc. 136,600	7,490	CBRL Group, Inc. 26,600	999
Freddie Mac 369,900	21,602	• The Cheesecake Factory 27,650	1,171

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Darden Restaurants, Inc. 88,450	2,004	Murphy Oil Corp. 49,340	3,380
• Electronic Arts, Inc. 161,700	8,185	• Nabors Industries Ltd. 78,700	3,491
Fortune Brands, Inc. 78,200	5,963	• National-Oilwell, Inc. 45,700	1,276
Hasbro, Inc. 93,687	1,770	• Newfield Exploration Co. 30,100	1,586
International Game Technology 187,700	7,084	Patina Oil & Gas Corp. 36,800	1,023
International Speedway Corp., Class A 28,500	1,201	• Patterson-UTI Energy, Inc. 43,500	1,574
• Krispy Kreme Doughnuts, Inc. 32,300	1,050	• Pioneer Natural Resources Co. 63,400	2,074
Lancaster Colony Corp. 19,200	793	Pogo Producing Co. 34,200	1,687
• Marvel Enterprises, Inc. 58,050	1,102	• Pride International, Inc. 72,800	1,228
Mattel, Inc. 230,520	3,910	Sunoco, Inc. 41,500	2,610
McDonald's Corp. 682,800	18,593	• Ultra Petroleum Corp. 39,900	1,310
Outback Steakhouse, Inc. 40,175	1,765	Unocal Corp. 138,834	5,004
Regis Corp. 23,500	1,020	• Varco International, Inc. 52,400	1,084
Ruby Tuesday, Inc. 34,800	1,041	• Westport Resources Corp. 36,200	1,239
• Service Corp. International 161,700	1,195	XTO Energy, Inc. 123,666	3,302
• Starbucks Corp. 211,700	8,227		<b>76,738</b>
Wendy's International, Inc. 61,200	2,387		
• Yum! Brands, Inc. 157,720	6,118		
	<b>79,787</b>		
<b>Non-Ferrous Metals 0.3%</b>		<b>Oil: International 3.2%</b>	
Alcoa, Inc. 466,295	14,339	ChevronTexaco Corp. 575,346	52,644
Engelhard Corp. 67,387	1,957	③ Exxon Mobil Corp. 3,525,230	149,999
Freeport-McMoran Copper & Gold, Inc., Class B 92,394	2,818		<b>202,643</b>
• Phelps Dodge Corp. 50,000	3,291		
	<b>22,405</b>	<b>Optical &amp; Photo 0.2%</b>	
<b>Oil: Domestic 1.2%</b>		• Corning, Inc. 716,041	7,898
Amerada Hess Corp. 48,200	3,428	Eastman Kodak Co. 153,700	3,964
Ashland, Inc. 36,900	1,768	• Ingram Micro, Inc., Class A 81,200	970
Chesapeake Energy Corp. 127,400	1,752		<b>12,832</b>
ConocoPhillips 367,178	26,180	<b>Paper &amp; Forest Products 0.8%</b>	
Consol Energy, Inc. 48,200	1,380	Boise Cascade Corp. 46,400	1,565
Diamond Offshore Drilling, Inc. 70,000	1,579	Bowater, Inc. 29,800	1,250
Kerr-McGee Corp. 54,002	2,642	Georgia-Pacific Corp. 136,388	4,787
Marathon Oil Corp. 183,000	6,141	International Paper Co. 259,645	10,469
		Kimberly-Clark Corp. 269,360	17,630
		• Louisiana-Pacific Corp. 56,900	1,342

Security and Number of Shares	Value (\$ x 1,000)
MeadWestvaco Corp. 107,653	2,815
Packaging Corp. of America 56,600	1,244
Rayonier, Inc. 26,196	1,022
• Smurfit-Stone Container Corp. 132,600	2,279
Temple-Inland, Inc. 29,200	1,804
Weyerhaeuser Co. 119,900	7,098
	<b>53,305</b>

#### Producer Goods & Manufacturing 4.6%

• AGCO Corp. 47,500	914
• American Standard Cos., Inc. 39,100	4,113
Ametek, Inc. 36,000	954
Avery Dennison Corp. 59,300	3,809
Blyth, Inc. 24,500	797
Briggs & Stratton Corp. 11,900	833
Caterpillar, Inc. 188,200	14,629
Cooper Industries Ltd., Class A 50,100	2,751
Deere & Co. 130,700	8,893
Dover Corp. 108,700	4,351
Emerson Electric Co. 227,700	13,712
Fastenal Co. 40,800	2,239
• Fisher Scientific International, Inc. 33,700	1,973
▲ General Electric Co. 5,480,300	164,135
Graco, Inc. 37,050	1,045
Harsco Corp. 22,000	958
Herman Miller, Inc. 39,200	1,030
HON Industries, Inc. 31,300	1,158
Honeywell International, Inc. 464,363	16,058
Hubbell, Inc., Class B 32,138	1,444
Illinois Tool Works, Inc. 167,242	14,418
Ingersoll-Rand Co., Class A 93,100	6,010
Johnson Controls, Inc. 101,400	5,563
• Millipore Corp. 26,100	1,368
Pall Corp. 67,133	1,596
Parker Hannifin Corp. 63,575	3,515
Pentair, Inc. 26,400	1,573
Precision Castparts Corp. 33,300	1,499
Roper Industries, Inc. 19,200	932
Snap-On, Inc. 31,350	1,059

Security and Number of Shares	Value (\$ x 1,000)
• SPX Corp. 40,800	1,810
Teleflex, Inc. 21,300	972
The Timken Co. 47,800	1,054
W.W. Grainger, Inc. 48,900	2,562
York International Corp. 21,500	843
	<b>290,570</b>

#### Railroad & Shipping 0.4%

Burlington Northern Santa Fe Corp. 199,053	6,509
CSX Corp. 114,900	3,535
Norfolk Southern Corp. 209,500	4,990
Union Pacific Corp. 138,861	8,183
	<b>23,217</b>

#### Real Property 1.4%

AMB Property Corp. 43,900	1,330
Annaly Mortgage Management, Inc. 61,400	1,062
Apartment Investment & Management Co., Class A 50,600	1,425
Archstone-Smith Trust 102,500	2,812
Arden Realty, Inc. 34,500	974
AvalonBay Communities, Inc. 38,200	1,896
Boston Properties, Inc. 56,700	2,665
BRE Properties, Class A 26,900	853
Camden Property Trust 21,200	897
CarrAmerica Realty Corp. 28,200	804
• Catellus Development Corp. 55,398	1,194
CBL & Associates Properties, Inc. 16,300	819
Centerpoint Properties Trust 12,400	894
Chelsea Property Group, Inc. 23,400	1,193
Cousins Properties, Inc. 26,100	734
Crescent Real Estate Equity Co. 53,300	825
Developers Diversified Realty Corp. 46,400	1,520
Duke Realty Corp. 73,000	2,129
Equity Office Properties Trust 214,400	5,396
Equity Residential 147,800	4,059
Essex Property Trust, Inc. 12,300	750

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Federal Realty Investment Trust 26,400	979	Albertson's, Inc. 196,742	4,596
Forest City Enterprises, Inc., Class A 26,750	1,403	• Amazon.com, Inc. 217,100	9,435
General Growth Properties, Inc. 115,300	3,126	• AnnTaylor Stores Corp. 24,300	985
Health Care Property Investors, Inc. 69,600	1,663	• Autonation, Inc. 147,500	2,510
Health Care Real Estate Investment Trust, Inc. 26,500	846	• AutoZone, Inc. 47,600	4,168
Healthcare Realty Trust, Inc. 23,000	825	• Barnes & Noble, Inc. 35,800	1,069
Hospitality Properties Trust 35,900	1,403	• Bed, Bath & Beyond, Inc. 158,800	5,895
• Host Marriott Corp. 171,300	2,038	Best Buy Co., Inc. 175,550	9,524
iStar Financial, Inc. 57,800	2,054	• Big Lots, Inc. 62,800	889
Kimco Realty Corp. 59,300	2,534	• BJ's Wholesale Club, Inc. 37,500	909
Liberty Property Trust 42,900	1,568	Borders Group, Inc. 41,600	997
The Macerich Co. 31,000	1,298	• Carmax, Inc. 55,600	1,441
Mack-Cali Realty Corp. 31,200	1,165	• Chico's FAS, Inc. 46,800	1,906
The Mills Corp. 25,900	1,052	Circuit City Stores, Inc. 112,400	1,313
New Plan Excel Realty Trust 52,500	1,178	Claire's Stores, Inc. 52,500	1,070
Pan Pacific Retail Properties, Inc. 21,700	953	• Costco Wholesale Corp. 247,508	9,269
Plum Creek Timber Co., Inc. 98,200	2,903	CVS Corp. 213,814	8,260
ProLogis 96,608	2,842	Dollar General Corp. 180,869	3,393
Public Storage, Inc. 68,100	2,846	• Dollar Tree Stores, Inc. 61,800	1,666
Realty Income Corp. 20,400	780	Family Dollar Stores, Inc. 92,400	2,970
Regency Centers Corp. 32,100	1,217	Federated Department Stores, Inc. 96,900	4,748
The Rouse Co. 55,100	2,386	Foot Locker, Inc. 76,900	1,846
Shurgard Storage Centers, Inc., Class A 24,500	816	The Gap, Inc. 482,500	10,620
Simon Property Group, Inc. 109,800	5,293	Home Depot, Inc. 1,226,397	43,157
SL Green Realty Corp. 21,300	869	J.C. Penney Co., Inc. Holding Co. 146,500	4,960
The St. Joe Co. 40,800	1,599	• Kohl's Corp. 184,300	7,702
Thornburg Mortgage, Inc. 38,700	1,002	• Kroger Co. 401,630	7,029
Trizec Properties, Inc. 81,000	1,160	Limited Brands, Inc. 250,568	5,172
United Dominion Realty Trust, Inc. 68,100	1,222	Lowe's Cos., Inc. 423,800	22,063
Ventas, Inc. 43,000	950	The May Department Stores Co. 154,750	4,766
Vornado Realty Trust 64,200	3,239	Michaels Stores, Inc. 35,900	1,796
Weingarten Realty Investment 43,950	1,271	• The Neiman Marcus Group, Inc., Class A 26,200	1,274
	<b>88,711</b>	Nordstrom, Inc. 73,700	2,626
		• O'Reilly Automotive, Inc. 29,200	1,311
		• Office Depot, Inc. 168,048	2,943
		• Pacific Sunwear of California 42,000	902
		PETsMART, Inc. 76,800	2,127
		Pier 1 Imports, Inc. 47,800	988
<b>Retail 6.6%</b>			
• 99 Cents Only Stores 38,766	766		
• Abercrombie & Fitch Co., Class A 51,800	1,629		
• Advance Auto Parts, Inc. 39,300	1,696		

Security and Number of Shares	Value (\$ x 1,000)
RadioShack Corp. 88,132	2,711
• Rent-A-Center, Inc. 45,750	1,339
• Rite Aid Corp. 276,900	1,357
Ross Stores, Inc. 81,600	2,489
• Safeway, Inc. 237,180	5,443
• Saks, Inc. 73,640	1,060
Sears, Roebuck & Co. 119,900	4,802
• Staples, Inc. 265,560	6,841
Talbots, Inc. 30,400	1,062
Target Corp. 490,900	21,290
Tiffany & Co. 78,600	3,065
TJX Cos., Inc. 269,900	6,631
• Toys 'R' Us, Inc. 114,580	1,770
• Urban Outfitters, Inc. 21,300	983
▲ ⑥ Wal-Mart Stores, Inc. 2,325,700	132,565
Walgreen Co. 551,900	19,030
Whole Foods Market, Inc. 32,200	2,576
• Williams-Sonoma, Inc. 62,700	2,036
	<b>419,436</b>

**Steel 0.1%**

Nucor Corp. 41,900	2,489
United States Steel Corp. 60,860	1,742
Worthington Industries, Inc. 46,100	832
	<b>5,063</b>

**Telephone 3.6%**

Adtran, Inc. 42,500	1,042
Alltel Corp. 169,367	8,526
AT&T Corp. 425,617	7,299
• AT&T Wireless Services, Inc. 1,461,621	20,185
• Avaya, Inc. 223,600	3,059
BellSouth Corp. 983,400	25,382
CenturyTel, Inc. 77,287	2,232
• Citizens Communications Co. 152,518	1,989
• Crown Castle International Corp. 118,000	1,646
• Level 3 Communications, Inc. 363,200	1,028
• Liberty Media Corp., Class A 1,449,300	15,855
• Nextel Communications, Inc., Class A 591,800	14,120
• Nextel Partners, Inc., Class A 98,000	1,308

Security and Number of Shares	Value (\$ x 1,000)
• NTL, Inc. 46,700	2,651
• Qwest Communications International, Inc. 948,647	3,814
SBC Communications, Inc. 1,776,628	44,238
• Sonus Networks, Inc. 131,200	499
Sprint Corp. (FON Group) 764,529	13,677
Telephone & Data Systems, Inc. 30,900	2,038
• U.S. Cellular Corp. 46,100	1,580
Verizon Communications, Inc. 1,487,393	56,134
	<b>228,302</b>

**Tobacco 1.1%**

Altria Group, Inc. 1,100,300	60,935
R.J. Reynolds Tobacco Holdings, Inc. 45,300	2,934
UST, Inc. 88,900	3,308
	<b>67,177</b>

**Travel & Recreation 0.4%**

Brunswick Corp. 49,100	2,019
• Caesars Entertainment, Inc. 162,600	2,154
Harrah's Entertainment, Inc. 59,200	3,148
Hilton Hotels Corp. 203,467	3,559
Mandalay Resort Group 34,900	2,005
Marriott International, Inc., Class A 124,000	5,848
• MGM MIRAGE 77,700	3,559
Starwood Hotels & Resorts Worldwide, Inc. 108,400	4,313
Station Casinos, Inc. 32,200	1,452
	<b>28,057</b>

**Trucking & Freight 0.2%**

C.H. Robinson Worldwide, Inc. 45,200	1,855
CNF, Inc. 26,700	976
Expeditors International Washington, Inc. 56,400	2,267
• J.B. Hunt Transport Services, Inc. 43,000	1,361
Paccar, Inc. 93,870	5,300
Ryder Systems, Inc. 34,500	1,269
• Swift Transportation Co., Inc. 44,900	760
Werner Enterprises, Inc. 42,800	856
• Yellow Roadway Corp. 25,300	861
	<b>15,505</b>



**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Utilities: Electric &amp; Gas 3.0%</b>	
• The AES Corp. 334,106	2,897
AGL Resources, Inc. 34,500	987
• Allegheny Energy, Inc. 68,200	940
Allete, Inc. 46,700	1,613
Alliant Energy Corp. 59,300	1,474
Ameren Corp. 97,730	4,273
American Electric Power Co., Inc. 213,820	6,509
Aqua America, Inc. 49,675	1,016
• Calpine Corp. 221,700	962
Centerpoint Energy, Inc. 164,217	1,772
Cinergy Corp. 95,465	3,622
Consolidated Edison, Inc. 120,900	4,982
Constellation Energy Group, Inc. 89,750	3,454
Dominion Resources, Inc. 176,016	11,232
DPL, Inc. 67,892	1,196
DTE Energy Co. 90,183	3,519
Duke Energy Corp. 488,762	10,293
• Dynegy, Inc., Class A 202,300	801
Edison International 174,700	4,088
El Paso Corp. 344,646	2,416
Energen Corp. 19,400	802
Energy East Corp. 78,384	1,846
Entergy Corp. 122,821	6,706
Equitable Resources, Inc. 33,400	1,569
Exelon Corp. 177,387	11,874
FirstEnergy Corp. 176,898	6,917
FPL Group, Inc. 100,600	6,400
Great Plains Energy, Inc. 37,200	1,161
Hawaiian Electric Industries, Inc. 20,200	1,005
KeySpan Corp. 85,334	3,085
Kinder Morgan, Inc. 66,200	3,986
MDU Resources Group, Inc. 60,800	1,362
National Fuel Gas Co. 43,700	1,070
Nicor, Inc. 23,700	806
NiSource, Inc. 140,880	2,840
Northeast Utilities, Inc. 71,800	1,318
NSTAR 28,400	1,375
OGE Energy Corp. 46,700	1,123
Oneok, Inc. 54,800	1,148
Peoples Energy Corp. 19,700	823

Security and Number of Shares	Value (\$ x 1,000)
Pepco Holdings, Inc. 92,025	1,743
• PG&E Corp. 222,458	6,122
Piedmont Natural Gas Co. 20,300	822
Pinnacle West Capital Corp. 49,000	1,914
PPL Corp. 95,220	4,080
Progress Energy, Inc. 131,400	5,620
Public Service Enterprise Group, Inc. 126,100	5,410
Puget Energy, Inc. 50,600	1,111
Questar Corp. 44,600	1,582
SCANA Corp. 59,500	2,047
Sempra Energy 121,438	3,856
The Southern Co. 394,700	11,352
TECO Energy, Inc. 100,800	1,283
TXU Corp. 173,712	5,931
Vectren Corp. 40,600	980
Westar Energy, Inc. 38,900	794
Williams Cos., Inc. 277,909	2,862
Wisconsin Energy Corp. 63,200	1,984
WPS Resources Corp. 19,500	893
Xcel Energy, Inc. 214,035	3,581
	<b>189,229</b>

**Short-Term Investment**

0.1% of net assets

Provident Institutional TempFund 2,440,442	<b>2,440</b>
--------------------------------------------	--------------

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

**U.S. Treasury Obligations**

0.0% of net assets

▲ U.S. Treasury Bills, 0.80%-0.92%, 06/17/04 365	<b>365</b>
-----------------------------------------------------	------------

**End of investments.**



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

**Collateral Invested for Securities on Loan**

17.2% of net assets

**Commercial Paper & Other Corporate Obligations 9.3%**

American Express Credit Corp. 1.07%, 05/13/04	15,081	15,081
Bank of America 1.05%, 09/20/04	34,844	34,844
Canadian Imperial Bank Corp. 1.72%, 05/25/05	59,330	59,317
1.06%, 05/28/04	22,647	22,644
1.04%, 01/31/05	23,854	23,851
Concord Minutemen Capital Corp. 1.04%, 05/20/04	29,100	29,076
Credit Lyonnais 1.08%, 09/30/04	26,570	26,570
Crown Point Funding Corp. 1.04%, 05/10/04	30,543	30,518
Fairway Finance Corp. 1.04%, 05/13/04	15,834	15,821
Foreningssparbanken AB 1.06%, 05/17/04	69,930	69,919
General Electric Capital Corp. 1.06%, 05/10/04	45,492	45,535
Societe Generale 1.14%, 05/03/04	56,681	56,670
Svenska Handelsbanken 1.39%, 10/27/04	47,558	47,554
Westdeutsche Landesbank AG 1.50%, 01/10/05	44,907	44,894
1.05%, 09/23/04	22,032	22,028
1.05%, 09/29/04	24,167	24,161
1.05%, 10/12/04	22,273	22,271
	<b>590,754</b>	

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Short-Term Investment 1.1%**

Deutsche Bank, Time Deposit 1.04%, 05/03/04	71,116	<b>71,116</b>
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**Security and Number of Shares****Other Investment Companies 6.8%**

Institutional Money Market Trust 432,083,687	<b>432,084</b>
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**End of collateral invested for securities on loan.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$1,043,194 of securities on loan)	\$6,333,933
Collateral invested for securities on loan	1,093,954
Receivables:	
Fund shares sold	4,533
Interest	2
Dividends	6,726
Investments sold	6,920
Income from securities on loan	110
Prepaid expenses	+ 87
<b>Total assets</b>	<b>7,446,265</b>

**Liabilities**

Collateral invested for securities on loan	1,093,954
Payables:	
Fund shares redeemed	3,798
Interest expense	6
Investments bought	4,875
Due to brokers for futures	44
Investment adviser and administrator fees	79
Transfer agent and shareholder service fees	70
Accrued expenses	+ 323
<b>Total liabilities</b>	<b>1,103,149</b>

**Net Assets**

<b>Total assets</b>	7,446,265
<b>Total liabilities</b>	- 1,103,149
<b>Net assets</b>	<b>\$6,343,116</b>

**Net Assets by Source**

Capital received from investors	4,555,863
Net investment income not yet distributed	21,736
Net realized capital losses	(557,080)
Net unrealized capital gains	2,322,597

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$4,226,208		133,484		\$31.66
Select Shares	\$2,116,908		66,865		\$31.66

Unless stated, all numbers x 1,000.

The fund paid \$4,011,231 for these securities.

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

Purchases	\$260,245
Sales/maturities	\$201,813

The fund's total security transactions with other SchwabFunds® during the period were \$52,421.

These derive from investments and futures. As of the report date, the fund had twenty-two open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate contract value of \$6,084 and net unrealized losses of \$105.

**Federal Tax Data**

<b>Portfolio cost</b>	\$4,032,324
<b>Net unrealized gains and losses:</b>	
Gains	\$2,723,801
Losses	+ (422,192)
	<b>\$2,301,609</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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

**Investment Income**

Dividends	\$50,145
Interest	26
Securities on loan	+ 728
<b>Total investment income</b>	<b>50,899</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(8,357)
Net realized gains on futures contracts	+ 315
<b>Net realized losses</b>	<b>(8,042)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	320,766
Net unrealized losses on futures contracts	+ (211)
<b>Net unrealized gains</b>	<b>320,555</b>

**Expenses**

Investment adviser and administrator fees	7,147
Transfer agent and shareholder service fees:	
Investor Shares	5,262
Select Shares	1,054
Trustees' fees	18
Custodian fees	78
Portfolio accounting fees	434
Professional fees	33
Registration fees	61
Shareholder reports	317
Interest expense	1
Other expenses	+ 25
Total expenses	14,430
Expense reduction	- 6
<b>Net expenses</b>	<b>14,424</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	50,899
<b>Net expenses</b>	- 14,424
<b>Net investment income</b>	<b>36,475</b>
<b>Net realized losses</b>	(8,042)
<b>Net unrealized gains</b>	+ 320,555
<b>Increase in net assets from operations</b>	<b>\$348,988</b>

Unless stated, all numbers x 1,000.

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

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 28, 2005, as follows:

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

This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$312,513.

## Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$36,475	\$68,476
Net realized losses	(8,042)	(168,829)
Net unrealized gains	+ 320,555	1,141,148
<b>Increase in net assets from operations</b>	<b>348,988</b>	<b>1,040,795</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	45,314	40,944
Select Shares	+ 25,058	22,368
<b>Total dividends from net investment income</b>	<b>\$70,372</b>	<b>\$63,312</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	12,379	\$393,686	23,357	\$623,574
Select Shares	+ 6,203	197,356	14,563	384,508
<b>Total shares sold</b>	<b>18,582</b>	<b>\$591,042</b>	<b>37,920</b>	<b>\$1,008,082</b>
<b>Shares Reinvested</b>				
Investor Shares	1,365	\$41,809	1,516	\$38,050
Select Shares	+ 698	21,363	766	19,200
<b>Total shares reinvested</b>	<b>2,063</b>	<b>\$63,172</b>	<b>2,282</b>	<b>\$57,250</b>
<b>Shares Redeemed</b>				
Investor Shares	(11,617)	(\$369,823)	(21,127)	(\$560,404)
Select Shares	+ (5,969)	(189,524)	(12,277)	(323,765)
<b>Total shares redeemed</b>	<b>(17,586)</b>	<b>(\$559,347)</b>	<b>(33,404)</b>	<b>(\$884,169)</b>
<b>Net transactions in fund shares</b>	<b>3,059</b>	<b>\$94,867</b>	<b>6,798</b>	<b>\$181,163</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	197,290	\$5,969,633	190,492	\$4,810,987
Total increase	+ 3,059	373,483	6,798	1,158,646
<b>End of period</b>	<b>200,349</b>	<b>\$6,343,116</b>	<b>197,290</b>	<b>\$5,969,633</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$63,312
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	\$129
Select Shares	+ 44
<b>Total</b>	<b>\$173</b>

**Prior period:**

Investor Shares	\$222
Select Shares	+ 163
<b>Total</b>	<b>\$385</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 \$21,736 and \$55,633 at the end of the current period and prior period, respectively.

# Schwab Small-Cap Index Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	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	18.22	13.27	15.98	21.06	17.41	15.39
Income or loss from investment operations:						
Net investment income	0.06	0.11	0.13	0.07	0.07	0.06
Net realized and unrealized gains or losses	0.68	4.98	(2.17)	(2.76)	3.62	2.89
Total income or loss from investment operations	0.74	5.09	(2.04)	(2.69)	3.69	2.95
Less distributions:						
Dividends from net investment income	(0.11)	(0.14)	(0.09)	(0.08)	(0.04)	(0.06)
Distributions from net realized gains	–	–	(0.58)	(2.31)	–	(0.87)
Total distributions	(0.11)	(0.14)	(0.67)	(2.39)	(0.04)	(0.93)
Net asset value at end of period	18.85	18.22	13.27	15.98	21.06	17.41
Total return (%)	4.07 <sup>1</sup>	38.72	(13.66)	(13.66)	21.22	19.96
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.59 <sup>2</sup>	0.56	0.49	0.49	0.50 <sup>3</sup>	0.49
Gross operating expenses	0.59 <sup>2</sup>	0.60	0.60	0.61	0.66	0.79
Net investment income	0.62 <sup>2</sup>	0.74	0.77	0.49	0.44	0.33
Portfolio turnover rate	36 <sup>1</sup>	34	44	49	54	41
Net assets, end of period (\$ x 1,000,000)	889	886	722	804	803	452

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

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

## Financial Highlights

Select Shares	11/1/03– 4/30/04*	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	18.25	13.28	16.00	21.09	17.44	15.41
Income or loss from investment operations:						
Net investment income	0.08	0.14	0.14	0.11	0.11	0.07
Net realized and unrealized gains or losses	0.68	4.99	(2.18)	(2.78)	3.61	2.90
Total income or loss from investment operations	0.76	5.13	(2.04)	(2.67)	3.72	2.97
Less distributions:						
Dividends from net investment income	(0.14)	(0.16)	(0.10)	(0.11)	(0.07)	(0.07)
Distributions from net realized gains	—	—	(0.58)	(2.31)	—	(0.87)
Total distributions	(0.14)	(0.16)	(0.68)	(2.42)	(0.07)	(0.94)
Net asset value at end of period	18.87	18.25	13.28	16.00	21.09	17.44
Total return (%)	4.14 <sup>1</sup>	39.02	(13.62)	(13.56)	21.37	20.14
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.42 <sup>2</sup>	0.41	0.38	0.38	0.39 <sup>3</sup>	0.38
Gross operating expenses	0.44 <sup>2</sup>	0.45	0.45	0.46	0.51	0.65
Net investment income	0.78 <sup>2</sup>	0.89	0.88	0.60	0.55	0.44
Portfolio turnover rate	36 <sup>1</sup>	34	44	49	54	41
Net assets, end of period (\$ x 1,000,000)	780	759	638	727	757	447

\* Unaudited.

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

**Portfolio Holdings** as of April 30, 2004, unaudited

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
- ▷ Security is valued at fair value (see Accounting Policies)

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.8% Common Stock</b>	1,514,938	1,664,651
<b>0.1% Short-Term Investment</b>	1,234	1,234
<b>0.0% U.S. Treasury Obligation</b>	100	100
<b>99.9% Total Investments</b>	<b>1,516,272</b>	<b>1,665,985</b>
<b>6.1% Collateral Invested for Securities on Loan</b>	102,582	102,582
<b>(6.0)% Other Assets and Liabilities, Net</b>		(100,210)
<b>100.0% Total Net Assets</b>		<b>1,668,357</b>

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

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

• Armor Holdings, Inc.	67,800	2,240
• DRS Technologies, Inc.	64,900	1,833
• EDO Corp.	48,900	1,110
▲ Engineered Support Systems, Inc.	62,150	3,022
• ESCO Technologies, Inc.	29,800	1,439
• Esterline Technologies Corp.	52,100	1,290
• GenCorp, Inc.	109,000	1,157
• Teledyne Technologies, Inc.	79,800	1,515
• Veeco Instruments, Inc.	70,570	1,605
		<b>15,211</b>

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

**Air Transportation 1.1%**

• AAR Corp.	79,000	802
• AirTran Holdings, Inc.	202,800	2,476
• Alaska Air Group, Inc.	64,300	1,423
• America West Holdings Corp., Class B	86,800	859
• Atlantic Coast Airlines Holdings, Inc.	112,300	736
• Aviall, Inc.	78,200	1,294
• Continental Airlines, Inc., Class B	160,300	1,709
• EGL, Inc.	115,300	2,138
• ExpressJet Holdings, Inc.	130,600	1,661
• Frontier Airlines, Inc.	87,200	792
• Mesa Air Group, Inc.	78,100	552
• Northwest Airlines Corp., Class A	209,400	1,968
• SkyWest, Inc.	139,300	2,535
		<b>18,945</b>

**Alcoholic Beverages 0.1%**

• The Robert Mondavi Corp., Class A	24,400	<b>878</b>
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**Apparel 1.6%**

• Aeropostale, Inc.	136,350	2,998
• Brown Shoe Co., Inc.	42,700	1,562
• The Buckle, Inc.	50,850	1,389
• K-Swiss, Inc., Class A	85,300	1,664
• Kellwood Co.	64,200	2,533
• Kenneth Cole Productions, Inc., Class A	48,550	1,679
• Oxford Industries, Inc.	38,100	1,485
• Phillips-Van Heusen Corp.	75,200	1,359
• Quiksilver, Inc.	135,200	2,925
• Russell Corp.	78,300	1,302
• Stage Stores, Inc.	45,700	1,794
• Stride Rite Corp.	97,300	1,044
• The Warnaco Group, Inc.	110,000	2,104
• Wolverine World Wide, Inc.	95,400	2,565
		<b>26,403</b>

**Automotive Products / Motor Vehicles 1.8%**

A.O. Smith Corp., Class B	70,300	2,102
Arctic Cat, Inc.	50,000	1,188

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Bandag, Inc. 45,700	1,990	First Niagra Financial Group, Inc. 202,777	2,555
• CSK Auto Corp. 113,100	2,088	First Republic Bank 34,500	1,314
• Fleetwood Enterprises, Inc. 93,200	1,351	Firstfed America Bancorp, Inc. 45,400	1,112
• Group 1 Automotive, Inc. 54,200	1,873	• FirstFed Financial Corp. 40,100	1,621
• Keystone Automotive Industries, Inc. 37,200	964	Frontier Financial Corp. 44,800	1,485
Lithia Motors, Inc., Class A 36,400	940	Gold Banc Corp., Inc. 95,100	1,556
Modine Manufacturing Co. 82,700	2,274	Hancock Holding Co. 73,434	2,050
• Monaco Coach Corp. 70,000	1,825	Harbor Florida Bancshares, Inc. 57,000	1,580
Sonic Automotive, Inc. 69,800	1,738	Harleysville National Corp. 58,993	1,542
Superior Industries International, Inc. 64,300	2,191	Independent Bank Corp. 36,200	976
• TBC Corp. 52,500	1,467	Integra Bank Corp. 42,870	881
• Tower Automotive, Inc. 139,600	715	Irwin Financial Corp. 67,500	1,596
▲• United Defense Industries, Inc. 125,200	4,338	▲ MAF Bancorp., Inc. 79,725	3,257
Winnebago Industries, Inc. 79,800	2,301	Main Street Banks, Inc. 46,900	1,266
	<b>29,345</b>	Mid-State Bancshares 56,800	1,277
		Midwest Banc Holdings, Inc. 43,300	985
		Movie Gallery, Inc. 78,700	1,528
		National Penn Bancshares, Inc. 59,010	1,774
		NBT Bancorp., Inc. 79,400	1,661
		Net.B@nk, Inc. 113,600	1,226
		Oriental Financial Group 48,615	1,387
		PFF Bancorp, Inc. 41,100	1,539
		PrivateBancorp, Inc. 24,400	1,350
		Prosperity Bancshares, Inc. 50,700	1,175
		Provident Bankshares Corp. 58,694	1,653
		Republic Bancorp, Inc. 155,162	2,019
		Riggs National Corp. 70,900	1,283
		S&T Bancorp, Inc. 63,400	1,802
		• S1 Corp. 170,900	1,377
		Sandy Spring Bancorp, Inc. 35,800	1,281
		Simmons First National Corp., Class A 34,900	907
		▲ Southwest Bancorp of Texas, Inc. 82,700	3,363
		Sterling Bancorp 37,000	1,022
		Sterling Bancshares, Inc. 106,950	1,359
		• Sterling Financial Corp. 49,500	1,634
		Suffolk Bancorp 27,100	892
		Susquehanna Bancshares, Inc. 96,675	2,262
		Texas Regional Bancshares, Inc., Class A 71,419	3,015
		Tompkins Trustco, Inc. 20,200	958
		The Trust Co. of New Jersey 43,500	1,610

## Banks 6.6%

Alabama National Bancorp 35,900	1,832
Anchor Bancorp Wisconsin, Inc. 55,300	1,343
BancFirst Corp. 19,300	1,062
BankAtlantic Bancorp, Inc., Class A 132,100	2,067
Boston Private Financial Holdings, Inc. 64,100	1,494
Brookline Bancorp, Inc. 143,800	2,036
Capital City Bank Group, Inc. 32,750	1,269
Capitol Bancorp Ltd. 33,800	845
Chemical Financial Corp. 56,687	1,942
City Holding Co. 41,200	1,261
Community Bank System, Inc. 64,400	1,310
Community Banks, Inc. 30,135	925
Community First Bankshares, Inc. 91,100	2,932
Community Trust Bancorp, Inc. 33,300	972
Corus Bankshares, Inc. 67,500	2,548
Dime Community Bancshares, Inc. 93,175	1,593
First Charter Corp. 71,400	1,474
First Commonwealth Financial Corp. 145,100	2,047
First Federal Capital Corp. 55,400	1,420
First Financial Bancorp 107,030	1,822
First Financial Bancshares, Inc. 36,831	1,516
First Merchants Corp. 45,730	1,067



Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Trustco Bank Corp. 179,220	2,260	• Administaff, Inc. 63,900	1,118
UMB Financial Corp. 51,793	2,601	• Advent Software, Inc. 79,000	1,476
Umpqua Holdings Corp. 68,400	1,296	• The Advisory Board Co. 37,400	1,294
United Community Financial Corp. 67,200	825	• Advo, Inc. 72,650	2,281
Unizan Financial Corp. 53,600	1,305	• Agile Software Corp. 128,400	969
USB Holding Co., Inc. 48,100	1,013	• Alderwoods Group, Inc. 99,100	1,217
WesBanco, Inc. 47,000	1,340	• Altiris, Inc. 63,400	1,604
Wintrust Financial Corp. 46,800	2,223	• American Management Systems, Inc. 103,000	1,989
	<b>110,770</b>	• American Superconductor Corp. 67,400	851
<b>Business Machines &amp; Software 2.3%</b>		• AMN Healthcare Services, Inc. 69,633	1,134
• Adaptec, Inc. 263,000	2,057	• Ansys, Inc. 36,200	1,341
• Advanced Digital Information Corp. 155,600	1,643	• aQuantive, Inc. 148,700	1,494
Analogic Corp. 31,400	1,487	• Ariba, Inc. 657,200	1,452
▲ Arbitron, Inc. 73,200	2,727	• Ask Jeeves, Inc. 113,300	4,019
• Artesyn Technologies, Inc. 96,000	884	• Aspen Technology, Inc. 99,600	647
Black Box Corp. 42,500	2,165	• At Road, Inc. 129,600	1,091
• Borland Software Corp. 195,400	1,612	• Barra, Inc. 46,000	1,879
• Cray, Inc. 179,400	1,112	Bowne & Co., Inc. 81,700	1,383
• Enterasys Networks, Inc. 513,600	1,079	• Bright Horizons Family Solutions, Inc. 32,300	1,433
• FindWhat.com 53,000	1,068	▲ CACI International, Inc., Class A 69,700	3,171
• Imagistics International, Inc. 39,500	1,599	• Catalina Marketing Corp. 125,900	2,087
• Intergraph Corp. 87,221	2,199	CDI Corp. 46,900	1,513
• InterVoice, Inc. 84,800	1,056	• Cell Genesys, Inc. 98,200	1,085
• Interwoven, Inc. 99,050	831	▲ Cerner Corp. 85,800	3,674
• Invision Technologies, Inc. 39,900	1,982	• Ciber, Inc. 145,100	1,270
Landamerica Financial Group, Inc. 44,100	1,817	• Clarent Corp. 105,200	3
• LTX Corp. 145,100	1,586	• Connetics Corp. 79,000	1,537
• McData Corp., Class A 286,000	1,524	• CoStar Group, Inc. 43,500	1,715
• Micromuse, Inc. 189,300	1,270	• Cross Country Healthcare, Inc. 76,900	1,268
• MICROS Systems, Inc. 43,000	1,886	• CSG Systems International, Inc. 127,700	2,144
• Omnicell, Inc. 57,800	797	• CuraGen Corp. 123,100	714
• PalmOne, Inc. 112,200	1,831	• Dendrite International, Inc. 97,950	1,679
• PTEK Holdings, Inc. 139,600	1,420	• Digital Insight Corp. 82,200	1,586
• Scansource, Inc. 30,600	1,690	• Digital River, Inc. 77,300	1,991
• Zhone Technologies, Inc. 188,000	636	• Digitas, Inc. 152,800	1,514
	<b>37,958</b>	• Diversa Corp. 106,600	1,015
<b>Business Services 14.8%</b>		• Dot Hill Systems Corp. 107,300	805
• Century Business Services, Inc. 204,415	844	• E.piphany, Inc. 184,300	807
ABM Industries, Inc. 118,400	2,186	• Echelon Corp. 99,800	1,088
		• Eclipsys Corp. 113,700	1,604

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•eFunds Corp. 114,700	1,842	•MAXIMUS, Inc. 51,700	1,810
•Embarcadero Technologies, Inc. 66,000	852	•Mentor Graphics Corp. 164,500	2,729
•Encysive Pharmaceuticals, Inc. 126,600	1,272	•MicroStrategy, Inc., Class A 30,400	1,460
•Epicor Software Corp. 106,400	1,363	•Mindspeed Technologies, Inc. 237,100	1,219
•eResearch Technology, Inc. 81,400	2,562	•MPS Group, Inc. 251,900	2,756
•Euronet Worldwide, Inc. 66,800	1,298	•MRO Software, Inc. 60,800	810
•Exelixis, Inc. 172,200	1,565	Nautilus Group, Inc. 78,549	1,263
•Exult, Inc. 262,100	1,601	•Navigant Consulting, Inc. 108,800	1,907
•F5 Networks, Inc. 81,800	2,078	•NCO Group, Inc. 75,500	1,714
•FileNet Corp. 91,100	2,502	NDCHHealth Corp. 85,200	1,949
•Forrester Research, Inc. 53,200	923	•NeighborCare, Inc. 105,200	2,434
•FTI Consulting, Inc. 101,900	1,676	•Netegrity, Inc. 86,100	723
G&K Services, Inc., Class A 49,850	1,889	•NetIQ Corp. 125,900	1,619
•Global Imaging Systems, Inc. 53,700	1,859	New England Business Service, Inc. 32,700	1,135
Grey Global Group, Inc. 3,120	2,262	Newcastle Investment Corp. 83,200	2,223
•Harris Interactive, Inc. 139,100	1,014	•NIC, Inc. 144,900	755
•Heidrick & Struggles International, Inc. 45,300	1,125	•Openwave Systems, Inc. 154,700	1,318
•Hewitt Associates, Inc., Class A 73,200	2,263	•Opware, Inc. 195,700	1,433
•Identix, Inc. 207,432	1,319	•Orbital Sciences Corp. 118,900	1,531
•IDT Corp. 49,400	918	•Packeteer, Inc. 79,500	958
•IDX Systems Corp. 68,100	2,159	•Parametric Technology Corp. 642,500	2,943
•InFocus Corp. 97,900	800	•Paxar Corp. 94,235	1,553
•Informatica Corp. 205,300	1,486	•PDI, Inc. 35,600	910
•Infospace, Inc. 75,850	2,480	•Per-Se Technologies, Inc. 77,400	828
•infoUSA, Inc. 129,500	1,177	•Pre-Paid Legal Services, Inc. 42,900	1,073
•Internap Network Services Corp. 595,400	1,000	•Priceline.com, Inc. 90,200	2,186
•Internet Security Systems 121,300	1,612	•Progress Software Corp. 84,400	1,730
•JDA Software Group, Inc. 71,800	943	•ProQuest Co. 68,200	1,821
John H. Harland Co. 67,600	2,083	•QAD, Inc. 82,400	907
•Keane, Inc. 154,200	2,190	▲ R.H. Donnelley Corp. 74,900	3,392
•Korn/Ferry International 90,700	1,359	•RealNetworks, Inc. 386,900	2,225
•Kroll, Inc. 101,600	3,011	•Renaissance Learning, Inc. 74,400	1,681
•Labor Ready, Inc. 100,300	1,268	•Resources Connection, Inc. 55,000	2,217
•Lionbridge Technologies, Inc. 114,300	1,031	•Retek, Inc. 135,400	945
▲ Macrovision Corp. 119,200	2,007	Roto-Rooter, Inc. 24,400	1,181
•Magma Design Automation, Inc. 80,500	1,501	•RSA Security, Inc. 145,100	2,325
•Manhattan Associates, Inc. 72,300	1,943	•SafeNet, Inc. 56,900	1,223
•Mantech International Corp., Class A 77,200	1,938	•Sapient Corp. 297,200	1,664
•Manugistics Group, Inc. 187,300	1,013	•Seachange International, Inc. 67,400	783
		•Secure Computing Corp. 85,000	813

Security and Number of Shares	Value (\$ x 1,000)
• Seebeyond Technology Corp. 207,000	791
• Serena Software, Inc. 95,200	1,692
• SonicWALL, Inc. 169,500	1,214
• SourceCorp 39,800	1,022
• Spartech Corp. 71,500	1,631
• Spherion Corp. 148,000	1,458
• SRA International, Inc., Class A 42,100	1,580
SS&C Technologies, Inc. 45,900	1,060
The Standard Register Co. 70,500	1,039
Startek, Inc. 33,400	1,084
Strayer Education, Inc. 25,600	3,199
• SupportSoft, Inc. 100,400	993
• Symyx Technologies, Inc. 76,000	1,946
• TeleTech Holdings, Inc. 184,400	1,127
• Telik, Inc. 103,100	2,420
• Tetra Technologies, Inc. 52,200	1,248
• Transaction Systems Architects, Inc., Class A 88,300	1,875
▲• Tularik, Inc. 160,000	3,947
▲• United Online, Inc. 154,300	2,561
• URS Corp. 96,900	2,503
• Valueclick, Inc. 182,500	1,891
• Verity, Inc. 93,000	1,153
• Vignette Corp. 632,000	1,100
• Waste Connections, Inc. 68,600	2,763
• Watson Wyatt & Co. Holdings 80,300	2,106
• WebEx Communications, Inc. 103,900	2,332
• webMethods, Inc. 129,000	1,109
• Websense, Inc. 53,900	1,590
• Wind River Systems, Inc. 196,200	1,836
• Wireless Facilities, Inc. 151,600	1,454
• Wynn Resorts Ltd. 83,800	3,346
	<b>246,372</b>

**Chemicals 2.1%**

A. Schulman, Inc. 72,300	1,446
Amcol International Corp. 70,700	1,189
Arch Chemicals, Inc. 54,200	1,583
Brady Corp., Class A 56,000	2,176
Crompton Corp. 268,200	1,668

Security and Number of Shares	Value (\$ x 1,000)
• Entegris, Inc. 178,000	1,807
• Ethyl Corp. 41,600	775
Ferro Corp. 100,300	2,597
Georgia Gulf Corp. 78,500	2,501
• H.B. Fuller Co. 68,400	1,874
MacDermid, Inc. 73,000	2,364
Millennium Chemicals, Inc. 155,100	2,539
• OM Group, Inc. 68,300	1,738
PolyOne Corp. 221,100	1,512
• Rogers Corp. 38,000	2,269
Rollins, Inc. 109,750	2,606
Tredegar Corp. 92,100	1,224
• Trex Co., Inc. 34,400	1,332
WD-40 Co. 41,700	1,266
	<b>34,466</b>

**Construction 1.9%**

American Woodmark Corp. 18,900	1,213
▲ Beazer Homes USA, Inc. 32,769	3,226
• Ceradyne, Inc. 39,150	1,117
Eagle Materials, Inc. 52,000	3,416
ElkCorp 48,550	1,346
• EMCOR Group, Inc. 35,200	1,440
Granite Construction, Inc. 100,925	2,003
• Insituform Technologies, Inc., Class A 65,500	1,064
• Integrated Electrical Services, Inc. 87,800	856
M/I Schottenstein Homes, Inc. 33,800	1,442
• Mastec, Inc. 119,400	875
• NCI Building Systems, Inc. 46,700	1,367
• Palm Harbor Homes, Inc. 54,600	1,229
• Quanta Services, Inc. 284,700	1,557
▲ Simpson Manufacturing Co., Inc. 57,200	2,984
• Surebeam Corp., Class A 132,000	1
Texas Industries, Inc. 50,700	1,709
• USG Corp. 104,600	1,488
Walter Industries, Inc. 101,000	1,260
• WCI Communities, Inc. 106,000	2,577
	<b>32,170</b>

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Consumer Durables 1.2%</b>			
• Champion Enterprises, Inc. 160,700	1,750	• Celera Genomics Group – Applera Corp. 177,200	2,089
• Genlyte Group, Inc. 31,500	1,806	• Cepheid, Inc. 89,000	689
• Griffon Corp. 71,300	1,565	• Checkpoint Systems, Inc. 90,500	1,454
Haverty Furniture Cos., Inc. 54,900	992	• ChipPAC, Inc., Class A 236,700	1,451
• Helen of Troy Ltd. 68,400	2,274	• Cirrus Logic, Inc. 203,300	1,267
Kimball International, Inc., Class B 91,700	1,354	▲ CMGI, Inc. 973,300	1,684
▲ La-Z-Boy, Inc. 126,400	2,634	• Coherent, Inc. 71,800	1,755
• Red Robin Gourmet Burgers, Inc. 39,600	1,139	Cohu, Inc. 52,700	922
• Select Comfort Corp. 81,300	1,971	• CommScope, Inc. 142,800	2,500
Thomas Industries, Inc. 40,700	1,374	• Comtech Telecommunications 34,900	565
Toro Co. 58,700	3,413	• Corvis Corp. 1,163,000	1,814
	<b>20,272</b>	• Cox Radio, Inc., Class A 101,300	2,098
		• Credence Systems Corp. 154,000	1,716
<b>Containers 0.2%</b>		CTS Corp. 88,800	1,159
Greif, Inc., Class A 53,200	1,749	Cubic Corp. 64,200	1,515
• Silgan Holdings, Inc. 43,200	1,817	• Cyberonics 56,800	1,346
	<b>3,566</b>	• Daktronics, Inc. 46,500	987
		• Dionex Corp. 50,300	2,567
<b>Electronics 8.7%</b>		• DSP Group, Inc. 69,000	1,710
• Actel Corp. 61,100	1,217	• Dupont Photomasks, Inc. 44,900	929
Acuity Brands, Inc. 101,500	2,484	• Electro Scientific Industries, Inc. 67,300	1,376
Agilysys, Inc. 79,500	933	• ESS Technology, Inc. 93,600	1,003
• Anixter International, Inc. 87,800	2,573	• Exar Corp. 98,500	1,503
• Arris Group, Inc. 211,300	1,264	• Excel Technology, Inc. 29,500	998
• Artisan Components, Inc. 55,000	1,287	• Faro Technologies, Inc. 33,400	596
• Aspect Communications Corp. 139,100	1,646	• FEI Co. 80,100	1,600
• Asyst Technologies, Inc. 113,700	752	• FuelCell Energy, Inc. 114,800	1,892
• ATMI, Inc. 74,700	1,649	• Genesis Microchip, Inc. 78,700	1,183
• Avanex Corp. 317,400	943	• Harmonic, Inc. 168,300	1,112
• Axcelis Technologies, Inc. 238,700	2,509	• Hollywood Entertainment Corp. 146,400	1,971
Belden, Inc. 63,000	1,102	• Hutchinson Technology, Inc. 62,300	1,532
▲ Benchmark Electronics, Inc. 98,750	2,669	• Integrated Silicon Solutions, Inc. 81,200	1,115
• Biolase Technology, Inc. 53,400	688	• Intermagnetics General Corp. 41,314	1,013
◆ Bookham Technology Plc 1	–	• Kopin Corp. 172,700	860
• Brooks Automation, Inc. 107,324	1,786	• Kulicke & Soffa Industries, Inc. 123,900	1,230
• Bruker BioSciences Corp. 213,200	1,106	▲ Lattice Semiconductor Corp. 271,800	1,935
C&D Technologies, Inc. 63,200	980	• Littelfuse, Inc. 52,100	2,001
• C-COR.net Corp. 102,100	927	▲ Macromedia, Inc. 163,100	3,360
• Cable Design Technologies Corp. 103,375	882	• Mattson Technology, Inc. 112,000	1,095
▲ Cabot Microelectronics Corp. 59,400	1,754	• Mercury Computer Systems, Inc. 52,100	1,167
• CCC Information Services Group, Inc. 65,200	1,050	Methode Electronics, Class A 88,400	1,002
		• Microsemi Corp. 143,600	1,561

Security and Number of Shares	Value (\$ x 1,000)
•MRV Communications, Inc. 260,100	611
•MTS Systems Corp. 51,900	1,222
•Mykrolis Corp. 99,900	1,454
•Netopia, Inc. 56,600	338
•Newport Corp. 94,000	1,395
•Oplink Communications, Inc. 359,900	691
•Park Electrochemical Corp. 48,950	1,154
•Photon Dynamics, Inc. 40,000	1,240
•Pinnacle Systems, Inc. 164,400	1,294
•Pixelworks, Inc. 109,200	1,952
•Plexus Corp. 105,300	1,514
•Power Integrations, Inc. 72,700	1,791
•Power-One, Inc. 200,700	1,726
•Powerwave Technologies, Inc. 156,400	1,059
•Quantum Corp. 441,000	1,380
•Rayovac Corp. 80,400	2,143
•Remec, Inc. 147,300	927
•Rofin-Sinar Technologies, Inc. 35,100	813
•Rudolph Technologies, Inc. 40,700	654
•ScanSoft, Inc. 246,800	1,199
•Silicon Image, Inc. 174,900	1,782
•Silicon Storage Technology, Inc. 231,100	3,062
•Spectralink Corp. 46,600	587
•Standard Microsystems Corp. 44,600	1,063
•Stratex Networks, Inc. 207,800	679
•Superconductor Technologies, Inc. 161,000	225
•Synaptics, Inc. 60,700	1,005
•Technitrol, Inc. 97,100	2,065
•Tekelec 150,400	2,507
•Terayon Communication Systems Corp. 185,600	538
•THQ, Inc. 92,650	1,718
•Transmeta Corp. 405,200	1,130
•Triquint Semiconductor, Inc. 323,600	1,777
•TTM Technologies, Inc. 100,300	1,114
▲•Varian, Inc. 83,900	3,443
•Viasat, Inc. 63,500	1,396
•Vicor Corp. 100,900	1,402
•Wilson Greatbatch Technologies, Inc. 50,400	1,739
•Zoran Corp. 102,700	1,698
	<b>145,010</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Energy: Raw Materials 2.9%</b>	
•Atwood Oceanics, Inc. 32,300	1,184
•Berry Petroleum Co., Class A 49,700	1,348
•Cabot Oil & Gas Corp. 78,500	2,802
•CARBO Ceramics, Inc. 36,600	2,367
•Cimarex Energy Co. 101,200	2,792
•Denbury Resources, Inc. 132,000	2,410
•Grey Wolf, Inc. 437,000	1,739
•Hanover Compressor Co. 179,700	2,210
•Headwaters, Inc. 79,300	1,823
•Hydril Co. 54,900	1,398
•KFX, Inc. 129,100	1,303
•Kirby Corp. 58,100	2,004
•McDermott International, Inc. 159,400	1,317
•NL Industries, Inc. 115,200	1,499
•Offshore Logistics, Inc. 55,800	1,225
•Oil States International, Inc. 120,600	1,633
•Penn Virginia Corp. 22,300	1,467
•Plains Resources, Inc. 58,400	1,052
•Prima Energy Corp. 31,900	1,184
•Range Resources Corp. 136,500	1,708
•Seacor Holdings, Inc. 44,250	1,836
•Southwestern Energy Co. 86,200	2,168
•Swift Energy Co. 66,000	1,432
•TC Pipelines L.P. 39,500	1,283
•Unit Corp. 106,000	2,995
•USEC, Inc. 199,000	1,369
•W-H Energy Services, Inc. 67,600	1,242
•World Fuel Services Corp. 26,800	1,134
	<b>47,924</b>

**Food & Agriculture 1.4%**

•American Italian Pasta Co., Class A 42,800	1,325
•Chiquita Brands International, Inc. 97,000	1,747
•Delta & Pine Land Co. 92,300	2,239
•Farmers Brothers Co. 3,160	1,153
•Fisher Communications, Inc. 21,300	1,074
•Hain Celestial Group, Inc. 84,800	1,679
•Interstate Bakeries 108,100	1,222
•Lance, Inc. 72,100	1,090
•Ralcorp Holdings, Inc. 66,566	2,317
•Sanderson Farms, Inc. 47,800	1,777

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Sensient Technologies Corp. 113,700	2,326	• Digene Corp. 46,500	1,651
• Tejon Ranch Co. 35,900	1,249	• Discovery Laboratories, Inc. 104,900	1,220
• United Natural Foods, Inc. 92,800	2,325	• DJ Orthopedics, Inc. 52,600	1,211
• VistaCare, Inc., Class A 39,300	990	• Encore Medical Corp. 105,900	831
• Wild Oats Markets, Inc. 74,300	1,025	• Enzo Biochem, Inc. 74,261	1,081
	<b>23,538</b>	• Enzo Pharmaceuticals, Inc. 105,500	1,531
<b>Gold 0.0%</b>		• Epix Medical, Inc. 54,600	1,339
Royal Gold, Inc. 51,400	<b>631</b>	• First Horizon Pharmaceutical Corp. 86,600	1,343
<b>Healthcare / Drugs &amp; Medicine 12.1%</b>		• Genesis HealthCare Corp. 49,250	1,152
• aaiPharma, Inc. 68,950	439	• Genta, Inc. 184,600	1,584
▲ Abgenix, Inc. 213,000	3,466	• Geron Corp. 96,900	734
• Advanced Medical Optics, Inc. 70,800	2,233	• Haemonetics Corp. 60,000	1,694
• Advanced Neuromodulation Systems, Inc. 46,400	1,264	• HealthExtras, Inc. 80,700	1,027
• Albany Molecular Research, Inc. 78,300	1,270	• ICU Medical, Inc. 33,800	1,128
• Alexion Pharmaceuticals, Inc. 54,200	1,221	• li-Vi, Inc. 35,400	874
Alpharma, Inc., Class A 126,600	2,751	• Illex Oncology, Inc. 94,700	2,196
• American Healthways, Inc. 77,100	1,868	• Immucor, Inc. 47,500	1,171
• American Medical Systems Holdings, Inc. 79,900	2,074	• Impax Laboratories, Inc. 140,300	2,920
• AMERIGROUP Corp. 58,300	2,420	• Incyte Corp. 178,800	1,420
• Amsurg Corp. 72,550	1,754	• Inspire Pharmaceuticals, Inc. 78,900	1,297
• Antigenics, Inc. 97,800	933	• Integra LifeSciences Holdings Corp. 65,200	2,086
• Ariad Pharmaceuticals, Inc. 116,000	1,318	• InterMune, Inc. 76,700	1,131
Arrow International, Inc. 105,600	3,160	• Intuitive Surgical, Inc. 81,700	1,319
• Arthrocare Corp. 51,400	1,208	▲ Invacare Corp. 74,900	2,983
• Athrogenics, Inc. 89,000	2,102	• Inveresk Research Group, Inc. 91,800	2,602
• Atrix Labs, Inc. 53,100	1,602	• Inverness Medical Innovations, Inc. 47,900	903
• Beverly Enterprises, Inc. 258,700	1,539	• Isis Pharmaceuticals, Inc. 137,600	1,000
• BioMarin Pharmaceuticals, Inc. 158,300	1,095	• Kindred Healthcare, Inc. 42,400	2,077
• Biosite, Inc. 36,500	1,446	• Kyphon, Inc. 95,200	2,390
Cambrex Corp. 61,900	1,530	• Landauer, Inc. 21,900	855
• Centene Corp. 47,650	1,596	• Lexicon Genetics, Inc. 155,600	1,099
• Cima Labs, Inc. 35,900	1,136	▲ LifePoint Hospitals, Inc. 91,400	3,268
• Conmed Corp. 69,900	1,725	• Ligand Pharmaceuticals, Inc., Class B 176,800	3,785
• Corvel Corp. 26,200	814	• Medarex, Inc. 190,600	1,816
• Cubist Pharmaceuticals, Inc. 99,100	985	Mentor Corp. 106,300	3,370
• CV Therapeutics, Inc. 72,000	1,038	• Merit Medical Systems, Inc. 62,054	975
Datascope Corp. 36,600	1,212	▲• MGI Pharma, Inc. 84,200	5,205
• Dendreon Corp. 136,300	1,772	Mine Safety Appliances Co. 89,200	2,417
▲ Diagnostic Products Corp. 69,500	2,965	• Myriad Genetics, Inc. 67,100	1,156

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•Nabi Biopharmaceuticals 135,800	2,220	▲•Visx, Inc. 117,800	2,579
•Nektar Therapeutics 135,000	2,734	West Pharmaceutical Services, Inc. 36,000	1,397
•Noven Pharmaceuticals, Inc. 55,800	1,096	•Wright Medical Group, Inc. 79,700	2,737
•NPS Pharmaceuticals, Inc. 89,400	2,239	•XOMA Ltd. 205,900	883
•Oakley, Inc. 164,000	2,270		<b>202,227</b>
•Ocular Sciences, Inc. 57,500	1,616		
•Odyssey HealthCare, Inc. 87,550	1,472	<b>Household Products 0.1%</b>	
•4 Onyx Pharmaceuticals, Inc. 82,300	4,059	•Elizabeth Arden, Inc. 59,500	1,303
•Orthodontic Centers of America, Inc. 124,200	891	•Playtex Products, Inc. 151,700	1,124
•Owens & Minor, Inc. 93,000	2,260		<b>2,427</b>
•Parexel International Corp. 64,200	1,254		
▲•6 Pediatrix Medical Group, Inc. 56,300	4,025	<b>Insurance 3.1%</b>	
•Perrigo Co. 169,000	3,645	Alfa Corp. 193,200	2,622
•Pharmacopeia, Inc. 59,100	1,060	•Argonaut Group, Inc. 66,700	1,234
•PolyMedica Corp. 63,300	1,762	Baldwin & Lyons, Inc., Class B 36,100	1,000
•Priority Healthcare Corp., Class B 105,200	2,109	•CNA Surety Corp. 103,500	1,127
•Province Healthcare Co. 118,700	1,898	Commerce Group, Inc. 77,300	3,568
•PSS World Medical, Inc. 162,500	1,818	Delphi Financial Group, Inc., Class A 74,656	2,998
•Regeneron Pharmaceuticals, Inc. 134,600	1,687	FBL Financial Group, Inc., Class A 64,700	1,723
•RehabCare Group, Inc. 39,900	816	•Great American Financial Resources, Inc. 114,250	1,822
▲•8 Resmed, Inc. 80,200	3,952	Harleysville Group, Inc. 72,100	1,370
•Serologicals Corp. 59,100	1,095	Hooper Holmes, Inc. 160,500	884
•Sierra Health Services, Inc. 66,200	2,459	Horace Mann Educators Corp. 103,800	1,620
•Sola International, Inc. 76,600	1,572	Kansas City Life Insurance Co. 29,500	1,180
•Sunrise Senior Living, Inc. 48,100	1,520	Liberty Corp. 45,700	2,052
•SuperGen, Inc. 88,000	723	•Navigators Group, Inc. 31,100	810
•SurModics, Inc. 43,200	967	•Ohio Casualty Corp. 146,900	2,882
•Sybron Dental Specialties, Inc. 92,700	2,711	•Philadelphia Consolidated Holding Co. 52,500	3,031
•Tanox, Inc. 105,900	1,806	Presidential Life Corp. 72,600	1,168
•Thoratec Corp. 136,600	1,859	•ProAssurance Corp. 69,796	2,368
•Transkaryotic Therapies, Inc. 83,500	1,213	RLI Corp. 60,250	2,094
•United Surgical Partners International, Inc. 65,900	2,387	Selective Insurance Group, Inc. 65,300	2,335
•United Therapeutics Corp. 52,700	1,297	State Auto Financial Corp. 95,400	2,677
•US Oncology, Inc. 203,072	3,026	Sterling Financial Corp. 53,250	1,355
•USANA Health Sciences, Inc. 45,800	1,234	•Stewart Information Services Corp. 42,400	1,505
•Ventana Medical Systems, Inc. 41,500	2,054	•Triad Guaranty, Inc. 33,700	1,843
•Vertex Pharmaceuticals, Inc. 189,500	1,637	•UICI 111,700	1,934
•Viasys Healthcare, Inc. 72,900	1,414	United Fire & Casualty Co. 24,800	1,087
▲•Vicuron Pharmaceuticals, Inc. 131,400	2,997		



## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• USI Holdings Corp. 113,400	1,718	• Bankunited Financial Corp., Class A 71,300	1,884
Zenith National Insurance Corp. 44,600	1,923	Blackrock, Inc. 43,400	2,700
	<b>51,930</b>	• Boca Resorts, Inc., Class A 96,800	1,694
<b>Media 2.2%</b>		Cash America International, Inc. 69,400	1,485
• Adolor Corp. 93,300	1,499	▲ 10 Cathay Bancorp., Inc. 59,500	3,873
• AMC Entertainment, Inc. 88,800	1,416	Central Pacific Financial Co. 39,700	996
• Applied Films Corp. 36,500	869	Charter Municipal Mortgage Acceptance Co. 103,800	2,033
Banta Corp. 61,300	2,727	• The Commercial Capital Bancorp, Inc. 72,233	1,276
Blockbuster, Inc., Class A 89,100	1,475	Commercial Federal Corp. 102,500	2,630
• CNET Networks, Inc. 344,500	2,935	• CompuCredit Corp. 114,100	1,891
• Consolidated Graphics, Inc. 33,200	1,239	• Corrections Corp. of America 84,800	3,090
• Entravision Communications Corp., Class A 143,400	1,309	CVB Financial Corp. 117,974	2,421
• Gaylord Entertainment Co. 95,300	2,987	▲ Downey Financial Corp. 67,300	3,247
Gray Television, Inc. 108,500	1,608	East-West Bancorp, Inc. 58,200	3,278
• Information Holdings, Inc. 51,700	1,285	• eSpeed, Inc., Class A 75,100	1,322
• Insight Communications Co. 125,100	1,140	Fidelity Bankshares, Inc. 37,200	1,237
• Journal Register Co. 99,900	1,981	• Financial Federal Corp. 44,700	1,399
• Lin TV Corp., Class A 63,900	1,437	First Community Bancorp 37,800	1,291
• Mediacom Communications Corp. 216,500	1,578	First Financial Corp. 33,700	994
• Primedia, Inc. 626,600	1,830	First Financial Holdings, Inc. 31,000	884
Pulitzer, Inc. 23,700	1,199	First Sentinel Bancorp., Inc. 63,291	1,304
Regal Entertainment Group, Class A 128,900	2,809	Glacier Bancorp, Inc. 47,830	1,466
• Salem Communications Corp., Class A 44,400	1,324	Hudson River Bancorp 73,100	1,317
• Sinclair Broadcast Group, Inc., Class A 109,100	1,348	IBERIABANK Corp. 16,700	952
• Spanish Broadcasting System, Class A 91,800	892	Independent Bank Corp. Michigan 48,420	1,212
• Tivo, Inc. 179,800	1,260	• Investment Technology Group, Inc. 105,600	1,513
• Valuevision Media, Inc., Class A 89,200	1,252	▲ • La Quinta Corp. 428,400	3,080
	<b>37,399</b>	• LabOne, Inc. 40,900	1,208
<b>Miscellaneous 0.3%</b>		LaBranche & Co., Inc. 144,200	1,409
• Coinstar, Inc. 52,600	907	MB Financial, Inc. 65,100	2,295
• NetFlix, Inc. 124,200	3,141	MCG Capital Corp. 94,000	1,511
• Salix Pharmaceuticals Ltd. 52,800	1,633	• Meritage Corp. 30,500	2,069
	<b>5,681</b>	The Midland Co. 43,700	1,158
<b>Miscellaneous Finance 5.4%</b>		• National Western Life Insurance Co., Class A 8,200	1,192
1st Source Corp. 50,200	1,237	▲ New Century Financial Corp. 85,300	3,619
Amcore Financial, Inc. 59,850	1,696	Northwest Bancorp, Inc. 116,249	2,398
		• Ocwen Financial Corp. 166,500	1,810



Security and Number of Shares	Value (\$ x 1,000)
• Portfolio Recovery Associates, Inc. 37,700	1,007
• Saxon Capital, Inc. 68,900	1,499
Seacoast Financial Services Corp. 61,700	1,995
United Community Banks, Inc. 84,300	2,016
• ① UnitedGlobalCom, Inc., Class A 935,000	6,994
Value Line, Inc. 24,700	1,588
Waypoint Financial Corp. 81,400	2,107
• World Acceptance Corp. 45,800	701
	<b>89,978</b>

**Non-Durables & Entertainment 2.8%**

• AFC Enterprises, Inc. 67,900	1,528
▲ CEC Entertainment, Inc. 92,850	3,173
Churchill Downs, Inc. 32,700	1,194
• CKE Restaurants, Inc. 138,900	1,458
• Electronics Boutique Holdings Corp. 59,500	1,610
• Handleman Co. 57,500	1,294
• Hibbet Sporting Goods, Inc. 55,350	1,344
IHOP Corp. 50,800	1,887
• Isle of Capri Casinos, Inc. 71,100	1,493
• Jack in the Box, Inc. 87,400	2,367
Landry's Restaurants, Inc. 66,200	2,216
• Leapfrog Enterprises, Inc. 72,100	1,551
Lone Star Steakhouse & Saloon, Inc. 51,600	1,587
• P.F. Chang's China Bistro, Inc. 61,100	2,985
• Papa John's International, Inc. 43,000	1,438
• Penn National Gaming, Inc. 96,100	2,834
• Rare Hospitality International Inc. 81,350	2,227
Riviana Foods, Inc. 35,700	901
Russ Berrie & Co., Inc. 49,100	1,401
• Ryan's Family Steak Houses, Inc. 102,750	1,864
• Sotheby's Holdings, Inc., Class A 150,700	1,958
• The Steak N Shake Co. 67,500	1,272
• Stewart Enterprises, Inc., Class A 254,100	1,855
The Topps Co., Inc. 100,400	897
Triarc Cos., Class B 142,800	1,492
Tupperware Corp. 140,800	2,637
	<b>46,463</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Non-Ferrous Metals 0.7%</b>	
• Century Aluminum Co. 69,300	1,372
Commercial Metals Co. 68,166	1,786
• Hecla Mining Co. 270,500	1,550
Minerals Technologies, Inc. 48,500	2,845
Reliance Steel & Aluminum Co. 77,375	2,555
Southern Peru Copper Corp. 33,500	972
	<b>11,080</b>

**Oil: Domestic 2.4%**

• CAL Dive International, Inc. 91,500	2,474
• Comstock Resources, Inc. 83,400	1,697
• Encore Acquisition Co. 73,000	2,172
• Energy Partners Ltd. 79,800	1,117
Frontier Oil Corp. 64,800	1,152
• Global Industries Ltd. 250,100	1,501
Holly Corp. 38,400	1,290
• KCS Energy, Inc. 117,400	1,411
• Magnum Hunter Resources, Inc. 166,700	1,712
• Nuevo Energy Co. 46,900	1,618
• Plains Exploration & Production Co. 97,900	1,929
• Quicksilver Resource, Inc. 59,200	2,572
• Remington Oil & Gas Corp. 64,600	1,415
• Spinnaker Exploration Co. 80,400	2,868
St. Mary Land & Exploration Co. 67,700	2,447
• Stone Energy Corp. 63,340	3,116
• Superior Energy Services, Inc. 180,700	1,878
• Tesoro Petroleum Corp. 158,100	3,211
• Universal Compression Holdings, Inc. 74,800	2,226
Vintage Petroleum, Inc. 154,900	2,334
	<b>40,140</b>

**Optical & Photo 0.1%**

• August Technology Corp. 42,800	564
• Photonics, Inc. 80,100	1,193
	<b>1,757</b>

**Paper & Forest Products 0.7%**

• Buckeye Technologies, Inc. 91,700	963
• Carastar Industries, Inc. 69,700	882
Chesapeake Corp. 42,900	974

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Glatfelter 108,400	1,217	• Moog, Inc., Class A 62,050	2,048
Longview Fibre Co. 123,100	1,290	MSC Industrial Direct Co., Class A 98,500	2,823
Potlatch Corp. 69,200	2,621	NACCO Industries, Inc., Class A 14,250	1,212
Rock-Tennessee Co., Class A 86,300	1,286	• Oceaneering International, Inc. 58,200	1,630
Universal Forest Products, Inc. 42,000	1,138	• Plug Power, Inc. 175,800	1,366
Wausau-Mosinee Paper Corp. 125,725	1,764	Regal Beloit 60,000	1,201
	<b>12,135</b>	• Safeguard Scientifics, Inc. 295,800	769
<b>Producer Goods &amp; Manufacturing 5.9%</b>		Sauer-Danfoss, Inc. 114,300	1,714
• Actuant Corp., Class A 56,400	1,928	• Sequa Corp., Class A 23,800	1,162
• Advanced Energy Industries, Inc. 80,100	1,061	• The Shaw Group, Inc. 146,500	1,758
• Aeroflex, Inc. 174,700	2,198	• Sonic Solutions, Inc. 53,100	956
Albany International Corp., Class A 80,483	2,455	Steelcase, Inc., Class A 113,300	1,392
Applied Industrial Technologies, Inc. 47,700	1,254	Stewart & Stevenson Services, Inc. 70,900	1,133
▲ Aptargroup, Inc. 88,000	3,458	Tecumseh Products Co., Class A 43,800	1,703
Baldor Electric Co. 79,220	1,789	Tennant Co. 22,100	877
Barnes Group, Inc. 56,300	1,534	• Triumph Group, Inc. 37,200	1,196
Clarcor, Inc. 60,650	2,670	• Tyler Technologies, Inc. 101,000	953
• Cuno, Inc. 41,400	1,824	• Ultratech Stepper, Inc. 56,100	904
Curtiss-Wright Corp. 49,300	2,322	Valmont Industries, Inc. 58,900	1,207
Federal Signal Corp. 116,900	2,128	Watsco, Inc. 62,500	1,822
Franklin Electric Co., Inc. 25,000	1,506	Watts Water Technologies, Inc., Class A 76,300	1,869
• Gardner Denver, Inc. 46,100	1,209	Woodward Governor Co. 25,600	1,596
Helix Technology Corp. 62,900	1,107		<b>97,988</b>
▲ 7 Hughes Supply, Inc. 71,250	3,982	<b>Railroad &amp; Shipping 0.4%</b>	
▲ IDEX Corp. 79,600	3,761	• Genessee & Wyoming, Inc., Class A 49,500	1,141
• Ionics, Inc. 55,400	1,278	• Kansas City Southern Railway 151,600	2,100
• Jacuzzi Brands, Inc. 181,000	1,582	• RailAmerica, Inc. 79,300	969
• Jarden Corp. 64,300	2,392	Wabtec Corp. 105,421	1,718
JLG Industries, Inc. 104,600	1,547		<b>5,928</b>
Kaydon Corp. 67,700	1,894	<b>Real Property 5.2%</b>	
▲ Kennametal, Inc. 87,400	3,772	• Alexander's, Inc. 12,100	1,887
▲ Kos Pharmaceuticals, Inc. 89,300	3,676	Alexandria Real Estate Equities, Inc. 45,500	2,585
Lennox International, Inc. 141,600	2,366	American Home Mortgage Investment Corp. 90,200	2,140
Libbey, Inc. 33,591	879	AMLI Residential Properties 61,600	1,559
Lincoln Electric Holdings, Inc. 97,600	3,077	Anthracite Capital, Inc. 121,600	1,278
• Lone Star Technologies, Inc. 68,900	1,412	Anworth Mortgage Asset Corp. 97,100	1,133
Manitowoc Co., Inc. 63,762	1,939		
Matthews International Corp., Class A 78,400	2,391		
• Maverick Tube Corp. 101,900	2,306		

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Bedford Property Investors, Inc. 40,200	1,089	Redwood Trust, Inc. 44,700	1,942
▲ Brandywine Realty Trust 109,000	2,762	Saul Centers, Inc. 39,300	983
Capital Automotive Real Estate Investment Trust 84,100	2,366	Senior Housing Properties Trust 153,000	2,287
Colonial Properties Trust 62,900	2,219	Sovran Self Storage, Inc. 34,200	1,155
Commercial Net Lease Realty 120,600	2,001	Summit Properties, Inc. 75,600	1,711
Cornerstone Realty Income Trust, Inc. 136,200	1,026	Sun Communities, Inc. 44,800	1,566
Corporate Office Properties Trust SBI 71,200	1,449	Tanger Factory Outlet Centers 32,000	1,222
EastGroup Properties, Inc. 50,100	1,450	Taubman Centers, Inc. 121,700	2,373
Entertainment Properties Trust 47,800	1,599	The Town & Country Trust 39,000	912
Equity Inns, Inc. 105,500	865	• Trammell Crow Co. 90,900	1,228
• FelCor Lodging Trust, Inc. 142,500	1,425	US Restaurant Properties, Inc. 55,700	889
Gables Residential Trust 68,600	2,182		<b>87,201</b>
Getty Realty Corp. 59,400	1,278		
Glenborough Realty Trust, Inc. 73,800	1,387	<b>Retail 3.6%</b>	
Glimcher Realty Trust 84,700	1,791	• A.C. Moore Arts & Crafts, Inc. 46,000	1,253
• Homestore, Inc. 298,100	1,431	Aaron Rents, Inc. 79,200	2,294
IMPAC Mortgage Holdings, Inc. 149,200	2,807	• Big 5 Sporting Goods Corp. 54,600	1,355
Investors Real Estate Trust 91,900	882	Burlington Coat Factory Warehouse Corp. 108,340	2,054
• Jones Lang LaSalle, Inc. 76,100	1,797	Casey's General Stores, Inc. 121,500	2,012
Keystone Property Trust 75,100	1,528	The Cato Corp., Class A 50,300	1,007
Kilroy Realty Corp. 67,500	2,116	• Central Garden & Pet Co. 43,200	1,664
Koger Equity, Inc. 64,300	1,347	• Charming Shoppes, Inc. 276,600	1,953
Kramont Realty Trust 59,400	939	• The Children's Place Retail Stores, Inc. 64,100	1,688
LaSalle Hotel Properties 59,400	1,307	Christopher & Banks Corp. 91,450	1,636
Lexington Corp. Properties Trust 114,700	2,121	• Cost Plus, Inc. 52,000	1,882
LNR Property Corp. 47,300	2,375	• The Dress Barn, Inc. 70,600	1,187
Manufactured Home Communities, Inc. 55,600	1,740	• Drugstore.com, Inc. 174,400	807
• Meristar Hospitality Corp. 166,500	966	• Duane Reade, Inc. 59,500	993
MFA Mortgage Investments, Inc. 148,300	1,321	• The Finish Line, Class A 50,000	1,676
Mid-America Apartment Communities, Inc. 47,300	1,525	• Guitar Center, Inc. 57,000	2,367
National Health Investors, Inc. 64,300	1,541	• The Gymboree Corp. 73,400	1,296
Novastar Financial, Inc. 57,500	1,866	• Insight Enterprises, Inc. 113,350	1,897
Parkway Properties, Inc. 26,700	1,060	• Jo-Ann Stores, Inc. 53,610	1,516
Post Properties, Inc. 94,200	2,533	Longs Drug Stores Corp. 90,400	1,772
PS Business Parks, Inc. 51,400	1,951	• The Men's Wearhouse, Inc. 90,550	2,308
RAIT Investment Trust 55,900	1,345	• Payless Shoesource, Inc. 163,800	2,318
Ramco-Gershenson Properties 40,700	964	• Petco Animal Supplies, Inc. 36,000	1,057
		Ruddick Corp. 112,600	2,297
		• School Specialty, Inc. 44,700	1,593
		• Sharper Image Corp. 35,700	1,091
		• ShopKo Stores, Inc. 72,200	957

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Too, Inc. 82,800	1,452	<b>Tobacco 0.3%</b>	
▲ Tractor Supply Co. 90,400	3,531	Schweitzer-Mauduit International, Inc. 36,600	1,134
▲ United Stationers, Inc. 81,700	3,105	Universal Corp. 59,900	3,009
Weis Markets, Inc. 65,400	2,296	Vector Group Ltd. 94,176	1,558
• West Marine, Inc. 49,500	1,439		<b>5,701</b>
▲ Zale Corp. 62,500	3,495		
	<b>59,248</b>	<b>Travel &amp; Recreation 1.6%</b>	
<b>Steel 0.8%</b>		► American Classic Voyages Co. 52,800	—
• AK Steel Holding Corp. 261,700	1,230	• Argosy Gaming Co. 70,600	2,626
Allegheny Technologies, Inc. 194,400	1,987	• Aztar Corp. 82,600	2,139
Carpenter Technology Corp. 53,800	1,469	Central Parking Corp. 87,300	1,667
• Cleveland-Cliffs, Inc. 25,600	1,213	• Dick's Sporting Goods, Inc. 76,600	2,066
Gibraltar Steel Corp. 47,600	1,171	• Dollar Thrifty Automotive Group, Inc. 59,400	1,565
Quanex Corp. 39,800	1,624	• K2, Inc. 81,900	1,201
Schnitzer Steel Industries, Inc., Class A 49,800	1,308	The Marcus Corp. 73,425	1,190
• Steel Dynamics, Inc. 115,200	2,773	• Multimedia Games, Inc. 66,400	1,479
	<b>12,775</b>	• Prime Hospitality Corp. 107,700	1,082
<b>Telephone 1.3%</b>		• Scientific Games Corp., Class A 150,700	2,719
• Autobyte.com, Inc. 93,200	872	• Shuffle Master, Inc. 58,500	1,916
• Commonwealth Telephone Enterprises, Inc. 53,700	2,237	• Six Flags, Inc. 223,200	1,658
• Ditech Communications Corp. 80,000	1,150	• The Sports Authority, Inc. 60,100	2,304
• Dobson Communications Corp., Class A 275,600	987	• Vail Resorts, Inc. 68,900	1,071
• Equinix, Inc. 34,500	1,014	• WMS Industries, Inc. 72,800	2,056
• Extreme Networks, Inc. 286,600	1,585		<b>26,739</b>
• Finisar Corp. 547,400	969	<b>Trucking &amp; Freight 1.0%</b>	
• General Communication, Inc., Class A 137,600	1,225	Arkansas Best Corp. 59,400	1,544
• Inet Technologies, Inc. 96,000	946	• Forward Air Corp. 51,100	1,701
Inter-Tel, Inc. 60,400	1,446	• Knight Transportation, Inc. 90,700	2,336
▲ Interdigital Communications Corp. 134,100	2,337	• Landstar Systems, Inc. 71,900	3,233
• j2 Global Communications, Inc. 55,200	1,278	• Old Dominion Freight Line 37,800	1,409
• Price Communications Corp. 132,000	2,088	• Pacer International, Inc. 90,100	1,694
• Primus Telecommunications Group, Inc. 214,200	1,193	USF Corp. 65,900	2,191
SureWest Communications 36,000	927	• Wabash National Corp. 78,200	1,987
• Time Warner Telecom, Inc., Class A 122,000	464		<b>16,095</b>
• Utstarcom, Inc. 24,800	654	<b>Utilities: Electric &amp; Gas 2.2%</b>	
	<b>21,372</b>	American States Water Co. 37,650	872
		• Aquila, Inc. 477,000	2,027
		Avista Corp. 117,700	1,989

Security and Number of Shares	Value (\$ x 1,000)
Black Hills Corp. 77,700	2,377
California Water Service Group 41,900	1,195
CH Energy Group, Inc. 37,000	1,713
Cleco Corp. 115,100	2,066
• El Paso Electric Co. 116,100	1,643
The Empire District Electric Co. 56,700	1,180
The Laclede Group, Inc. 45,300	1,250
MGE Energy, Inc. 44,900	1,397
New Jersey Resources Corp. 65,800	2,508
Northwest Natural Gas Co. 62,000	1,823
Otter Tail Corp. 62,100	1,637
PNM Resources, Inc. 97,700	2,851
• Sierra Pacific Resources 282,200	1,998
South Jersey Industries 32,200	1,328
Southwest Gas Corp. 82,300	1,876
UIL Holdings Corp. 34,300	1,549
Unisource Energy Corp. 81,380	1,988
• Veritas DGC, Inc. 81,300	1,661
	<b>36,928</b>

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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#### Short-Term Investment

0.1% of net assets

Bank of America, London Time Deposit		
0.50%, 05/03/04	1,234	<b>1,234</b>

#### U.S. Treasury Obligation

0.0% of net assets

▲ U.S. Treasury Bill,		
0.91%, 06/17/04	100	<b>100</b>

End of investments.

Security and Number of Shares	Value (\$ x 1,000)
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#### Collateral Invested for Securities on Loan

6.1% of net assets

#### Other Investment Companies 6.1%

Securities Lending Investment Fund 102,581,873	<b>102,582</b>
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End of collateral invested for securities on loan.

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$95,916 of securities of loan)	1,665,985
Collateral invested for securities on loan	102,582
Receivables:	
Fund shares sold	851
Dividends	840
Investments sold	1,956
Income from securities on loan	37
Prepaid expenses	34
<b>Total assets</b>	<b>1,772,285</b>

**Liabilities**

Collateral invested for securities on loan	102,582
Payables:	
Fund shares redeemed	1,149
Interest expenses	3
Due to brokers for futures	12
Investment adviser and administrator fees	27
Transfer agent and shareholder service fees	16
Accrued expenses	139
<b>Total liabilities</b>	<b>103,928</b>

**Net Assets**

<b>Total assets</b>	1,772,285
<b>Total liabilities</b>	103,928
<b>Net assets</b>	<b>\$1,668,357</b>

**Net Assets by Source**

Capital received from investors	1,582,275
Net investment income not yet distributed	2,697
Net realized capital losses	(66,304)
Net unrealized capital gains	149,689

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$888,605		47,149		\$18.85
Select Shares	\$779,752		41,323		\$18.87

Unless stated, all numbers x 1,000.

The fund paid \$1,516,272 for these securities.

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

Purchases	\$615,312
Sales/maturities	\$655,715

The fund's total security transactions with other SchwabFunds® during the period were \$53,451.

These derive from investments and futures. As of the report date, the fund had four open Russell 2000 futures contracts due to expire on June 23, 2003, with an aggregate contract value of \$1,120 and net unrealized losses of \$24.

**Federal Tax Data**

<b>Portfolio cost</b>	\$1,519,526
<b>Net unrealized gains and losses:</b>	
Gains	\$339,192
Losses	(192,733)
	<b>\$146,459</b>

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

Ordinary income	\$77,47
Long-term capital gains	\$—

**Unused capital losses:**

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

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$10,084
Interest	6
Securities on loan	+ 318
<b>Total investment income</b>	<b>10,408</b>

An additional \$1 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized gains on investments sold	221,213
Net realized gains on futures contracts	+ 114
<b>Net realized gains</b>	<b>221,327</b>

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

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(158,311)
Net unrealized losses on futures contracts	+ (77)
<b>Net unrealized losses</b>	<b>(158,388)</b>

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

**Expenses**

Investment adviser and administrator fees	2,548
Transfer agent and shareholder service fees:	
Investor Shares	1,161
Select Shares	401
Trustees' fees	7
Custodian fees	83
Portfolio accounting fees	125
Professional fees	23
Registration fees	29
Shareholder reports	90
Interest expense	2
Other expenses	+ 9
Total expenses	4,478
Expense reduction	- 67
<b>Net expenses</b>	<b>4,411</b>

For the fund's independent trustees only.

This reduction was made by the transfer agent and shareholder service agent (Schwab). It reflects a guarantee by the investment adviser (CSIM) and Schwab to limit the operating expenses of this fund through February 28, 2005, as follows:

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

This limit doesn't include interest, taxes and certain non-routine expenses.

**Increase in Net Assets from Operations**

<b>Total investment income</b>	10,408
<b>Net expenses</b>	- 4,411
<b>Net investment income</b>	<b>5,997</b>
<b>Net realized gains</b>	221,327
<b>Net unrealized losses</b>	+ (158,388)
<b>Increase in net assets from operations</b>	<b>\$68,936</b>

These add up to a net gain on investments of \$62,939.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$5,997	\$11,374
Net realized gains or losses	221,327	(193,979)
Net unrealized gains or losses	+ (158,388)	656,467
<b>Increase in net assets from operations</b>	<b>68,936</b>	<b>473,862</b>

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

Investor Shares	5,423	7,507
Select Shares	+ 5,624	7,345
<b>Total dividends from net investment income</b>	<b>\$11,047</b>	<b>\$14,852</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	4,060	\$79,002	6,678	\$101,578
Select Shares	+ 4,058	78,789	6,760	99,820
<b>Total shares sold</b>	<b>8,118</b>	<b>\$157,791</b>	<b>13,438</b>	<b>\$201,398</b>
<b>Shares Reinvested</b>				
Investor Shares	270	\$5,073	522	\$7,085
Select Shares	+ 278	5,234	503	6,844
<b>Total shares reinvested</b>	<b>548</b>	<b>\$10,307</b>	<b>1,025</b>	<b>\$13,929</b>
<b>Shares Redeemed</b>				
Investor Shares	(5,813)	(\$112,882)	(12,997)	(\$188,682)
Select Shares	+ (4,616)	(90,040)	(13,679)	(200,308)
<b>Total shares redeemed</b>	<b>(10,429)</b>	<b>(\$202,922)</b>	<b>(26,676)</b>	<b>(\$388,990)</b>
<b>Net transactions in fund shares</b>	<b>(1,763)</b>	<b>(\$34,824)</b>	<b>(12,213)</b>	<b>(\$173,663)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	90,235	\$1,645,292	102,448	\$1,359,945
Total increase or decrease	+ (1,763)	23,065	(12,213)	285,347
<b>End of period</b>	<b>88,472</b>	<b>\$1,668,357</b>	<b>90,235</b>	<b>\$1,645,292</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$14,852
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	\$39	\$70
Select Shares	+ 13	+ 39
<b>Total</b>	<b>\$52</b>	<b>\$109</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 \$2,697 and \$7,747 at the end of 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	6.7%
Growth Portfolio	7.3%
Balanced Portfolio	4.6%
Conservative Portfolio	1.7%

**Schwab Annuity Portfolios**

Growth Portfolio II	0.4%
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# 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 4/30/04) 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<sup>2</sup></b> 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; 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.

## 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	2003 (all trusts).	Vice Chair, 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>1,2</sup> 2/22/55	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.; SVP, 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.

<sup>2</sup> Effective June 8, 2004, Jeffrey Lyons resigned as trustee from each of the trusts.

## 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, 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, Laudus Trust, Laudus Variable Insurance Trust. <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 (corporate 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). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <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); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
<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 investment trust).
<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

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

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

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

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

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

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

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

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 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. 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. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any 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.

## Proxy Voting Policies and Procedures

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

## 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, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

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

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

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

**Investment Adviser**

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

**Distributor**

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

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# Schwab Total Stock Market Index Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	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	17.48	14.35	16.62	22.49	20.87	20.00
Income or loss from investment operations:						
Net investment income	0.09	0.16	0.16	0.15	0.16	0.07
Net realized and unrealized gains or losses	1.01	3.14	(2.27)	(5.87)	1.56	0.80
Total income or loss from investment operations	1.10	3.30	(2.11)	(5.72)	1.72	0.87
Less distributions:						
Dividends from net investment income	(0.16)	(0.17)	(0.16)	(0.15)	(0.10)	—
Net asset value at end of period	18.42	17.48	14.35	16.62	22.49	20.87
Total return (%)	6.35 <sup>2</sup>	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	0.56 <sup>3</sup>	0.53	0.40	0.40	0.41 <sup>4</sup>	0.40 <sup>3</sup>
Gross operating expenses	0.56 <sup>3</sup>	0.59	0.62	0.65	0.67	0.91 <sup>3</sup>
Net investment income	1.03 <sup>3</sup>	1.18	1.11	0.94	0.76	0.92 <sup>3</sup>
Portfolio turnover rate	0 <sup>2,5</sup>	3	2	2	2	1 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	564	469	263	224	218	136

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.40% if certain non-routine expenses (proxy fees) had not been included.

<sup>5</sup> Portfolio turnover rate was less than 1%.

## Financial Highlights

Select Shares	11/1/03– 4/30/04*	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	17.52	14.37	16.65	22.52	20.89	20.00
Income or loss from investment operations:						
Net investment income	0.10	0.20	0.19	0.18	0.17	0.07
Net realized and unrealized gains or losses	1.02	3.14	(2.29)	(5.87)	1.56	0.82
Total income or loss from investment operations	1.12	3.34	(2.10)	(5.69)	1.73	0.89
Less distributions:						
Dividends from net investment income	(0.19)	(0.19)	(0.18)	(0.18)	(0.10)	—
Net asset value at end of period	18.45	17.52	14.37	16.65	22.52	20.89
Total return (%)	6.41 <sup>2</sup>	23.50	(12.81)	(25.40)	8.30	4.45 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.39 <sup>3</sup>	0.36	0.27	0.27	0.28 <sup>4</sup>	0.27 <sup>3</sup>
Gross operating expenses	0.41 <sup>3</sup>	0.44	0.47	0.50	0.52	0.74 <sup>3</sup>
Net investment income	1.20 <sup>3</sup>	1.35	1.24	1.07	0.89	1.05 <sup>3</sup>
Portfolio turnover rate	0 <sup>2,5</sup>	3	2	2	2	1 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	514	429	264	257	262	149

\* Unaudited.

<sup>1</sup> Commencement of operations.<sup>2</sup> Not annualized.<sup>3</sup> Annualized.<sup>4</sup> The ratio of net operating expenses would have been 0.27% if certain non-routine expenses (proxy fees) had not been included.<sup>5</sup> Portfolio turnover rate was less than 1%.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.3% Common Stock</b>	1,045,219	1,069,956
<b>0.7% Short-Term Investment</b>	7,865	7,865
<b>0.0% U.S. Treasury Obligation</b>	425	425
<b>0.0% Rights</b>	130	9
<b>0.0% Preferred Stock</b>	4	4
<b>0.0% Warrants</b>	286	1
<b>100.0% Total Investments</b>	<b>1,053,929</b>	<b>1,078,260</b>
<b>8.2% Collateral Invested for Securities on Loan</b>	88,539	88,539
<b>(8.2)% Other Assets and Liabilities, Net</b>		(88,682)
<b>100.0% Total Net Assets</b>		<b>1,078,117</b>

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

**Common Stock** 99.3% of net assets

**Aerospace / Defense 1.5%**

• Aerosonic Corp.	300	2
• Armor Holdings, Inc.	3,000	99
The Boeing Co.	68,800	2,938
Crane Co.	5,000	154
• DRS Technologies, Inc.	1,382	39
EDO Corp.	900	20
Engineered Support Systems, Inc.	2,475	120

<b>Security and Number of Shares</b>	<b>Value</b> (\$ x 1,000)
• EnPro Industries, Inc.	920 18
• ESCO Technologies, Inc.	1,400 68
• Esterline Technologies Corp.	2,900 72
GenCorp, Inc.	2,500 27
General Dynamics Corp.	15,700 1,470
Goodrich Corp.	8,404 242
Heico Corp., Class A	2,486 31
Kaman Corp., Class A	1,300 16
• KVH Industries, Inc.	1,300 18
• L-3 Communications Holdings, Inc.	6,600 408
Lockheed Martin Corp.	37,052 1,767
Northrop Grumman Corp.	15,016 1,490
Raytheon Co.	32,400 1,045
Rockwell Automation, Inc.	15,700 513
Rockwell Collins, Inc.	13,100 423
• SatCon Technology Corp.	900 2
• Teledyne Technologies, Inc.	12,157 231
Textron, Inc.	11,800 651
• Timco Aviation Services, Inc.	80 —
• Transtechnology Corp.	500 4
• Trimble Navigation Ltd.	5,700 143
United Technologies Corp.	42,034 3,626
• Veeco Instruments, Inc.	3,500 80
	<b>15,717</b>

**Air Transportation 1.0%**

• AAR Corp.	2,500	25
• AirTran Holdings, Inc.	5,800	71
• Alaska Air Group, Inc.	1,900	42
• AMR Corp.	12,000	136
• ATA Holdings Corp.	1,200	9
• Atlantic Coast Airlines Holdings, Inc.	1,600	11
• Aviall, Inc.	2,500	41
• Continental Airlines, Inc., Class B	5,000	53
Delta Air Lines, Inc.	8,500	53
• EGL, Inc.	4,150	77
• ExpressJet Holdings, Inc.	3,000	38
FedEx Corp.	28,263	2,032
• Hawk Corp., Class A	1,800	8
• JetBlue Airways Corp.	5,475	152
• Kellstrom Industries, Inc.	600	—
• MAIR Holdings, Inc.	1,100	10

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Mesa Air Group, Inc. 1,300	9	Saucony, Inc., Class B 1,900	40
• Northwest Airlines Corp., Class A 6,500	61	• Skechers USA, Inc., Class A 6,500	80
Sabre Holdings Corp. 12,401	293	• Stage Stores, Inc. 1,200	47
SkyWest, Inc. 4,000	73	• Steven Madden Ltd. 1,800	34
Southwest Airlines Co. 60,725	867	Stride Rite Corp. 2,900	31
United Parcel Service, Inc., Class B 91,480	6,417	Superior Uniform Group, Inc. 1,600	26
	<b>10,478</b>	Tandy Brands Accessories, Inc. 1,000	13
<b>Alcoholic Beverages 0.4%</b>		• Tarrant Apparel Group 1,700	4
Adolph Coors Co., Class B 2,500	164	• Timberland Co., Class A 1,400	88
Anheuser-Busch Cos., Inc. 65,000	3,331	• Unifi, Inc. 1,900	5
Brown-Forman Corp., Class B 9,912	464	VF Corp. 15,000	692
• Constellation Brands, Inc., Class A 8,800	292	Wolverine World Wide, Inc. 5,200	140
• National Beverage Corp. 7,400	67		<b>5,783</b>
• The Robert Mondavi Corp., Class A 2,500	90	<b>Automotive Products / Motor Vehicles 1.2%</b>	
	<b>4,408</b>	A.O. Smith Corp., Class B 1,300	39
<b>Apparel 0.5%</b>		• Aftermarket Technology Corp. 2,511	38
Brown Shoe Co., Inc. 3,300	121	• American Axle & Manufacturing Holdings, Inc. 5,300	204
The Buckle, Inc. 1,000	27	ArvinMeritor, Inc. 4,900	101
• Carter's, Inc. 2,500	75	Bandag, Inc. 3,200	139
• Casual Male Corp. 1,100	—	BorgWarner, Inc. 2,700	221
• Coach, Inc. 13,504	575	Carlisle Cos., Inc. 3,600	213
• Columbia Sportswear Co. 4,350	232	Cascade Corp. 4,400	92
• Finlay Enterprises, Inc. 1,000	19	• Collins & Aikman Corp. 1,400	9
• Guess?, Inc. 2,700	42	Cooper Tire & Rubber Co. 6,400	137
Haggar Corp. 1,200	24	• CSK Auto Corp. 3,500	65
• Hampshire Group Ltd. 1,000	30	Cummins, Inc. 3,900	233
Jones Apparel Group, Inc. 12,156	445	Dana Corp. 40,800	823
K-Swiss, Inc., Class A 2,400	47	Danaher Corp. 12,000	1,110
Kellwood Co. 2,900	115	Delphi Corp. 45,600	465
Kenneth Cole Productions, Inc., Class A 3,100	107	Donaldson Co., Inc. 8,800	241
Liz Claiborne, Inc. 18,600	653	• Dura Automotive Systems, Inc., Class A 12,100	152
• Maxwell Shoe Co., Inc., Class A 1,000	23	Eaton Corp. 12,600	748
Nike, Inc., Class B 20,700	1,489	Federal Screw Works 250	9
Oshkosh B'Gosh, Inc., Class A 1,200	28	Ford Motor Co. 148,736	2,285
Phillips-Van Heusen Corp. 1,800	33	General Motors Corp. 45,386	2,152
Polo Ralph Lauren Corp. 3,500	121	Gentex Corp. 2,300	90
• Quiksilver, Inc. 2,000	43	Genuine Parts Co. 13,500	483
Reebok International Ltd. 8,000	291	Goodyear Tire & Rubber Co. 10,000	87
Russell Corp. 2,600	43	• Group 1 Automotive, Inc. 1,400	48

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Harley-Davidson, Inc. 25,500	1,436	Bank of Hawaii Corp. 3,500	153
• Keystone Automotive Industries, Inc. 1,800	47	The Bank of New York Co., Inc. 62,000	1,807
Lear Corp. 5,800	352	Bank One Corp. 90,200	4,453
Lithia Motors, Inc., Class A 700	18	BankAtlantic Bancorp, Inc., Class A 2,200	34
• MarineMax, Inc. 800	23	Banknorth Group, Inc. 12,174	373
• Midas, Inc. 1,300	24	BB&T Corp. 43,886	1,514
Modine Manufacturing Co. 3,700	102	Berkshire Bancorp, Inc. 1,200	68
• Monaco Coach Corp. 1,200	31	Boston Private Financial Holdings, Inc. 2,129	50
• Monro Muffler Brake, Inc. 1,050	25	Brookline Bancorp, Inc. 2,405	34
Myers Industries, Inc. 2,346	33	Bryn Mawr Bank Corp. 1,400	29
• Navistar International Corp. 4,400	199	BSB Bancorp, Inc. 900	34
Oshkosh Truck Corp. 4,500	230	Camden National Corp. 700	21
Polaris Industries, Inc. 3,200	137	Capital City Bank Group, Inc. 1,500	58
• Rush Enterprises, Inc., Class B 500	7	• Capital Crossing Bank 1,000	49
Sonic Automotive, Inc. 1,400	35	Capitol Bancorp Ltd. 1,500	38
Standard Motor Products, Inc. 2,000	29	Capitol Federal Financial 6,920	223
• Stoneridge, Inc. 1,700	26	Cascade Bancorp 2,655	45
Superior Industries International, Inc. 800	27	Cavalry Bancorp, Inc. 500	8
• TBC Corp. 1,100	31	CCBT Financial Cos., Inc. 200	7
Thor Industries, Inc. 2,000	56	• Central Coast Bancorp 1,464	26
Titan International, Inc. 800	7	Century Bancorp, Inc., Class A 800	26
• Tower Automotive, Inc. 2,300	12	Chemical Financial Corp. 1,318	45
United Auto Group, Inc. 1,000	31	Chittenden Corp. 1,818	55
• United Defense Industries, Inc. 900	31	Citizens Banking Corp. Michigan 2,090	64
• UQM Technologies, Inc. 1,500	5	Citizens South Banking Corp. 1,000	13
Visteon Corp. 5,451	59	City Holding Co. 1,800	55
Winnebago Industries, Inc. 2,600	75	City National Corp. 3,100	191
	<b>13,272</b>	The Colonial BancGroup, Inc. 10,100	174
<b>Banks 7.2%</b>		Columbia Bancorp 700	20
ABC Bancorp 1,500	29	Columbia Banking Systems, Inc. 1,859	42
Abigail Adams National Bancorp 500	8	Comerica, Inc. 13,496	697
Alabama National Bancorp 1,600	82	Commerce Bancorp, Inc. N.J. 5,660	323
AmSouth Bancorp. 28,403	625	Commerce Bancshares, Inc. 12,093	543
Anchor Bancorp Wisconsin, Inc. 3,100	75	Community Bank System, Inc. 1,400	28
Arrow Financial Corp. 963	28	Community First Bankshares, Inc. 2,000	64
Associated Banc-Corp. 5,146	211	Community Trust Bancorp, Inc. 2,261	66
BancFirst Corp. 500	28	Compass Bancshares, Inc. 11,400	437
Bancorpsouth, Inc. 7,612	154	Corus Bankshares, Inc. 1,000	38
Bank Mutual Corp. 6,168	65	Cullen/Frost Bankers, Inc. 3,300	143
⑨ Bank of America Corp. 164,259	13,221	Dime Community Bancshares, Inc. 3,375	58

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Doral Financial Corp. 9,900	325	Independent Bank Corp. 1,000	27
Exchange National Bancshares, Inc. 750	23	Integra Bank Corp. 1,225	25
Fifth Third Bancorp 45,588	2,446	Interchange Financial Services Corp. 1,050	24
First Bancorp Puerto Rico 2,100	77	• Internet Capital Group, Inc. 7,000	2
First Busey Corp., Class A 1,000	27	Irwin Financial Corp. 3,700	88
First Charter Corp. 3,500	72	J.P. Morgan Chase & Co. 167,080	6,282
First Citizens BancShares, Inc., Class A 300	37	KeyCorp, Inc. 34,300	1,019
First Commonwealth Financial Corp. 2,100	30	Lakeland Financial Corp. 1,100	34
First Federal Capital Corp. 2,500	64	M&T Bank Corp. 8,962	762
First Financial Bancorp 1,839	31	MAF Bancorp., Inc. 1,648	67
First Financial Bancshares, Inc. 1,500	62	Main Street Banks, Inc. 1,000	27
First Horizon National Corp. 10,800	475	MainSource Financial Group, Inc. 1,575	34
First M & F Corp. 1,000	34	Marshall & Ilsley Corp. 19,150	704
First Merchants Corp. 1,041	24	MASSBANK Corp. 1,500	53
First Midwest Bancorp, Inc. Illinois 3,125	105	Mellon Financial Corp. 35,800	1,061
• First National Bankshares of Florida, Inc. 5,939	109	Mercantile Bankshares Corp. 5,574	239
First Niagra Financial Group, Inc. 3,104	39	Merchants Bancshares, Inc. 750	21
First Oak Brook Bancshares, Inc. 1,500	44	Mid-State Bancshares 3,500	79
First of Long Island Corp. 2,000	93	Midwest Banc Holdings, Inc. 1,300	30
First Republic Bank 1,300	50	Movie Gallery, Inc. 4,025	78
Firstfed America Bancorp, Inc. 2,000	49	Nara Bancorp, Inc. 2,000	58
• FirstFed Financial Corp. 2,900	117	National City Corp. 49,100	1,702
FirstMerit Corp. 7,300	172	National Commerce Financial Corp. 17,450	464
FNB Corp. 2,639	52	National Penn Bancshares, Inc. 906	27
Franklin Financial Corp. Tennessee 700	22	NBT Bancorp., Inc. 1,400	29
Frontier Financial Corp. 700	23	Net.B@nk, Inc. 3,300	36
Fulton Financial Corp. 8,150	168	NewMil Bancorp, Inc. 1,000	29
GA Financial, Inc. 1,100	38	North Fork Bancorp., Inc. 11,000	408
Gold Banc Corp., Inc. 1,400	23	North Valley Bancorp 1,500	25
Great Southern Bancorp, Inc. 700	35	Northern Trust Corp. 18,500	782
Greater Bay Bancorp 5,406	153	OceanFirst Financial Corp. 1,050	23
Hancock Holding Co. 2,100	59	Old National Bancorp. 5,947	142
Harbor Florida Bancshares, Inc. 1,100	30	Omega Financial Corp. 1,000	33
Harleysville National Corp. 1,102	29	Oriental Financial Group 1,512	43
Hibernia Corp., Class A 16,900	368	Park National Corp. 805	93
Home Federal Bancorp 800	22	Patriot Bank Corp. 550	15
Horizon Financial Corp. 2,156	36	Pennfed Finance Services, Inc. 2,000	60
Hudson City Bancorp, Inc. 19,100	646	Peoples Bank-Bridgeport 5,500	232
Hudson United Bancorp 5,740	205	Peoples Financial Corp. 3,000	54
Huntington Bancshares, Inc. 18,290	391	PFF Bancorp, Inc. 1,120	42

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
PNC Financial Services Group, Inc. 22,200	1,179	Trustco Bank Corp. 2,857	36
Popular, Inc. 13,400	563	Trustmark Corp. 4,300	114
Prosperity Bancshares, Inc. 2,400	56	U.S. Bancorp 156,031	4,001
Provident Bankshares Corp. 2,382	67	UCBH Holdings, Inc. 4,700	174
Provident Financial Group, Inc. 4,600	181	UMB Financial Corp. 1,787	90
Quaker City Bancorp, Inc. 1,250	68	Umpqua Holdings Corp. 343	7
Regions Financial Corp. 16,900	587	Union Bankshares Corp. 700	22
Republic Bancorp, Inc. 5,669	74	Union Planters Corp. 15,950	443
Republic Bancorp, Inc., Class A 1,575	30	UnionBanCal Corp. 22,600	1,208
Riggs National Corp. 2,000	36	United Bankshares, Inc. 4,400	132
S&T Bancorp, Inc. 1,400	40	Unizan Financial Corp. 1,371	33
• S1 Corp. 12,930	104	USB Holding Co., Inc. 1,777	37
Sandy Spring Bancorp, Inc. 2,900	104	Valley National Bancorp 6,757	175
Seacoast Banking Corp. of Florida 1,980	39	Wachovia Corp. 106,036	4,851
Second Bancorp., Inc. 900	27	Washington Trust Bancorp, Inc. 1,000	26
Shore Bancshares, Inc. 500	15	Wells Fargo & Co. 137,577	7,768
• Silicon Valley Bancshares 2,200	76	WesBanco, Inc. 3,200	91
Simmons First National Corp., Class A 1,000	26	West Coast Bancorp 1,200	26
Sky Financial Group, Inc. 7,376	176	Westamerica Bancorp. 1,700	83
The South Financial Group, Inc. 5,500	152	WestCorp., Inc. 4,707	208
SouthTrust Corp. 26,054	810	Whitney Holding Corp. 4,450	182
Southwest Bancorp of Texas, Inc. 1,500	61	Wilmington Trust Corp. 5,700	198
Southwest Bancorp, Inc. 3,300	54	Wintrust Financial Corp. 1,800	85
State Bancorp, Inc. 840	19	WSFS Financial Corp. 1,000	48
State Street Corp. 25,500	1,244	Zions Bancorp. 7,700	435
Sterling Bancorp 1,523	42		<b>77,799</b>
Sterling Bancshares, Inc. 2,100	27		
• Sterling Financial Corp. 2,926	97		
Suffolk Bancorp 2,400	79		
• Sun Bancorp, Inc. N.J. 3,307	65		
SunTrust Banks, Inc. 23,200	1,579		
Susquehanna Bancshares, Inc. 2,700	63		
SY Bancorp, Inc. 1,400	31		
Synovus Financial Corp. 24,600	587		
TCF Financial Corp. 6,800	337		
Texas Regional Bancshares, Inc., Class A 1,551	65		
Timberland Bancorp, Inc. 1,000	22		
Tompkins Trustco, Inc. 770	36		
TriCo Bancshares 200	7		
The Trust Co. of New Jersey 3,000	111		

#### Business Machines & Software 7.4%

• 3Com Corp. 17,900	110
• 3D Systems Corp. 1,400	17
• Adaptec, Inc. 5,700	45
Adobe Systems, Inc. 17,500	723
• Advanced Digital Information Corp. 2,600	27
Analogic Corp. 5,200	246
• Apple Computer, Inc. 31,200	803
• Arbitron, Inc. 2,120	79
• Artesyn Technologies, Inc. 1,100	10
• Ascential Software Corp. 2,912	49
Autodesk, Inc. 8,400	281
• Avici Systems, Inc. 375	4
• Avocent Corp. 13,963	448
• BEA Systems, Inc. 30,400	347

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Black Box Corp. 5,200	265	•Maxtor Corp. 17,748	116
•BMC Software, Inc. 19,000	329	•McData Corp., Class A 2,617	14
•Borland Software Corp. 3,000	25	Microchip Technology, Inc. 16,475	462
•Cisco Systems, Inc. 556,469	11,613	•Micromuse, Inc. 2,900	19
•Cognitronics Corp. 2,600	10	•MICROS Systems, Inc. 5,500	241
•Compuware Corp. 19,900	152	▲② Microsoft Corp. 872,760	22,666
•Converse Technology, Inc. 13,400	219	•MIPS Technology, Inc., Class A 1,100	7
•Concurrent Computer Corp. 3,000	6	•MSC Software Corp. 1,800	17
•CoSine Communications, Inc. 730	4	•NCR Corp. 11,900	532
•Dell, Inc. 206,800	7,178	•Network Appliance, Inc. 27,500	512
Diebold, Inc. 5,300	244	•Novell, Inc. 25,600	247
•Digital Lightwave, Inc. 1,300	1	•Oracle Corp. 420,000	4,712
•EMC Corp. 194,186	2,167	•PalmOne, Inc. 1,569	26
•Enterasys Networks, Inc. 8,500	18	•PalmSource, Inc. 2,500	52
Fair Isaac Corp. 7,744	261	•Peregrine Systems, Inc. 144	3
•Flow International Corp. 900	2	Pitney Bowes, Inc. 20,000	875
•Foundry Networks, Inc. 9,300	105	•Precis, Inc. 1,200	4
•Gateway, Inc. 11,800	57	•Printronix, Inc. 2,400	33
•General Binding Corp. 500	7	•Read-Rite Corp. 1,180	—
•Hanger Orthopedic Group, Inc. 5,400	88	•Roxio, Inc. 724	3
Hewlett-Packard Co. 246,916	4,864	•Sandisk Corp. 11,000	254
IKON Office Solutions, Inc. 8,500	95	•Scansource, Inc. 600	33
•Imagistics International, Inc. 2,840	115	► Seagate Escrow Security 7,500	2
•Immersion Corp. 800	4	•Siebel Systems, Inc. 25,100	258
•Input/Output, Inc. 3,400	27	•Silicon Graphics, Inc. 4,800	9
•Integrated Device Technology, Inc. 4,200	56	•SoftBrands, Inc. 671	1
•Intellisync Corp. 1,500	4	•Storage Technology Corp. 14,400	378
•Intergraph Corp. 9,700	245	► StorageNetworks, Inc. 2,100	—
•Interland, Inc. 510	2	•Sun Microsystems, Inc. 248,230	968
International Business Machines Corp. 136,850	12,066	•Sybase, Inc. 19,036	326
•InterVoice, Inc. 1,678	21	•Tech Data Corp. 5,300	180
•Interwoven, Inc. 5,925	50	•The Titan Corp. 6,381	123
•Invision Technologies, Inc. 1,500	75	Total System Services, Inc. 16,300	362
Iomega Corp. 12,400	63	•Ultimate Electronics, Inc. 400	2
•Juniper Networks, Inc. 33,065	723	•Unisys Corp. 25,600	334
Landamerica Financial Group, Inc. 5,800	239	•Versata, Inc. 9	—
•Lantronix, Inc. 1,900	3	•Vitria Technology, Inc. 925	3
•Lawson Software, Inc. 8,000	57	•Xerox Corp. 63,200	849
•Lexmark International, Inc., Class A 10,900	986	•Zhone Technologies, Inc. 1,000	3
•LTX Corp. 1,900	21		

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Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Business Services 5.3%</b>			
•4Kids Entertainment, Inc. 3,500	76	•Barra, Inc. 3,250	133
Aaron Rents, Inc., Class A 1,450	37	•BearingPoint, Inc. 7,100	71
ABM Industries, Inc. 4,900	90	•BindView Development Corp. 1,700	5
•Actuate Corp. 2,300	8	•The BISYS Group, Inc. 9,000	131
•Administaff, Inc. 2,800	49	•Blue Coat Systems, Inc. 340	15
•Advent Software, Inc. 4,100	77	•Blue Martini Software, Inc. 285	1
•The Advisory Board Co. 1,000	35	•Bottomline Technologies, Inc. 2,000	19
Advo, Inc. 4,050	127	Bowne & Co., Inc. 4,200	71
•Aether Systems, Inc. 1,100	4	•Braun Consulting, Inc. 1,300	4
•Affiliated Computer Services, Inc., Class A 12,000	582	•Bright Horizons Family Solutions, Inc. 1,300	58
•Affymetrix, Inc. 2,300	70	The Brink's Co. 5,600	155
•Agile Software Corp. 1,900	14	•BroadVision, Inc. 1,090	4
•Akamai Technologies, Inc. 8,938	106	•Brocade Communications Systems, Inc. 21,000	112
•The Allied Defense Group, Inc. 500	10	•BSQUARE Corp. 1,600	2
•Allied Waste Industries, Inc. 26,600	335	•CACI International, Inc., Class A 4,100	187
Ambassadors International, Inc. 1,700	22	•Career Education Corp. 8,614	551
•America Online Latin America, Inc., Class A 2,500	2	•Carreker Corp. 3,700	27
•American Locker Group, Inc. 500	6	•Casella Waste Systems, Inc., Class A 2,500	36
•American Management Systems, Inc. 4,200	81	•Catalina Marketing Corp. 5,900	98
•American Superconductor Corp. 700	9	•Catapult Communications Corp. 1,600	30
•AMN Healthcare Services, Inc. 4,110	67	CDI Corp. 3,700	119
•Analysts International Corp. 2,400	7	CDW Corp. 6,800	425
Angelica Corp. 2,500	58	•Cell Genesys, Inc. 1,500	17
•Ansoft Corp. 2,300	32	•Cendant Corp. 80,220	1,900
•answerthink, Inc. 1,700	12	•Centra Software, Inc. 2,400	6
•Ansys, Inc. 1,700	63	•Ceridian Corp. 19,500	417
•Anteon International Corp. 2,000	62	•Cerner Corp. 1,700	73
•Apollo Group, Inc., Class A 14,550	1,322	Certegy, Inc. 4,150	149
Aramark Corp., Class B 9,300	266	•Charles River Associates, Inc. 2,500	81
•Arena Pharmaceuticals, Inc. 800	5	•Checkfree Corp. 5,400	162
•Ariba, Inc. 9,200	20	•Chindex International, Inc. 2,200	22
•Art Technology Group, Inc. 2,200	3	•ChoicePoint, Inc. 6,900	303
•Artistdirect, Inc. 1,000	—	•Chordiant Software, Inc. 1,100	4
•Ask Jeeves, Inc. 4,400	156	•Ciber, Inc. 1,900	17
•Aspen Technology, Inc. 6,000	39	•Cintas Corp. 12,850	578
•At Road, Inc. 4,400	37	•Citrix Systems, Inc. 20,000	381
•Atari, Inc. 1,600	5	•Clarent Corp. 1,545	—
Automatic Data Processing, Inc. 48,100	2,107	•Clarus Corp. 1,200	13
		•Click Commerce, Inc. 320	2
		•Closure Medical Corp. 3,400	88

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•Cognizant Technology Solutions Corp. 5,300	229	•Dun & Bradstreet Corp. 16,000	836
•Com21, Inc. 1,400	—	•Dyax Corp. 2,000	28
•Comarco, Inc. 500	4	•E.piphany, Inc. 2,100	9
•Commerce One, Inc. 730	1	•Earthlink, Inc. 11,850	109
Computer Associates International, Inc. 47,226	1,266	•eBay, Inc. 52,924	4,224
•Computer Sciences Corp. 16,238	664	•Echelon Corp. 3,700	40
•Concord Communications, Inc. 1,600	20	•Eclipsys Corp. 1,800	25
•Connetics Corp. 3,400	66	•Edgewater Technology, Inc. 767	5
•Convergys Corp. 10,500	152	•Education Management Corp. 5,900	209
•Copart, Inc. 6,550	124	•eFunds Corp. 5,002	80
•Corillian Corp. 2,000	9	Electronic Data Systems Corp. 39,100	715
•Corinthian Colleges, Inc. 9,200	282	•eLoyalty Corp. 190	1
•Corio, Inc. 1,400	4	•Embarcadero Technologies, Inc. 2,900	37
•Cornell Cos., Inc. 2,100	25	•Encysive Pharmaceuticals, Inc. 2,600	26
•Corporate Executive Board Co. 2,700	139	•Engage, Inc. 4,900	—
•Correctional Services Corp. 2,000	5	Ennis Business Forms, Inc. 4,500	67
•CoStar Group, Inc. 800	32	•Entrust, Inc. 2,800	13
Courier Corp. 4,200	171	•EPIQ Systems, Inc. 1,550	22
•Covansys Corp. 5,000	70	•ePresence, Inc. 2,700	11
•Credit Acceptance Corp. 2,400	34	Equifax, Inc. 11,800	289
•Cross Country Healthcare, Inc. 1,600	26	•eResearch Technology, Inc. 3,750	118
•Cross Media Marketing Corp. 1,391	—	•Exelixis, Inc. 1,800	16
•CSG Systems International, Inc. 5,400	91	•Exponent, Inc. 3,000	75
•CuraGen Corp. 2,100	12	•Exult, Inc. 4,100	25
•CycleLogic, Inc. 2	—	•Ezenia!, Inc. 1,000	—
•Daleen Technologies, Inc. 800	—	•F5 Networks, Inc. 3,300	84
•Datastream Systems, Inc. 1,300	9	Factset Research Systems, Inc. 2,500	99
Deluxe Corp. 3,800	157	•Falcon Products, Inc. 1,500	7
•Dendrite International, Inc. 3,600	62	•FalconStor Software, Inc. 1,200	8
•DeVry, Inc. 4,800	138	•Fargo Electronics, Inc. 2,000	19
•Digimarc Corp. 3,500	40	•FileNet Corp. 3,800	104
•Digital Insight Corp. 2,300	44	•First Consulting Group, Inc. 1,800	10
•Digital River, Inc. 2,100	54	First Data Corp. 71,932	3,265
•Digitalthink, Inc. 1,300	3	•Firstwave Technologies, Inc. 1,000	3
•Digitas, Inc. 4,000	40	•Fiserv, Inc. 15,300	559
•Diversa Corp. 1,100	10	•Five Star Quality Care, Inc. 135	1
•Divine, Inc., Class A 161	—	•Forrester Research, Inc. 4,100	71
•DoubleClick, Inc. 10,737	87	•Freemarkets, Inc. 3,300	23
•DST Systems, Inc. 8,100	358	Friedman Billings Ramsey Group, Inc., Class A 12,080	224
		•FTI Consulting, Inc. 2,700	44

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
G&K Services, Inc., Class A 3,700	140	• Interpublic Group of Cos., Inc. 31,144	489
• Gartner, Inc., Class A 9,000	107	• Intrado, Inc. 3,600	62
• Genaissance Pharmaceuticals, Inc. 1,800	7	• Intuit, Inc. 16,715	710
• Genencor International, Inc. 14,000	203	• Invitrogen Corp. 3,629	262
• GenesisIntermedia, Inc. 1,200	—	• Iron Mountain, Inc. 6,525	297
• Gentiva Health Services, Inc. 3,250	48	• The IT Group, Inc. 1,900	—
• Genuity, Inc., Class A 280	—	• ITT Educational Services, Inc. 6,000	242
• Geoworks Corp. 800	—	Jack Henry & Associates, Inc. 6,300	115
• Global Imaging Systems, Inc. 2,100	73	• Jacobs Engineering Group, Inc. 3,800	159
Global Payments, Inc. 8,520	409	• JDA Software Group, Inc. 2,000	26
• GP Strategies Corp. 1,500	10	John H. Harland Co. 3,500	108
Grey Global Group, Inc. 200	145	• Kana Software, Inc. 528	1
GTECH Holdings Corp. 4,700	286	• Keane, Inc. 3,960	56
H&R Block, Inc. 21,300	961	• Keith Cos., Inc. 3,000	43
• HA-LO Industries, Inc. 2,100	—	Kelly Services, Inc., Class A 3,200	95
• Hall, Kinion & Associates, Inc. 900	4	• Kinder Morgan Management LLC 3,151	117
• Heidrick & Struggles International, Inc. 3,100	77	• Korn/Ferry International 3,600	54
• Hewitt Associates, Inc., Class A 7,000	216	• Kroll, Inc. 1,900	56
• Hudson Highland Group, Inc. 360	11	• Kronos, Inc. 1,875	68
• Hyperion Solutions Corp. 2,850	109	• Lamar Advertising Co. 6,700	275
• I-Many, Inc. 1,300	2	• Learning Tree International, Inc. 1,400	22
• iBEAM Broadcasting Corp. 290	—	• Liberate Technologies 5,900	17
• ICOS Corp. 2,700	86	• Lightbridge, Inc. 2,200	14
• ICT Group, Inc. 500	6	• LookSmart Ltd. 2,400	5
• Identix, Inc. 1,600	10	• Luminex Corp. 800	8
• IDT Corp. 4,200	78	• Macrovision Corp. 3,100	52
• IDX Systems Corp. 4,000	127	• Magma Design Automation, Inc. 1,700	32
• iGate Corp. 1,300	7	• Management Network Group, Inc. 2,400	7
IMS Health, Inc. 19,300	487	• Manhattan Associates, Inc. 1,300	35
• InFocus Corp. 1,600	13	Manpower, Inc. 6,991	328
• Infonet Services Corp., Class B 11,200	21	• Manugistics Group, Inc. 2,300	12
• Informatica Corp. 6,700	49	• MAPICS, Inc. 1,000	8
• Inforte Corp. 3,700	40	• Mapinfo Corp. 525	6
• Infospace, Inc. 3,872	127	• Marimba, Inc. 7,000	57
• infoUSA, Inc. 2,300	21	• Matria Healthcare, Inc. 1,200	23
• Innodata Corp. 2,400	8	• Matrixone, Inc. 1,700	10
• Interactive Intelligence, Inc. 1,000	5	• MAXIMUS, Inc. 1,700	60
• Intercept, Inc. 1,500	22	• Maxygen, Inc. 1,500	16
• Internap Network Services Corp. 4,600	8	• MCSi, Inc. 1,248	—
• Internet Security Systems 4,600	61	• Mechanical Technology, Inc. 1,800	10

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Medical Staffing Network Holdings, Inc. 1,300	10	• Nuance Communications, Inc. 1,000	5
• MemberWorks, Inc. 4,500	133	• NYFIX, Inc. 750	4
• Mentor Graphics Corp. 5,700	95	• Omnicom Group, Inc. 14,300	1,137
• Mercury Interactive Corp. 3,300	140	• On Assignment, Inc. 1,700	9
• Meta Group, Inc. 1,100	6	• OneSource Information Services, Inc. 3,800	33
• MetaSolv, Inc. 2,800	8	• Onyx Software Corp. 350	1
• Metricom, Inc. 1,400	—	• Openwave Systems, Inc. 5,271	45
• Metro One Telecommunications 4,400	8	• Opnet Technologies, Inc. 3,600	53
• Michael Baker Corp. 500	6	• Opsware, Inc. 800	6
• MicroStrategy, Inc., Class A 856	41	• Option Care, Inc. 1,500	22
• Microvision, Inc. 900	8	• Orbital Sciences Corp. 2,600	34
• Millenium Cell, Inc. 2,200	5	• Pac-West Telecomm, Inc. 1,900	2
• Mindspeed Technologies, Inc. 7,598	39	• Packeteer, Inc. 1,100	13
• Moldflow Corp. 300	3	• Paradigm Genetics, Inc. 400	—
• Monster Worldwide, Inc. 9,800	251	• Parametric Technology Corp. 9,700	44
• MPS Group, Inc. 8,100	89	• Paxar Corp. 2,300	38
• MRO Software, Inc. 3,900	52	• Paychex, Inc. 29,900	1,115
• Multi-Color Corp. 750	14	• PC-Tel, Inc. 1,400	16
• Napro Biotherapeutics, Inc. 1,200	3	• PDI, Inc. 2,900	74
• Nassda Corp. 500	3	• Pec Solutions, Inc. 1,000	12
• National Instruments Corp. 5,675	173	• Pegasus Solutions, Inc. 3,900	42
• National Processing, Inc. 3,200	79	• PeopleSoft, Inc. 29,693	501
• Nautilus Group, Inc. 4,125	66	• Per-Se Technologies, Inc. 10,000	107
• Navigant Consulting, Inc. 2,500	44	• Perot Systems Corp., Class A 9,100	121
• NCO Group, Inc. 2,701	61	• Phoenix Technologies Ltd. 1,300	7
• NDCHealth Corp. 1,900	43	• Pixar, Inc. 5,600	382
• NeighborCare, Inc. 12,500	289	• PLATO Learning, Inc. 1,433	13
• Neoforma, Inc. 1,500	20	• Polycom, Inc. 9,200	176
• Neon Systems, Inc. 2,400	8	• Pomeroy IT Solutions, Inc. 2,100	29
• NeoRx Corp. 400	1	• Portal Software, Inc. 1,220	7
• Netcentives, Inc. 2,000	—	• Pre-Paid Legal Services, Inc. 3,600	90
• Netegrity, Inc. 1,500	13	• PRG-Schultz International, Inc. 2,500	12
• NetIQ Corp. 7,704	99	• Priceline.com, Inc. 1,483	36
• Netratings, Inc. 3,000	36	• Progress Software Corp. 4,200	86
• Netscout Systems, Inc. 1,800	12	• ProQuest Co. 1,700	45
• Netsolve, Inc. 1,600	15	• ProsoftTraining 900	1
• Network Associates, Inc. 11,945	187	• QRS Corp. 1,450	8
• Network Commerce, Inc. 140	—	• Quality Systems, Inc. 900	39
• New England Business Service, Inc. 2,300	80	• Quest Software, Inc. 5,000	56
• Newcastle Investment Corp. 2,200	59	• Quintus Corp. 1,500	1
• NMS Communications Corp. 1,500	12		

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Quixote Corp. 1,300	25	• SportsLine.com, Inc. 2,300	2
• Quovadx, Inc. 2,600	6	• SPSS, Inc. 3,200	46
• R.H. Donnelley Corp. 2,000	91	SS&C Technologies, Inc. 11,100	256
• Radiant Systems, Inc. 1,300	6	The Standard Register Co. 4,100	60
• RealNetworks, Inc. 6,000	35	Startek, Inc. 1,400	45
• Red Hat, Inc. 7,100	161	• Stericycle, Inc. 2,200	105
• Redback Networks, Inc. 8,076	44	• Stratasys, Inc. 1,350	28
• Register.com 1,296	7	Strayer Education, Inc. 700	87
• RemedyTemp, Inc., Class A 1,200	15	• SumTotal Systems, Inc. 463	3
• Renaissance Learning, Inc. 2,100	47	• Sungard Data Systems, Inc. 23,900	623
Republic Services, Inc. 17,700	510	• SupportSoft, Inc. 4,800	47
• Resources Connection, Inc. 600	24	• Sycamore Networks, Inc. 18,200	67
• Retek, Inc. 3,843	27	• Sylvan Learning Systems, Inc. 4,700	166
The Reynolds & Reynolds Co., Class A 5,000	143	• Symantec Corp. 28,400	1,279
• Robert Half International, Inc. 7,500	205	• Symyx Technologies, Inc. 1,300	33
• Ross Systems, Inc. 1,000	18	• Synopsys, Inc. 13,684	366
Roto-Rooter, Inc. 1,200	58	• Synplicity, Inc. 1,200	9
RPC, Inc. 3,400	44	Syntel, Inc. 2,500	50
• RSA Security, Inc. 5,000	80	Talx Corp. 1,700	40
• Rural Cellular Corp., Class A 1,200	10	• Telecommunication Systems, Inc., Class A 1,300	7
• Saba Software, Inc. 500	2	• TeleTech Holdings, Inc. 5,000	31
• SafeNet, Inc. 2,770	60	• Tetra Tech, Inc. 12,031	200
• Sagent Technology, Inc. 1,500	—	• Tetra Technologies, Inc. 3,700	88
• Sapient Corp. 9,100	51	• TIBCO Software, Inc. 16,000	120
• Seachange International, Inc. 3,350	39	• Tier Technologies, Inc., Class B 500	5
• Secure Computing Corp. 3,200	31	• Transaction Systems Architects, Inc., Class A 5,200	110
• Seebeyond Technology Corp. 3,100	12	• TransAxis, Inc. 17	—
• Selectica, Inc. 1,900	8	• TRC Cos., Inc. 1,350	22
• Sequenom, Inc. 1,600	3	• Trizetto Group, Inc. 5,900	40
• Serena Software, Inc. 4,600	82	• Tularik, Inc. 5,100	126
The ServiceMaster Co. 22,900	278	• Tumbleweed Communications Corp. 2,000	8
• SFBC International, Inc. 1,000	37	• Unify Corp. 1,200	1
• Sirius Satellite Radio, Inc. 1,200	4	• United Online, Inc. 6,150	102
• Sitel Corp. 2,800	8	• Universal Access Global Holdings, Inc. 145	—
• Sonic Foundry, Inc. 600	1	• Universal Electronics, Inc. 2,200	31
• SONICblue, Inc. 2,600	—	• UNOVA, Inc. 5,600	98
• SonicWALL, Inc. 4,900	35	• URS Corp. 4,200	109
• SourceCorp 3,600	93	• Usinternetworking, Inc. 1,100	—
Spartech Corp. 4,200	96	• VA Software Corp. 1,427	3
• Spherion Corp. 1,830	18		

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Valueclick, Inc. 6,000	62	Air Products & Chemicals, Inc. 17,700	882
• Vastera, Inc. 2,000	8	Airgas, Inc. 5,000	111
• Ventiv Health, Inc. 2,233	31	Albemarle Corp. 4,500	132
• Verint Systems, Inc. 2,500	67	Amcol International Corp. 5,000	84
• VeriSign, Inc. 20,875	337	Arch Chemicals, Inc. 2,700	79
• Veristry Ltd. 4,500	34	• Bio-Rad Laboratories, Inc., Class A 1,000	59
• Veritas Software Corp. 35,024	934	Brady Corp., Class A 700	27
• Verity, Inc. 4,100	51	Cabot Corp. 5,200	176
• Verso Technologies, Inc. 1,363	2	Calgon Carbon Corp. 2,300	14
• Vertel Corp. 900	—	• Celgene Corp. 3,000	155
Viad Corp. 14,500	362	Crompton Corp. 8,924	55
• The viaLink Co. 700	—	• Cytec Industries, Inc. 7,400	291
• Viewpoint Corp. 2,000	5	Dow Chemical Co. 76,266	3,027
• Vignette Corp. 8,948	16	E.I. du Pont de Nemours & Co. 80,695	3,466
• Volt Information Sciences, Inc. 2,100	54	Eastman Chemical Co. 5,600	238
• Waste Connections, Inc. 1,000	40	Ecolab, Inc. 21,500	641
• Waste Industries USA, Inc. 1,500	16	• Entegris, Inc. 6,000	61
Waste Management, Inc. 48,100	1,366	• Ethyl Corp. 2,000	37
• WatchGuard Technologies, Inc. 1,800	13	Ferro Corp. 4,200	109
• Watson Wyatt & Co. Holdings 4,600	121	• Foamex International, Inc. 2,600	10
• Wave Systems Corp., Class A 1,800	2	Georgia Gulf Corp. 3,300	105
• WebEx Communications, Inc. 2,500	56	Great Lakes Chemical Corp. 3,600	90
• WebMD Corp. 19,426	171	• H.B. Fuller Co. 2,000	55
• webMethods, Inc. 1,921	17	Hawkins, Inc. 1,900	23
• Websense, Inc. 2,500	74	• Hercules, Inc. 8,500	94
• Weight Watchers International, Inc. 8,700	339	IMC Global, Inc. 9,500	119
• Westaff, Inc. 2,000	5	Kronos Worldwide, Inc. 1,437	45
• Wind River Systems, Inc. 3,160	30	Lubrizol Corp. 3,400	108
• Wireless Facilities, Inc. 1,800	17	Lyondell Chemical Co. 4,600	75
• Witness Systems, Inc. 2,100	30	MacDermid, Inc. 3,800	123
• WorldGate Communications, Inc. 2,000	3	• Matrixx Initiatives, Inc. 1,700	17
• Wynn Resorts Ltd. 4,000	160	Millennium Chemicals, Inc. 5,400	88
• Xybernaut Corp. 1,400	2	• Monsanto Co. 21,645	749
• Yahoo!, Inc. 53,072	2,678	Oil-Dri Corp. of America 400	7
• Zamba Corp. 2,000	1	Olin Corp. 4,820	83
• Zix Corp. 900	14	• OM Group, Inc. 3,400	86
	<b>56,916</b>	• Omnova Solutions, Inc. 1,000	5
		• Oxigene, Inc. 900	7
<b>Chemicals 1.4%</b>		Penford Corp. 2,700	44
A. Schulman, Inc. 2,300	46	PolyOne Corp. 3,200	22
Aceto Corp. 7,875	108	PPG Industries, Inc. 14,100	836
• AEP Industries, Inc. 400	5	Praxair, Inc. 25,700	939

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Rogers Corp. 300	18	• Integrated Electrical Services, Inc. 1,800	18
Rohm & Haas Co. 26,753	1,037	KB Home 3,900	269
Rollins, Inc. 4,450	106	Lafarge North America, Inc. 6,200	274
RPM International, Inc. 9,600	145	Lennar Corp., Class A 14,490	679
Sigma-Aldrich Corp. 6,300	357	• Levitt Corp., Class A 550	13
Stepan Co. 1,200	29	M/I Schottenstein Homes, Inc. 1,800	77
Tredegear Corp. 2,600	35	Martin Marietta Materials, Inc. 4,200	182
• Trex Co., Inc. 500	19	Masco Corp. 35,800	1,003
• Uniroyal Technology Corp. 1,100	—	• Mastec, Inc. 5,350	39
Valspar Corp. 4,200	208	MDC Holdings, Inc. 1,464	90
WD-40 Co. 1,600	49	• NCI Building Systems, Inc. 2,900	85
Wellman, Inc. 5,400	44	• NVR, Inc. 500	225
• Zoltek Cos., Inc. 1,500	10	• Palm Harbor Homes, Inc. 2,700	61
	<b>15,590</b>	• Performance Technologies, Inc. 1,600	21
<b>Construction 0.8%</b>		Pulte Homes, Inc. 11,372	559
American Woodmark Corp. 500	32	• Quanta Services, Inc. 8,900	49
Ameron International Corp. 3,400	102	The Ryland Group, Inc. 3,400	268
Apogee Enterprises, Inc. 2,000	22	• SBA Communications Corp. 1,300	5
• Armstrong Holdings, Inc. 1,600	2	The Sherwin-Williams Co. 10,500	400
Beazer Homes USA, Inc. 851	84	• Simpson Manufacturing Co., Inc. 1,600	83
Brookfield Homes Corp. 3,500	113	• Socket Communications, Inc. 800	2
Building Material Holding Corp. 4,000	66	Standard-Pacific Corp. 2,400	121
• Cavco Industries, Inc. 205	8	The Stanley Works 6,600	281
Centex Corp. 8,200	393	• Surebeam Corp., Class A 2,711	—
Craftmade International, Inc. 2,800	64	• Technical Olympic USA, Inc. 1,500	49
D.R. Horton, Inc. 18,453	531	Texas Industries, Inc. 1,000	34
• Dominion Homes, Inc. 500	14	• Toll Brothers, Inc. 5,600	222
• Dycom Industries, Inc. 5,399	127	United Mobile Homes, Inc. 1,600	23
Eagle Materials, Inc. 3,381	222	• USG Corp. 3,900	55
ElkCorp 3,450	96	Vulcan Materials Co. 9,400	435
• EMCOR Group, Inc. 900	37	Walter Industries, Inc. 1,900	24
Florida Rock Industries, Inc. 2,325	92	• WCI Communities, Inc. 3,800	92
Fluor Corp. 5,600	214	• WESCO International, Inc. 4,800	69
• Global Power Equipment Group, Inc. 1,000	7	• West Corp. 4,500	110
Granite Construction, Inc. 4,850	96	• Westell Technologies, Inc., Class A 2,560	19
• Hovnanian Enterprises, Inc., Class A 6,200	223	• Yankee Candle Co., Inc. 3,700	100
• Huttig Building Products, Inc. 811	5		<b>8,607</b>
• Insituform Technologies, Inc., Class A 1,300	21	<b>Consumer Durables 0.4%</b>	
		• Applca, Inc. 3,100	35
		Black & Decker Corp. 7,100	411
		• Champion Enterprises, Inc. 2,200	24

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Chromcraft Revington, Inc. 1,300	18	• Mobile Mini, Inc. 600	11
Compz International, Inc. 800	11	• Mod-Pac Corp. 500	4
Ethan Allen Interiors, Inc. 4,200	175	• Mod-Pac Corp., Class B 125	1
Flexsteel Industries, Inc. 600	13	• Owens-Illinois, Inc. 16,200	226
Furniture Brands International, Inc. 4,700	132	• Packaging Dynamics Corp. 260	3
• Gemstar – TV Guide International, Inc. 21,160	118	• Pactiv Corp. 12,400	285
• Genlyte Group, Inc. 1,600	92	• Sealed Air Corp. 8,500	417
• Griffon Corp. 2,200	48	• Silgan Holdings, Inc. 2,900	122
Haverty Furniture Cos., Inc. 4,200	76	Sonoco Products Co. 4,100	102
• Helen of Troy Ltd. 2,000	67		<b>1,912</b>
Hillenbrand Industries, Inc. 5,800	392		
• Interface, Inc., Class A 3,300	28	<b>Electronics 5.6%</b>	
Isco, Inc. 200	3	• ACT Manufacturing, Inc. 900	—
Kimball International, Inc., Class B 3,600	53	• ACT Teleconferencing, Inc. 1,100	3
La-Z-Boy, Inc. 5,800	121	• Actel Corp. 1,100	22
Leggett & Platt, Inc. 16,200	366	Acuity Brands, Inc. 17,200	421
Maytag Corp. 7,100	198	• Acxiom Corp. 25,700	595
• MITY Enterprises, Inc. 600	11	• Adaptive Broadband Corp. 1,000	—
• Mohawk Industries, Inc. 4,819	372	• ADC Telecommunications, Inc. 28,220	71
National Presto Industries, Inc. 400	16	• ADE Corp. 3,100	55
Newell Rubbermaid, Inc. 21,400	506	• Adelphia Communications, Class A 6,301	5
• Recoton Corp. 500	—	• Advanced Fibre Communications, Inc. 3,500	58
• Restoration Hardware, Inc. 1,700	10	• Advanced Micro Devices, Inc. 26,500	377
• Salton, Inc. 1,100	10	• Advanced Power Technology, Inc. 1,500	15
Skyline Corp. 100	4	• Agere Systems, Inc., Class A 70,116	158
• SLI, Inc. 1,600	—	• Agilent Technologies, Inc. 39,317	1,062
Stanley Furniture Co., Inc. 2,600	104	Agilysys, Inc. 1,600	19
Sturm Ruger & Co., Inc. 1,100	12	• Airnet Communications Corp. 1,300	1
Thomas Industries, Inc. 3,200	108	• Alliance Fiber Optic Products, Inc. 2,100	2
Toro Co. 800	47	• Alliance Semiconductor Corp. 1,200	7
• United Rentals, Inc. 5,900	101	• Alliant Techsystems, Inc. 2,437	144
Virco Manufacturing Corp. 1,170	8	• Altera Corp. 30,400	608
• Water Pik Technologies, Inc. 195	3	• American Physicians Capital, Inc. 2,500	58
Whirlpool Corp. 7,500	491	American Power Conversion Corp. 16,600	310
	<b>4,184</b>	• American Science & Engineering, Inc. 500	7
		• American Technical Ceramics Corp. 500	4
<b>Containers 0.2%</b>		• AMIS Holdings, Inc. 2,500	36
Ball Corp. 6,300	416	• Amkor Technology, Inc. 14,400	116
Bemis Co. 6,400	173	• Amphenol Corp., Class A 8,800	278
• Crown Holdings, Inc. 3,600	30	• Anadigics, Inc. 1,150	5
Greif, Inc., Class A 3,700	122		



Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Analog Devices, Inc. 30,200	1,287	• CCC Information Services Group, Inc. 13,100	211
• Anaren, Inc. 3,300	49	• Celera Genomics Group – Applera Corp. 5,600	66
• Andrew Corp. 10,925	185	• Celestica, Inc. 937	16
• Anixter International, Inc. 3,300	97	• Ceva, Inc. 433	3
• Applied Materials, Inc. 135,498	2,470	Chase Corp. 100	1
• Applied Micro Circuits Corp. 12,238	54	• Checkpoint Systems, Inc. 4,600	74
• Arris Group, Inc. 2,600	16	• ChipPAC, Inc., Class A 6,600	40
• Arrow Electronics, Inc. 12,000	303	• Chronimed, Inc. 600	5
• Artisan Components, Inc. 1,100	26	• CIENA Corp. 17,294	72
• Aspect Communications Corp. 4,200	50	• Cirrus Logic, Inc. 3,800	24
• Astronics Corp. 1,250	7	• ClearOne Communications, Inc. 1,000	5
• Asyst Technologies, Inc. 1,700	11	• CMGI, Inc. 14,086	24
• Atmel Corp. 37,900	221	• Coherent, Inc. 1,800	44
• ATMI, Inc. 1,400	31	Cohu, Inc. 1,100	19
• Audiovox Corp., Class A 1,600	24	• CommScope, Inc. 4,900	86
• Avanex Corp. 2,100	6	• Computer Network Technology Corp. 1,100	7
• Avid Technology, Inc. 1,100	53	• Comtech Telecommunications 1,450	23
• Avnet, Inc. 11,288	244	• Conexant Systems, Inc. 25,046	109
AVX Corp. 7,500	106	• Corvis Corp. 13,000	20
• Aware, Inc. 1,100	4	• Cox Radio, Inc., Class A 4,600	95
• Axcelis Technologies, Inc. 7,044	74	• Credence Systems Corp. 1,700	19
• AXT, Inc. 800	2	• Cree, Inc. 2,900	54
Badger Meter, Inc. 1,000	42	CTS Corp. 5,800	76
BEI Technologies, Inc. 3,700	78	Cubic Corp. 1,200	28
Bel Fuse, Inc., Class A 1,200	35	• Cyberonics 3,700	88
Belden, Inc. 3,300	58	• Cymer, Inc. 1,700	54
• Bell Microproducts, Inc. 1,000	7	• Cypress Semiconductor Corp. 8,500	119
• Benchmark Electronics, Inc. 10,050	272	• Daktronics, Inc. 5,600	119
• BioVeris Corp. 3,800	47	• DDi Corp. 8	—
◆ Bookham Technology PLC 3,364	5	• Diodes, Inc. 2,850	62
Boston Acoustics, Inc. 1,300	14	• Dionex Corp. 1,200	61
• Broadcom Corp., Class A 23,700	895	• DSP Group, Inc. 3,300	82
• Brooks Automation, Inc. 1,364	23	• Ducommun, Inc. 4,300	101
• Bruker BioSciences Corp. 2,100	11	• Dupont Photomasks, Inc. 1,900	39
C&D Technologies, Inc. 4,500	70	• Dynamics Research Corp. 1,200	20
• C-COR.net Corp. 4,600	42	• Electro Rent Corp. 5,100	52
• Cable Design Technologies Corp. 4,200	36	• Electro Scientific Industries, Inc. 1,300	27
• Cabot Microelectronics Corp. 660	19	• Electroglas, Inc. 900	4
• Cadence Design Systems, Inc. 11,600	149	• Electronics for Imaging 3,400	86
• California Amplifier, Inc. 1,000	8		
• Captaris, Inc. 2,200	12		

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•Emcore Corp. 1,500	4	Intersil Corp., Class A 9,864	195
•EMS Technologies, Inc. 1,000	18	•Itron, Inc. 1,500	32
•Emulex Corp. 5,900	98	ITT Industries, Inc. 6,200	492
•Energizer Holdings, Inc. 6,333	274	•Ixia 5,200	46
•Energy Conversion Devices, Inc. 600	7	•IXYS Corp. 900	8
•Entrada Networks, Inc. 75	—	•Jabil Circuit, Inc. 15,400	406
•ESS Technology, Inc. 3,100	33	•JDS Uniphase Corp. 112,424	342
•Exar Corp. 4,300	66	Keithley Instruments, Inc. 3,200	67
•Excel Technology, Inc. 600	20	•Kemet Corp. 6,700	83
•Fairchild Semiconductor International, Inc., Class A 8,600	167	•KLA-Tencor Corp. 15,000	625
•FEI Co. 1,500	30	•Kopin Corp. 2,500	12
•First Virtual Communications, Inc. 240	—	•Kulicke & Soffa Industries, Inc. 4,400	44
•Flir Systems, Inc. 2,400	113	•Lam Research Corp. 9,100	201
•FormFactor, Inc. 2,500	44	•Lattice Semiconductor Corp. 4,600	33
Frequency Electronics, Inc. 500	7	•LeCroy Corp. 900	17
•FSI International, Inc. 1,300	8	•Lightpath Technologies, Inc., Class A 75	—
•FuelCell Energy, Inc. 1,200	20	Linear Technology Corp. 25,000	891
•General Cable Corp. 2,200	17	•Littelfuse, Inc. 4,500	173
•Genus, Inc. 500	2	•Logicvision, Inc. 1,000	3
•Gerber Scientific, Inc. 1,900	11	•Loral Space & Communications 1,390	1
•Getty Images, Inc. 4,600	251	•LSI Logic Corp. 29,964	223
•Glenayre Technologies, Inc. 2,300	5	•Lucent Technologies, Inc. 301,923	1,017
•GTC Biotherapeutics, Inc. 1,800	3	•Macromedia, Inc. 4,500	93
Harman International Industries, Inc. 6,800	516	•Mattson Technology, Inc. 4,100	40
•Harmonic, Inc. 6,342	42	Maxim Integrated Products, Inc. 27,453	1,263
Harris Corp. 7,000	315	•Maxwell Technologies, Inc. 1,000	15
•Harvard Bioscience, Inc. 500	4	•Measurement Specialties, Inc. 700	13
Hearst-Argyle Television, Inc. 3,700	97	•MEMC Electronic Materials, Inc. 16,300	130
•Herley Industries, Inc. 4,000	83	•Mercury Computer Systems, Inc. 3,600	81
•HI/FN, Inc. 800	7	•Mestek, Inc. 700	13
•Hollywood Entertainment Corp. 4,300	58	•Metawave Communications Corp. 1,900	—
•Hutchinson Technology, Inc. 17,100	420	Methode Electronics, Class A 3,600	41
•Illumina, Inc. 1,500	11	•Micron Technology, Inc. 49,500	674
•Integrated Circuit Systems, Inc. 5,400	128	•Microsemi Corp. 7,000	76
•Integrated Silicon Solutions, Inc. 3,400	47	•Microtune, Inc. 2,200	7
⑧ Intel Corp. 523,032	13,458	•MKS Instruments, Inc. 1,700	33
•Intelli-Check, Inc. 500	3	Mocon, Inc. 600	5
•Interactive Data Corp. 20,700	346	Molex, Inc. 16,125	480
•Intermagnetics General Corp. 1,371	34	•Monolithic System Technology, Inc. 1,200	9
•International Rectifier Corp. 4,100	163	Motorola, Inc. 189,155	3,452
		•MRV Communications, Inc. 4,307	10

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
MTS Systems Corp. 4,500	106	• Remec, Inc. 2,500	16
• Mykrolis Corp. 3,021	44	• Rex Stores Corp. 1,875	27
• Nanogen, Inc. 1,500	9	• RF Micro Devices, Inc. 13,700	101
• Nanometrics, Inc. 300	4	Richardson Electronics Ltd. 1,300	14
• National Semiconductor Corp. 14,600	596	• Rofin-Sinar Technologies, Inc. 1,900	44
• Netopia, Inc. 2,100	13	• Rudolph Technologies, Inc. 500	8
• Newport Corp. 4,200	62	• Sanmina-SCI Corp. 41,316	414
• Novellus Systems, Inc. 11,171	323	• SBS Technologies, Inc. 1,700	25
• Novoste Corp. 1,600	5	• ScanSoft, Inc. 1,204	6
• Nvidia Corp. 7,000	144	Scientific-Atlanta, Inc. 11,900	385
• Omnivision Technologies, Inc. 2,800	62	• SCM Microsystems, Inc. 1,200	8
• Oplink Communications, Inc. 4,600	9	• Seagate Technology 6,000	75
• Optical Communication Products, Inc. 500	1	• Semitool, Inc. 4,300	47
• OSI Systems, Inc. 3,700	84	• Semtech Corp. 3,200	67
• P-Com Inc. 520	—	• Silicon Image, Inc. 2,000	20
Park Electrochemical Corp. 3,600	85	• Silicon Laboratories, Inc. 5,000	236
• Parkervision, Inc. 400	2	• Silicon Storage Technology, Inc. 7,000	93
• Paxson Communications Corp. 1,900	6	• Siliconix, Inc. 8,100	314
• Pemstar, Inc. 1,600	5	• Sipex Corp. 1,600	9
• Pericom Semiconductor Corp. 1,400	15	• Sirenza Microdevices, Inc. 1,300	5
PerkinElmer, Inc. 8,977	173	• Skyworks Solutions, Inc. 5,689	49
• Photon Dynamics, Inc. 3,400	105	• Solectron Corp. 64,320	315
• Pinnacle Systems, Inc. 1,800	14	• Somera Communications, Inc. 1,900	3
• Pixelworks, Inc. 1,600	29	• Spectralink Corp. 1,000	13
• Planar Systems, Inc. 3,700	45	• Spherix, Inc. 500	3
• Plantronics, Inc. 4,000	152	• Standard Microsystems Corp. 3,600	86
• Plexus Corp. 1,700	24	• Stratex Networks, Inc. 2,800	9
• PLX Technology, Inc. 1,300	17	• Superconductor Technologies, Inc. 1,600	2
• Powell Industries, Inc. 1,000	16	► Superior Telecom, Inc. 1,124	—
• Power Integrations, Inc. 1,400	34	• Supertex, Inc. 1,400	21
• Power-One, Inc. 6,000	52	Symbol Technologies, Inc. 19,437	233
• Powerwave Technologies, Inc. 3,200	22	• Symmetricom, Inc. 8,450	68
• Proxim Corp., Class A 5,412	8	• Synaptics, Inc. 3,500	58
• QLogic Corp. 7,022	190	• Taser International, Inc. 6,000	194
Qualcomm, Inc. 63,800	3,985	• Technitrol, Inc. 4,000	85
• Quantum Corp. 5,500	17	• Tekelec 8,700	145
• QuickLogic Corp. 900	3	Tektronix, Inc. 8,300	246
• Radisys Corp. 3,700	69	• TelCove 4,638	—
• Rambus, Inc. 8,200	153	• Tellabs, Inc. 32,800	286
Raven Industries, Inc. 1,400	45	• Teradyne, Inc. 15,559	317
• Rayovac Corp. 2,800	75	• Terayon Communication Systems Corp. 2,800	8

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•Tessco Technologies, Inc. 900	13	<b>Energy: Raw Materials 1.8%</b>	
•Tessera Technologies, Inc. 3,000	53	Alliance Resource Partners L.P. 1,700	66
•Texas Instruments, Inc. 140,897	3,537	Anadarko Petroleum Corp. 19,530	1,046
•Therma-Wave, Inc. 1,000	3	Apache Corp. 28,372	1,188
•Thermo Electron Corp. 26,550	775	APCO Argentina, Inc. 200	7
•Thomas & Betts Corp. 7,300	175	Arch Coal, Inc. 3,500	107
•THQ, Inc. 1,950	36	•Atwood Oceanics, Inc. 1,200	44
•Three-Five Systems, Inc. 1,099	6	Baker Hughes, Inc. 28,300	1,038
•Tollgrade Communications, Inc. 3,600	44	Berry Petroleum Co., Class A 2,000	54
•Transmeta Corp. 4,500	13	•BJ Services Co. 11,800	525
•Transwitch Corp. 3,100	5	Buckeye Partners L.P. 3,400	134
•Tripath Technology, Inc. 1,800	5	Burlington Resources, Inc. 17,000	1,144
•Triquint Semiconductor, Inc. 5,310	29	Cabot Oil & Gas Corp. 14,400	514
•Troy Group, Inc. 2,000	6	CARBO Ceramics, Inc. 3,000	194
•TTM Technologies, Inc. 4,400	49	•Cimarex Energy Co. 3,122	86
•Tweeter Home Entertainment Group, Inc. 1,100	8	•Cooper Cameron Corp. 3,300	160
•United Industrial Corp. 1,200	25	•CREDO Petroleum Corp. 1,800	27
•Unitil Corp. 600	16	•Denbury Resources, Inc. 4,900	89
•Valence Technology, Inc. 1,400	6	Devon Energy Corp. 18,680	1,143
•Varian Semiconductor Equipment Associates, Inc. 1,500	49	ENSCO International, Inc. 11,200	307
•Varian, Inc. 5,800	238	Enterprise Products Partners L.P. 17,000	356
•Viasat, Inc. 3,500	77	EOG Resources, Inc. 11,400	561
•Vicor Corp. 4,200	58	•Evergreen Resources, Inc. 1,600	64
•Virage Logic Corp. 1,400	11	•FMC Technologies, Inc. 4,591	125
•Vishay Intertechnology, Inc. 11,781	205	•Forest Oil Corp. 4,450	117
•Vitesse Semiconductor Corp. 6,986	30	•Friede Goldman Halter, Inc. 1,855	—
•Waters Corp. 8,700	375	•Grant Prideco, Inc. 3,600	55
•Western Digital Corp. 15,700	127	•Grey Wolf, Inc. 5,800	23
•Western Wireless Corp., Class A 5,200	108	Halliburton Co. 36,700	1,094
•Wilson Greatbatch Technologies, Inc. 1,100	38	•Hanover Compressor Co. 5,600	69
•WJ Communications, Inc. 2,300	7	•Headwaters, Inc. 2,500	57
•Xicor, Inc. 1,000	15	Helmerich & Payne, Inc. 4,800	130
•Xilinx, Inc. 27,600	928	•Hydril Co. 2,500	64
•YDI Wireless, Inc. 100	—	Inergy L.P. 2,000	46
•Zebra Technologies Corp., Class A 4,250	311	Joy Global, Inc. 8,600	226
•Zoran Corp. 1,761	29	•Key Energy Services, Inc. 10,300	110
	<b>60,159</b>	•Kirby Corp. 3,800	131
		Lufkin Industries, Inc. 500	16
		Massey Energy Co. 6,000	140
		Natural Resource Partners L.P. 2,000	74
		NL Industries, Inc. 5,300	69

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Noble Corp. 10,100	375	• Chiquita Brands International, Inc. 10,000	180
• Noble Energy, Inc. 3,500	161	• Coca-Cola Bottling Co. Consolidated 400	21
• Occidental Petroleum Corp. 30,600	1,444	• The Coca-Cola Co. 197,200	9,972
• Offshore Logistics, Inc. 3,600	79	• Coca-Cola Enterprises, Inc. 37,200	1,004
• Oil States International, Inc. 3,600	49	• ConAgra Foods, Inc. 43,293	1,251
• Parker Drilling Co. 2,800	9	• Consolidated-Tomoka Land Co. 900	34
• Peabody Energy Corp. 3,800	178	• Corn Products International, Inc. 7,800	331
• Penn Virginia Resource Partners L.P. 2,500	84	• Dean Foods Co. 8,613	289
• Plains All American Pipeline L.P. 4,600	150	• Del Monte Foods Co. 8,931	99
• Plains Resources, Inc. 4,000	72	• Delta & Pine Land Co. 2,000	49
• Range Resources Corp. 5,400	68	• Eden Bioscience Corp. 1,000	1
• Reliant Energy, Inc. 22,625	188	• Embrex, Inc. 1,300	16
• Rowan Cos., Inc. 3,400	76	• Fleming Cos., Inc. 3,400	—
• Schlumberger Ltd. 47,500	2,780	• Flowers Foods, Inc. 19,515	478
• Seacor Holdings, Inc. 1,250	52	• Fresh Brands, Inc. 1,800	16
• Smith International, Inc. 7,400	405	• Fresh Del Monte Produce, Inc. 4,200	98
• Swift Energy Co. 2,500	54	• General Mills, Inc. 31,300	1,526
• TC Pipelines L.P. 2,400	78	• Green Mountain Coffee Roasters, Inc. 900	19
• Tidewater, Inc. 2,700	76	• Griffen Land & Nurseries, Inc. 300	8
• Tom Brown, Inc. 3,200	153	• H.J. Heinz Co. 27,900	1,066
• Unit Corp. 2,400	68	• Hain Celestial Group, Inc. 1,406	28
• USEC, Inc. 3,000	21	• Hershey Foods Corp. 10,700	951
• Valero Energy Corp. 11,149	711	• Hormel Foods Corp. 6,500	198
• W-H Energy Services, Inc. 900	17	• Ingles Markets, Inc., Class A 300	3
• Weatherford International Ltd. 10,600	461	• Interstate Bakeries 3,200	36
• Western Gas Resources, Inc. 2,000	109	• J & J Snack Foods Corp. 3,200	122
• Westmoreland Coal Co. 3,500	68	• The J.M. Smuckers Co. 2,438	128
• World Fuel Services Corp. 3,000	127	• John B. Sanfilippo & Son 5,000	157
• Xanser Corp. 1,400	3	• Kellogg Co. 34,400	1,476
	<b>19,516</b>	• Kraft Foods, Inc., Class A 17,500	576
		• Lance, Inc. 1,900	29
<b>Food &amp; Agriculture 3.6%</b>		• Lesco, Inc. 500	7
• 7-Eleven, Inc. 5,000	80	• Lindsay Manufacturing Co. 800	19
• American Italian Pasta Co., Class A 1,000	31	• Marsh Supermarkets, Inc., Class B 1,000	13
• The Andersons, Inc. 1,500	28	• Maui Land & Pineapple Co., Inc. 800	26
• Archer-Daniels-Midland Co. 51,458	904	• McCormick & Co., Inc. 8,300	284
• Aurora Foods, Inc. 2,500	—	• MGP Ingredients, Inc. 1,700	46
• Bridgford Foods Corp. 300	2	• Monterey Pasta Co. 700	3
• Bunge Ltd. 6,800	252	• Nash Finch Co. 1,700	35
• Cadiz, Inc. 84	1	• Neogen Corp. 625	11
• Campbell Soup Co. 35,400	978		

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• The Pantry, Inc. 400	8	<b>Healthcare / Drugs &amp; Medicine 13.0%</b>	
• Peet's Coffee & Tea, Inc. 1,800	39	• 1-800 Contacts, Inc. 500	9
The Pepsi Bottling Group, Inc. 20,700	606	• aaiPharma, Inc. 4,300	27
PepsiAmericas, Inc. 13,200	264	Abbott Laboratories 125,705	5,534
PepsiCo, Inc. 138,300	7,536	• Abgenix, Inc. 7,100	116
• Performance Food Group Co. 1,900	67	• Abiomed, Inc. 800	9
Pilgrim's Pride Corp., Class B 1,400	32	• Accredo Health, Inc. 2,841	110
• Ralcorp Holdings, Inc. 6,700	233	• Aclara BioSciences, Inc. 2,400	10
Rocky Mountain Chocolate Factory, Inc. 1,500	15	• Advanced Medical Optics, Inc. 2,400	76
Sanderson Farms, Inc. 5,250	195	• Advanced Neuromodulation Systems, Inc. 1,050	29
Sara Lee Corp. 64,378	1,486	• AeroGen, Inc. 640	2
• The Scotts Co., Class A 2,800	185	• Alaris Medical Systems, Inc. 5,000	97
Seaboard Corp. 200	65	• Albany Molecular Research, Inc. 1,600	26
Sensient Technologies Corp. 2,300	47	• Align Technology, Inc. 8,700	151
• Smart & Final, Inc. 2,700	31	• Alkermes, Inc. 3,100	48
• Smithfield Foods, Inc. 6,300	168	Allergan, Inc. 9,400	828
• Spartan Stores, Inc. 500	2	• Alliance Imaging, Inc. 1,800	7
Standard Commercial Corp. 1,100	20	• Alliance Pharmaceutical Corp. 220	—
Supervalu, Inc. 18,087	557	• Allscripts Healthcare Solutions, Inc. 1,900	18
Sysco Corp. 52,036	1,990	Alpharma, Inc., Class A 3,700	80
Tasty Baking Co. 500	5	• Amedisys, Inc. 2,500	75
• Tejon Ranch Co. 674	23	• America Service Group, Inc. 3,300	121
Tootsie Roll Industries, Inc. 2,255	79	• American Healthways, Inc. 3,100	75
Tyson Foods, Inc., Class A 27,840	522	• American Medical Systems Holdings, Inc. 3,900	101
• United Natural Foods, Inc. 2,600	65	• AMERIGROUP Corp. 900	37
• VistaCare, Inc., Class A 1,000	25	AmerisourceBergen Corp. 7,824	453
• Wild Oats Markets, Inc. 3,800	52	• Amgen, Inc. 104,868	5,901
Wm. Wrigley Jr. Co. 16,600	1,024	• Amsurg Corp. 4,800	116
• Zapata Corp. 1,000	59	• Amylin Pharmaceuticals, Inc. 2,300	52
	<b>38,282</b>	• Andrx Corp. 6,400	146
<b>Gold 0.2%</b>		• Anthem, Inc. 14,417	1,277
Barrick Gold Corp. 5,565	107	• Antigenics, Inc. 1,400	13
• Glamis Gold Ltd. 11,100	160	• Apton Corp. 800	4
• Golden Cycle Gold Corp. 600	8	• Apogent Technologies, Inc. 7,100	230
• Meridian Gold, Inc. 6,600	66	Applied Biosystems Group —	
Newmont Mining Corp. 34,651	1,296	Applera Corp. 16,500	306
Royal Gold, Inc. 3,100	38	• Apria Healthcare Group, Inc. 10,500	303
	<b>1,675</b>	• Arqule, Inc. 8,800	58
		Arrow International, Inc. 6,400	191

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Arthrocare Corp. 1,400	33	• Community Health Systems, Inc. 7,100	183
• Aspect Medical Systems, Inc. 3,700	62	• Conmed Corp. 1,700	42
• Atrix Labs, Inc. 1,400	42	• Cooper Cos., Inc. 2,200	119
• AVANIR Pharmaceuticals, Class A 1,900	3	• Corixa Corp. 1,802	11
• Avant Immunotherapeutics, Inc. 3,000	8	• Corvel Corp. 1,900	59
• Avigen, Inc. 900	4	• Covance, Inc. 5,800	196
• Barr Laboratories, Inc. 8,781	364	• Coventry Health Care, Inc. 14,400	602
• Bausch & Lomb, Inc. 3,400	214	• CryoLife, Inc. 750	4
• Baxter International, Inc. 50,118	1,586	• CTI Molecular Imaging, Inc. 2,000	30
• Beckman Coulter, Inc. 5,100	285	• Cubist Pharmaceuticals, Inc. 1,900	19
• Becton Dickinson & Co. 20,300	1,026	• Curis, Inc. 3,140	14
• Beverly Enterprises, Inc. 8,800	52	• CV Therapeutics, Inc. 1,100	16
• BioCryst Pharmaceuticals, Inc. 1,400	12	• Cygnus, Inc. 600	—
• Biogen Idec, Inc. 27,125	1,600	• Cytogen Corp. 230	3
• BioMarin Pharmaceuticals, Inc. 1,800	12	• Cytoc Corp. 7,800	167
• Biomet, Inc. 20,125	795	• D&K Healthcare Resources, Inc. 3,200	44
• Biopure Corp. 1,200	2	• Dade Behring Holdings, Inc. 2,600	120
• Biosite, Inc. 1,400	55	• Datascope Corp. 2,500	83
• Biosource International, Inc. 1,500	12	• DaVita, Inc. 16,500	843
• Bone Care International, Inc. 1,400	35	• Deltagen, Inc. 2,200	—
• Boston Scientific Corp. 67,800	2,793	• Dendreon Corp. 1,400	18
• Bradley Pharmaceuticals, Inc. 1,700	45	• Dentsply International, Inc. 6,550	317
• Bristol-Myers Squibb Co. 156,550	3,929	• Diagnostic Products Corp. 1,700	73
• C.R. Bard, Inc. 4,000	425	• Digene Corp. 1,400	50
• Caliper Life Sciences, Inc. 700	5	• DJ Orthopedics, Inc. 3,000	69
• Cambrex Corp. 3,400	84	• Direct Corp. 2,000	8
• Cardinal Health, Inc. 36,160	2,649	• Dynacq Healthcare, Inc. 3,616	20
• Caremark Rx, Inc. 37,090	1,255	• Edwards Lifesciences Corp. 3,900	134
• Cell Therapeutics, Inc. 1,400	12	• Eli Lilly & Co. 90,400	6,672
• Centene Corp. 500	17	• Emisphere Technologies, Inc. 800	4
• Cephalon, Inc. 3,500	199	• Endo Pharmaceutical Holdings, Inc. 10,500	251
• Cerus Corp. 500	2	• Enpath Medical, Inc. 3,000	34
• Charles River Laboratories International, Inc. 4,400	202	• Entremed, Inc. 1,200	4
• Chattem, Inc. 1,200	32	• Enzo Biochem, Inc. 1,697	25
• Chiron Corp. 15,100	701	• Enzon Pharmaceuticals, Inc. 4,400	64
• Cholestech Corp. 1,700	17	• Eon Labs, Inc. 2,400	158
• ChromaVision Medical Systems, Inc. 1,100	1	• Express Scripts, Inc. 6,300	487
• CIPHERGEN Biosystems, Inc. 1,700	12	• Eyetech Pharmaceuticals, Inc. 2,500	89
• CNS, Inc. 5,000	53	• First Health Group Corp. 8,700	145
• Collagenex Pharmaceuticals, Inc. 3,000	31	• First Horizon Pharmaceutical Corp. 3,400	53

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Forest Laboratories, Inc. 27,500	1,773	• Inveresk Research Group, Inc. 4,200	119
• Gen-Probe, Inc. 3,400	113	• Isis Pharmaceuticals, Inc. 1,900	14
• Gene Logic, Inc. 1,300	5	• IVAX Corp. 14,750	314
• Genelabs Technologies, Inc. 800	2	⑩ Johnson & Johnson 241,370	13,041
• Genentech, Inc. 18,200	2,235	• Kendle International, Inc. 2,700	22
• Genesis HealthCare Corp. 6,250	146	• Kindred Healthcare, Inc. 2,312	113
• Genta, Inc. 2,900	25	• Kinetic Concepts, Inc. 2,500	121
• Genzyme Corp. 15,232	664	• King Pharmaceuticals, Inc. 18,516	319
• Geron Corp. 1,000	8	• Kosan Biosciences, Inc. 2,500	35
• Gilead Sciences, Inc. 14,060	855	• KV Pharmaceutical Co., Class A 2,700	65
Guidant Corp. 25,816	1,627	• Kyphon, Inc. 3,000	75
• Guilford Pharmaceuticals, Inc. 1,200	8	• Laboratory Corp. of America Holdings 12,800	509
• Haemonetics Corp. 3,700	104	Landauer, Inc. 1,100	43
HCA, Inc. 39,100	1,589	• Large Scale Biology Corp. 2,400	5
Health Management Associates, Inc., Class A 15,900	368	• Lexicon Genetics, Inc. 6,900	49
• Health Net, Inc. 16,600	422	• LifePoint Hospitals, Inc. 2,300	82
Healthcare Services Group 3,750	59	• Ligand Pharmaceuticals, Inc., Class B 2,300	49
• HealthExtras, Inc. 1,900	24	• Lincare Holdings, Inc. 7,100	247
• HealthTronics Surgical Services, Inc. 3,500	25	• Magellan Health Services, Inc. 3,007	97
• Henry Schein, Inc. 2,300	162	Manor Care, Inc. 8,000	260
• Hologic, Inc. 2,600	52	• Maxim Pharmaceuticals, Inc. 2,400	19
• Human Genome Sciences, Inc. 5,100	62	McKesson Corp. 22,900	752
• Humana, Inc. 18,900	308	• Med-Design Corp. 1,200	3
• ICU Medical, Inc. 550	18	• Medarex, Inc. 3,000	29
• IDEXX Laboratories, Inc. 2,500	153	• Medcath Corp. 1,500	23
• li-Vi, Inc. 1,900	47	• Medco Health Solutions, Inc. 21,138	748
• ImClone Systems, Inc. 4,435	297	• Medical Action Industries, Inc. 2,500	48
• Immucor, Inc. 1,125	28	• Medicines Co. 1,700	56
• Immunogen, Inc. 1,500	13	Medicis Pharmaceutical Corp., Class A 3,400	146
• Immunomedics, Inc. 2,400	12	• Medimmune, Inc. 17,375	421
• IMPAC Medical Systems, Inc. 3,000	73	• Medis Technologies Ltd. 1,110	14
• Impax Laboratories, Inc. 1,600	33	• MedQuist, Inc. 3,217	44
• Inamed Corp. 13,950	821	Medtronic, Inc. 98,474	4,969
• Incyte Corp. 2,600	21	Mentor Corp. 3,000	95
• Indevus Pharmaceuticals, Inc. 1,800	13	Merck & Co., Inc. 180,052	8,462
• Inspire Pharmaceuticals, Inc. 1,300	21	Meridian Bioscience, Inc. 5,000	55
• Integra LifeSciences Holdings Corp. 1,100	35	• Merit Medical Systems, Inc. 2,222	35
• InterMune, Inc. 1,100	16	• MGI Pharma, Inc. 1,900	117
• Intuitive Surgical, Inc. 1,050	17	• Millennium Pharmaceuticals, Inc. 11,956	179
Invacare Corp. 2,000	80		



Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
•MIM Corp. 1,500	11	•Pharmacoepia, Inc. 1,300	23
•Mine Safety Appliances Co. 2,700	73	•Pharmacyclics, Inc. 1,100	13
•Molecular Devices Corp. 8,100	159	•Pharmion Corp. 2,500	54
•Molina Healthcare, Inc. 2,500	89	•PolyMedica Corp. 4,400	122
•Mylan Laboratories, Inc. 45,000	1,031	•Pozen, Inc. 1,300	15
•Myogen, Inc. 2,500	29	•Praecis Pharmaceuticals, Inc. 1,600	9
•Myriad Genetics, Inc. 1,400	24	•Priority Healthcare Corp., Class B 2,000	40
•Nabi Biopharmaceuticals 2,800	46	•Protein Design Labs, Inc. 4,100	100
•National Healthcare Corp. 600	18	•Province Healthcare Co. 4,825	77
•Nature's Sunshine Products, Inc. 4,000	58	•PSS World Medical, Inc. 5,800	65
•NBTY, Inc. 16,000	595	•QMed, Inc. 500	5
•Nektar Therapeutics 2,200	45	•Quest Diagnostics 7,410	625
•Neose Technologies, Inc. 500	5	•Regeneration Technologies, Inc. 1,700	16
•Neurocrine Biosciences, Inc. 1,400	92	•Regeneron Pharmaceuticals, Inc. 1,900	24
•Neurogen Corp. 800	8	•RehabCare Group, Inc. 4,000	82
•Northfield Laboratories, Inc. 1,100	17	•Renal Care Group, Inc. 4,700	233
•Noven Pharmaceuticals, Inc. 5,500	108	•Res-Care, Inc. 4,500	61
•NPS Pharmaceuticals, Inc. 1,000	25	•Resmed, Inc. 2,000	99
•Nutraceutical International Corp. 5,000	116	•Respironics, Inc. 1,900	100
•Nuvelo, Inc. 300	3	•Sangamo Biosciences, Inc. 1,200	8
•Oakley, Inc. 6,700	93	•Savient Pharmaceuticals, Inc. 2,300	9
•Ocular Sciences, Inc. 1,500	42	•Schering-Plough Corp. 80,950	1,354
•Odyssey HealthCare, Inc. 2,250	38	•Select Medical Corp. 7,500	142
•Omnicare, Inc. 7,500	311	•Sepracor, Inc. 6,600	316
•Onyx Pharmaceuticals, Inc. 1,800	89	•Serologicals Corp. 1,200	22
•OraSure Technologies, Inc. 1,500	13	•Sierra Health Services, Inc. 11,700	435
•Orchid BioSciences, Inc. 280	2	•Sola International, Inc. 2,700	55
•Orthodontic Centers of America, Inc. 2,112	15	•SonoSite, Inc. 1,600	34
•Oscient Pharmaceuticals Corp. 2,100	12	•Specialty Laboratories 700	7
•OSI Pharmaceuticals, Inc. 1,690	125	•St. Jude Medical, Inc. 14,800	1,129
•Owens & Minor, Inc. 2,000	49	•Steris Corp. 6,100	135
•Oxford Health Plans, Inc. 21,700	1,181	•Stryker Corp. 16,800	1,662
•PacifiCare Health Systems, Inc. 18,800	672	•Sunrise Senior Living, Inc. 4,900	155
•Pain Therapeutics, Inc. 2,600	19	•Sunrise Technologies International, Inc. 1,700	—
•Parexel International Corp. 2,400	47	•SuperGen, Inc. 900	7
•Patterson Dental Co. 5,300	391	•Sybron Dental Specialties, Inc. 4,633	136
•Pediatrix Medical Group, Inc. 3,000	215	•Symbion, Inc. 2,500	41
•Perrigo Co. 7,300	157	•Tanox, Inc. 4,900	84
④Pfizer, Inc. 617,552	22,084	•Techne Corp. 3,800	148
•Pharmaceutical Product Development, Inc. 5,000	148	•Tenet Healthcare Corp. 36,650	431
•Pharmaceutical Resources, Inc. 1,900	77	•Theragenics Corp. 2,500	13

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Third Wave Technologies, Inc. 1,800	9	<b>Household Products 1.9%</b>	
• Thoratec Corp. 2,636	36	Alberto-Culver Co., Class B 4,950	233
• Titan Pharmaceuticals, Inc. 800	3	Avon Products, Inc. 19,500	1,638
• TL Administration Corp. 900	—	Church & Dwight Co., Inc. 3,300	148
• Transgenomic, Inc. 1,200	2	Clorox Co. 27,000	1,398
• Transkaryotic Therapies, Inc. 3,400	49	Colgate-Palmolive Co. 42,500	2,460
• Triad Hospitals, Inc. 6,044	206	The Estee Lauder Cos., Inc., Class A 10,300	471
• Trimeris, Inc. 500	7	The Gillette Co. 81,400	3,331
• TriPath Imaging, Inc. 2,600	22	Inter Parfums, Inc. 675	15
• Tripos, Inc. 6,000	35	International Flavors & Fragrances, Inc. 4,400	160
• United Surgical Partners International, Inc. 1,400	51	Nu Skin Enterprises, Inc., Class A 6,500	154
UnitedHealth Group, Inc. 52,506	3,228	▲ Procter & Gamble Co. 104,200	11,019
Universal Health Services, Class B 4,000	176		<b>21,027</b>
• Urologix, Inc. 1,800	22	<b>Insurance 4.7%</b>	
• US Oncology, Inc. 7,700	115	21st Century Holding Co. 1,000	20
• US Physical Therapy, Inc. 3,500	50	21st Century Insurance Group 7,200	97
• USANA Health Sciences, Inc. 1,000	27	Aetna, Inc. 14,800	1,225
• Utah Medical Products, Inc. 2,500	64	AFLAC, Inc. 40,100	1,693
Valeant Pharmaceuticals International 5,400	125	Alfa Corp. 4,800	65
• Varian Medical Systems, Inc. 4,700	403	• Alleghany Corp. 216	57
• Vaxgen, Inc. 3,100	47	• Allmerica Financial Corp. 4,900	170
• VCA Antech, Inc. 2,700	110	The Allstate Corp. 56,374	2,588
• Ventana Medical Systems, Inc. 1,200	59	AMBAC Financial Group, Inc. 10,250	707
• Vertex Pharmaceuticals, Inc. 3,144	27	American Financial Group, Inc. 5,500	169
• Viasys Healthcare, Inc. 3,982	77	⑦ American International Group, Inc. 212,222	15,206
• Vical, Inc. 1,600	8	• American Medical Security Group, Inc. 5,600	143
• Viropharma, Inc. 1,000	2	American National Insurance Co. 1,300	122
• Visx, Inc. 3,100	68	• AmerUs Group Co. 1,900	73
Vital Signs, Inc. 1,900	61	AON Corp. 25,500	665
• Watson Pharmaceuticals, Inc. 7,732	275	• Arch Capital Group Ltd. 1,400	56
• WellPoint Health Networks, Inc. 12,680	1,416	• Argonaut Group, Inc. 2,400	44
West Pharmaceutical Services, Inc. 3,300	128	Arthur J. Gallagher & Co. 6,800	219
• Wright Medical Group, Inc. 1,700	58	Baldwin & Lyons, Inc., Class B 750	21
Wyeth 106,900	4,070	Brown & Brown, Inc. 5,500	215
• XOMA Ltd. 2,400	10	Chubb Corp. 16,547	1,142
• Young Innovations, Inc. 2,000	70	CIGNA Corp. 10,300	664
• Zimmer Holdings, Inc. 20,300	1,621	Cincinnati Financial Corp. 12,810	525
• Zymogenetics, Inc. 2,000	32	• Clark, Inc. 1,700	31
	<b>139,847</b>		

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• CNA Financial Corp. 18,200	499	Odyssey Re Holdings Corp. 2,900	69
• CNA Surety Corp. 2,200	24	• Ohio Casualty Corp. 3,000	59
Commerce Group, Inc. 1,600	74	Old Republic International Corp. 16,350	380
Crawford & Co., Class B 1,600	8	• Penn Treaty American Corp. 600	1
Delphi Financial Group, Inc., Class A 4,515	181	Penn-America Group, Inc. 1,400	17
EMC Insurance Group, Inc. 1,200	30	• Philadelphia Consolidated Holding Co. 1,000	58
Erie Indemnity Co., Class A 5,500	254	The Phoenix Cos., Inc. 4,500	57
FBL Financial Group, Inc., Class A 2,090	56	PMA Capital Corp., Class A 700	5
Fidelity National Financial, Inc. 16,017	586	The PMI Group, Inc. 8,100	349
First American Corp. 7,800	212	Presidential Life Corp. 1,000	16
First United Corp. 2,200	50	• Principal Financial Group, Inc. 25,400	897
• FPIC Insurance Group, Inc. 400	9	• ProAssurance Corp. 1,670	57
Fremont General Corp. 2,000	43	The Progressive Corp. 23,300	2,039
• Great American Financial Resources, Inc. 2,800	45	Protective Life Corp. 5,500	198
Harleysville Group, Inc. 1,800	34	Prudential Financial, Inc. 45,500	1,999
Hartford Financial Services Group, Inc. 24,400	1,490	Radian Group, Inc. 9,202	428
HCC Insurance Holdings, Inc. 2,100	67	Reinsurance Group of America, Inc. 5,100	198
Hilb, Rogal & Hamilton Co. 2,000	72	RLI Corp. 2,800	97
Hooper Holmes, Inc. 4,600	25	Safeco Corp. 10,000	438
Horace Mann Educators Corp. 1,800	28	Safety Insurance Group, Inc. 1,000	22
Independence Holding Co. 1,500	54	SCPIE Holdings, Inc. 700	6
• Infinity Property & Casualty Corp. 2,500	78	Selective Insurance Group, Inc. 1,200	43
Jefferson-Pilot Corp. 10,100	501	• SNTL Corp. – Litigation Trust Certificates 1,300	—
Liberty Corp. 1,000	45	St. Paul Cos., Inc. 46,050	1,873
Lincoln National Corp. 15,100	678	Stancorp Financial Group, Inc. 2,500	155
Loews Corp. 15,000	870	State Auto Financial Corp. 1,300	36
Manulife Financial Corp. 26,551	976	Sterling Financial Corp. 1,250	32
• Markel Corp. 300	88	• Stewart Information Services Corp. 3,700	131
Marsh & McLennan Cos., Inc. 43,000	1,939	Torchmark Corp. 10,600	552
MBIA, Inc. 13,750	810	Transatlantic Holdings, Inc. 5,150	461
Mercury General Corp. 5,400	275	• Triad Guaranty, Inc. 1,700	93
Metlife, Inc. 62,000	2,139	• UICI 2,500	43
MGIC Investment Corp. 9,300	685	United Fire & Casualty Co. 500	22
• MIIX Group, Inc. 2,400	—	Unitrin, Inc. 5,600	222
• Mony Group, Inc. 1,500	46	UnumProvident Corp. 23,914	372
• National Medical Health Card Systems, Inc. 800	22	• USI Holdings Corp. 4,500	68
Nationwide Financial Services, Inc., Class A 1,300	45	W.R. Berkley Corp. 10,200	413
• Navigators Group, Inc. 1,500	39	• WellChoice, Inc. 2,500	106
NYMAGIC, Inc. 2,100	54	Zenith National Insurance Corp. 1,100	47
			<b>51,107</b>

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Media 4.0%</b>			
• Acme Communications, Inc. 1,900	13	• Gaylord Entertainment Co. 2,625	82
• Adolor Corp. 1,700	27	• GC Cos., Inc. 500	—
• Advanced Marketing Services, Inc. 3,400	34	Gray Television, Inc. 5,600	83
• AMC Entertainment, Inc. 5,400	86	Gray Television, Inc., Class A 2,500	35
• America's Car Mart, Inc. 2,500	65	Harte-Hanks, Inc. 8,100	194
• American Tower Corp., Class A 17,000	212	Hollinger International, Inc. 7,300	146
Banta Corp. 2,700	120	• Information Holdings, Inc. 2,200	55
Belo Corp., Class A 9,400	268	• Insight Communications Co. 5,200	47
Blockbuster, Inc., Class A 6,900	114	• Integrity Media, Inc. 2,000	13
• Cablevision Systems Corp., NY Group, Class A 18,800	410	• InterActiveCorp 52,117	1,661
Cadmus Communications Corp. 3,900	55	John Wiley & Sons, Class A 3,800	116
• Carmike Cinemas, Inc. 2,500	94	Journal Communications, Inc. 5,000	88
• Charter Communications, Inc., Class A 20,300	81	• Journal Register Co. 3,200	63
• Citadel Broadcasting Corp. 2,500	43	Knight-Ridder, Inc. 5,700	441
Clear Channel Communications, Inc. 49,721	2,063	Lee Enterprises, Inc. 2,500	119
• CNET Networks, Inc. 9,983	85	• Lifeline Systems, Inc. 4,600	91
• Comcast Corp., Class A 68,336	2,057	• Lin TV Corp., Class A 3,300	74
• Comcast Corp., Special Class A 42,800	1,241	• Lynch Interactive Corp. 900	27
• Consolidated Graphics, Inc. 3,900	146	• Martha Stewart Living Omnimedia, Class A 3,900	40
• Cox Communications, Inc., Class A 47,135	1,541	McClatchy Co., Class A 7,200	511
• Crown Media Holdings, Inc., Class A 6,000	53	The McGraw-Hill Cos., Inc. 17,300	1,364
• Cumulus Media, Inc., Class A 5,100	107	Media General, Inc., Class A 2,000	144
• DAG Media, Inc. 2,500	11	• Mediacom Communications Corp. 7,600	55
• Daily Journal Corp. 500	17	Meredith Corp. 6,000	306
• DGSE Cos., Inc. 700	2	• Merrimac Industries, Inc. 600	5
• The DIRECTV Group, Inc. 73,476	1,315	• Metro-Goldwyn-Mayer, Inc. 13,134	276
Dow Jones & Co., Inc. 9,000	415	• Moscow CableCom Corp. 1,400	11
The E.W. Scripps Co., Class A 6,000	633	• Network Equipment Technologies, Inc. 5,000	43
• EchoStar Communications Corp., Class A 21,300	707	New York Times Co., Class A 13,200	605
• Emmis Communications Corp., Class A 4,300	101	• Nexstar Broadcasting Group, Inc. 4,500	55
• Entercom Communications Corp. 3,000	137	• PanAmSat Corp. 15,400	355
• Entravision Communications Corp., Class A 5,000	46	• Playboy Enterprises, Inc., Class B 4,500	59
• Fox Entertainment Group, Inc., Class A 33,750	940	Pulitzer, Inc. 3,000	152
Gannett Co., Inc. 21,000	1,820	• Quipp, Inc. 900	14
		R.R. Donnelley & Sons Co. 17,000	500
		• Radio One, Inc., Class A 9,500	181
		• Radio Unica Communications Corp. 300	—
		The Reader's Digest Association, Inc., Class A 7,300	105
		Regal Entertainment Group, Class A 4,200	92

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Saga Communications, Inc., Class A 3,750	71	• Accredited Home Lenders Holding Co. 2,500	73
• Salem Communications Corp., Class A 900	27	▶ Actrade Financial Technologies Ltd. 1,000	—
• Scholastic Corp. 2,200	62	Advanta Corp., Class A 7,400	119
• Sinclair Broadcast Group, Inc., Class A 4,800	59	• Affiliated Managers Group, Inc. 1,800	88
• The Source Interlink Cos., Inc. 5,000	54	Alliance Capital Management Holding L.P. 5,200	173
• The Sportsman's Guide, Inc. 5,000	102	Allied Capital Corp. 11,015	261
Thomas Nelson, Inc. 3,300	86	Amcore Financial, Inc. 1,200	34
• Time Warner, Inc. 368,252	6,194	American Capital Strategies Ltd. 5,100	134
• Tivo, Inc. 4,500	32	American Express Co. 105,150	5,147
Tribune Co. 26,900	1,288	• AmeriCredit Corp. 12,300	199
• Univision Communications, Inc., Class A 25,510	864	• Ameritrade Holding Corp. 34,300	420
• Valassis Communications, Inc. 5,900	182	Asta Funding, Inc. 2,000	32
• Valuevision Media, Inc., Class A 1,400	20	Astoria Financial Corp. 7,000	241
Viacom, Inc., Class B 141,512	5,469	Bank of the Ozarks, Inc. 2,800	67
The Walt Disney Co. 164,650	3,792	• Bankunited Financial Corp., Class A 2,200	58
Washington Post, Class B 600	552	Banner Corp. 1,200	31
• Westwood One, Inc. 7,200	213	• Bay View Capital Corp. 5,061	11
• XM Satellite Radio Holdings, Inc., Class A 15,300	367	The Bear Stearns Cos., Inc. 13,620	1,092
	<b>42,701</b>	• Berkshire Hathaway, Inc., Class A 96	8,965
<b>Miscellaneous 0.6%</b>		Berkshire Hills Bancorp, Inc. 1,400	47
3M Co. 65,000	5,621	Blackrock, Inc. 400	25
▶ ANC Rental Corp. 3,037	—	• Boca Resorts, Inc., Class A 4,300	75
• AT&T Latin America Corp., Class A 2,100	—	• BOK Financial Corp. 3,437	134
▶ Breakaway Solutions, Inc. 1,400	—	• BP Prudhoe Bay Royalty Trust 2,200	62
• Coinstar, Inc. 5,200	90	Camco Financial Corp. 700	10
• The Geo Group, Inc. 3,800	89	• Capital Corp. of the West 1,050	39
• i2 Technologies, Inc. 15,300	17	Capital One Financial Corp. 17,600	1,153
▶ Jupiter Media Metrix, Inc. 1,673	—	Cash America International, Inc. 2,500	53
• NetFlix, Inc. 6,000	152	Cathay Bancorp., Inc. 1,600	104
• Nucentrix Broadband Networks, Inc. 2,100	5	Central Pacific Financial Co. 900	23
▶ Scient, Inc. 624	—	■ The Charles Schwab Corp. 108,620	1,118
	<b>5,974</b>	Charter Financial Corp. 900	32
<b>Miscellaneous Finance 8.1%</b>		Charter Municipal Mortgage Acceptance Co. 3,900	76
1st Source Corp. 1,571	39	Charter One Financial, Inc. 17,625	588
• A.B. Watley Group, Inc. 1,300	—	Chesterfield Financial Corp. 1,500	42
A.G. Edwards, Inc. 5,900	216	Chicago Mercantile Exchange 1,800	211
		CIT Group, Inc. 16,100	553
		▲ Citigroup, Inc. 417,436	20,075
		Citizens First Bancorp, Inc. 700	16

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Coastal Bancorp, Inc. 800	33	IBERIABANK Corp. 700	40
Coastal Financial Corp. 2,509	37	Independence Community Bank Corp. 6,600	240
• The Commercial Capital Bancorp, Inc. 3,333	59	Independent Bank Corp. Michigan 1,636	41
Commercial Federal Corp. 2,300	59	IndyMac Bancorp, Inc. 3,400	109
• CompuCredit Corp. 4,400	73	• Instinet Group, Inc. 1,200	8
• Corrections Corp. of America 3,828	140	International Bancshares Corp. 1,877	100
Countrywide Financial Corp. 25,800	1,530	Interpool, Inc. 1,200	20
• Cross Timbers Royalty Trust 1,500	42	• Investment Technology Group, Inc. 4,750	68
CVB Financial Corp. 3,382	69	Investors Financial Services Corp. 5,500	214
Downey Financial Corp. 2,000	97	• ITLA Capital Corp. 700	30
• DVI, Inc. 1,200	—	Janus Capital Group, Inc. 19,200	292
• E*TRADE Group, Inc. 30,035	341	Jefferies Group, Inc. 4,100	140
East-West Bancorp, Inc. 1,300	73	• Knight Trading Group, Inc. 9,700	113
Eaton Vance Corp. 5,800	212	• La Quinta Corp. 13,000	93
• eSpeed, Inc., Class A 3,300	58	• LabOne, Inc. 2,100	62
Fannie Mae 77,900	5,353	LaBranche & Co., Inc. 2,400	23
Federated Investors, Inc., Class B 9,950	293	Legg Mason, Inc. 4,200	387
Fidelity Bankshares, Inc. 1,933	64	Lehman Brothers Holdings, Inc. 21,372	1,569
• Financial Federal Corp. 3,300	103	Leucadia National Corp. 5,136	253
Financial Industries Corp. 700	8	• Local Financial Corp. 2,000	44
First Financial Corp. 600	18	• Mail-Well, Inc. 1,300	5
First Financial Holdings, Inc. 1,400	40	MB Financial, Inc. 1,800	63
First Indiana Corp. 1,375	25	MBNA Corp. 102,650	2,503
First Place Financial Corp. 2,900	48	MCG Capital Corp. 4,700	76
First Sentinel Bancorp., Inc. 2,300	47	McGrath RentCorp 800	25
Flagstar Bancorp., Inc. 4,500	92	• Meritage Corp. 1,000	68
Flushing Financial Corp. 3,300	57	Merrill Lynch & Co., Inc. 77,300	4,192
Franklin Resources, Inc. 20,600	1,130	Metris Cos., Inc. 3,000	21
Freddie Mac 55,500	3,241	• MicroFinancial, Inc. 1,900	6
Gabelli Asset Management, Inc., Class A 700	28	The Midland Co. 1,800	48
Glacier Bancorp, Inc. 3,050	94	Moody's Corp. 13,300	858
Golden West Financial Corp. 11,900	1,251	Morgan Stanley 87,800	4,512
Goldman Sachs Group, Inc. 38,900	3,764	MutualFirst Financial, Inc. 2,000	46
• Golf Trust of America, Inc. L.P. 2,400	6	• National Financial Partners Corp. 2,500	78
GreenPoint Financial Corp. 12,150	474	• National Western Life Insurance Co., Class A 300	44
• Hawthorne Financial Corp. 1,050	35	New Century Financial Corp. 3,600	153
Heritage Financial Corp. 700	14	New York Community Bancorp, Inc. 22,697	569
Hudson River Bancorp 3,200	58	• NextCard, Inc. 2,600	—
• Hugoton Royalty Trust 3,300	72	• North American Scientific, Inc. 700	6
		Northrim BanCorp, Inc. 2,500	54

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Northway Financial, Inc. 200	7	Waypoint Financial Corp. 4,151	107
Northwest Bancorp, Inc. 5,000	103	Webster Financial Corp. 3,012	131
Nuveen Investments, Inc., Class A 6,300	161	•Wellsford Real Properties, Inc. 1,400	26
Oak Hill Financial, Inc. 1,000	32	Wesco Financial Corp. 200	79
•Ocwen Financial Corp. 5,920	64	Westwood Holdings Group, Inc. 285	5
PAB Bankshares, Inc. 700	9	•WFS Financial, Inc. 4,100	183
Pacific Capital Bancorp. 2,133	78	White Mountains Insurance	
Partners Trust Financial Group, Inc. 1,700	46	Group, Inc. 200	103
The Peoples Holding Co. 750	24	Willow Grove Bancorp, Inc. 1,596	26
•Piper Jaffray Cos. 1,450	70	•World Acceptance Corp. 2,500	38
PMC Commercial Trust 1,500	20		<b>87,380</b>
•Portfolio Recovery Associates, Inc. 2,000	53		
Provident Financial Holdings 750	18	<b>Non-Durables &amp; Entertainment 1.4%</b>	
•Providian Financial Corp. 23,900	290	•The 3DO Co. 262	—
R&G Financial Corp., Class B 2,550	79	•A.T. Cross Co., Class A 2,400	14
Raymond James Financial, Inc. 6,900	173	Action Performance Cos., Inc. 1,100	17
Resource America, Inc., Class A 2,000	39	•Activision, Inc. 11,175	168
Santander BanCorp 4,260	128	•AFC Enterprises, Inc. 1,000	22
•Saxon Capital, Inc. 3,500	76	•American Greetings Corp., Class A 8,500	174
Seacoast Financial Services Corp. 1,973	64	Applebee's International, Inc. 5,275	205
SEI Investments Co. 9,700	286	Bob Evans Farms, Inc. 2,200	67
•Siebert Financial Corp. 2,900	14	Boyd Gaming Corp. 5,300	125
SLM Corp. 37,300	1,429	•Boys Collection Ltd. 2,200	6
Southern Financial Bancorp, Inc. 253	11	•Brinker International, Inc. 6,900	265
Sovereign Bancorp., Inc. 25,936	518	•Buca, Inc. 1,100	7
State Financial Services Corp., Class A 2,000	59	CBRL Group, Inc. 3,300	124
Student Loan Corp. 1,700	241	•CEC Entertainment, Inc. 2,025	69
SWS Group, Inc. 1,141	19	•Centillum Communications, Inc. 1,000	4
T. Rowe Price Group, Inc. 10,700	549	•Championship Auto Racing Teams, Inc. 1,000	—
•Tarragon Realty Investors, Inc. 2,948	41	•The Cheesecake Factory 1,925	82
TF Financial Corp. 700	21	Churchill Downs, Inc. 900	33
United Community Banks, Inc. 3,750	90	•CKE Restaurants, Inc. 1,800	19
•UnitedGlobalCom, Inc., Class A 31,000	232	Darden Restaurants, Inc. 13,300	301
Value Line, Inc. 300	19	•Dave and Buster's, Inc. 1,700	32
W Holding Co., Inc. 7,803	133	•Department 56, Inc. 3,300	53
W.P. Carey & Co. LLC 4,100	111	Dover Motorsports, Inc. 1,400	6
Waddell & Reed Financial, Inc., Class A 7,250	161	•Drew Industries, Inc. 2,500	93
Washington Federal, Inc. 7,220	169	•Electronic Arts, Inc. 25,200	1,276
Washington Mutual, Inc. 73,578	2,898	•Electronics Boutique Holdings Corp. 1,300	35
		•Enesco Group, Inc. 1,100	14



**Portfolio Holdings** continued

110 See *financial notes*.



Security and Number of Shares	Value (\$ x 1,000)
<b>Oil: Domestic 1.4%</b>	
Amerada Hess Corp. 6,400	455
Ashland, Inc. 7,000	335
• CAL Dive International, Inc. 1,500	41
Chesapeake Energy Corp. 13,600	187
• Comstock Resources, Inc. 4,500	92
ConocoPhillips 56,098	4,000
Consol Energy, Inc. 5,800	166
Crosstex Energy L.P. 2,000	52
Diamond Offshore Drilling, Inc. 9,300	210
• Enbridge Energy Management LLC 1,084	48
• Encore Acquisition Co. 1,500	45
• Energy Partners Ltd. 1,700	24
Frontier Oil Corp. 3,600	64
• Global Industries Ltd. 4,400	26
• Gulf Island Fabrication, Inc. 2,800	63
• Gulfmark Offshore, Inc. 1,600	24
• Harvest Natural Resources, Inc. 6,000	99
Holly Corp. 2,000	67
• Houston Exploration Co. 5,400	242
Kaneb Services LLC 1,466	40
Kerr-McGee Corp. 10,519	515
Magellan Midstream Partners 1,200	62
• Magnum Hunter Resources, Inc. 1,750	18
Marathon Oil Corp. 29,000	973
Markwest Energy Partners L.P. 500	19
• Meridian Resource Corp. 3,100	20
Murphy Oil Corp. 8,500	582
• Nabors Industries Ltd. 11,817	524
• National-Oilwell, Inc. 5,569	155
• Newfield Exploration Co. 3,700	195
• Nuevo Energy Co. 2,300	79
• OYO Geospace Corp. 300	5
Pacific Energy Partners L.P. 3,500	89
Patina Oil & Gas Corp. 6,250	174
• Patterson-UTI Energy, Inc. 6,600	239
• Pioneer Natural Resources Co. 10,900	357
• Plains Exploration & Production Co. 2,520	50
Pogo Producing Co. 6,300	311
• Premcor, Inc. 2,600	90
• Pride International, Inc. 10,200	172

Security and Number of Shares	Value (\$ x 1,000)
• Quicksilver Resource, Inc. 1,400	61
• Remington Oil & Gas Corp. 3,900	85
• Spinnaker Exploration Co. 3,400	121
St. Mary Land & Exploration Co. 3,700	134
• Stone Energy Corp. 976	48
Sunoco Logistics Partners L.P. 2,000	66
Sunoco, Inc. 5,500	346
• Superior Energy Services, Inc. 4,900	51
• Syntroleum Corp. 4,000	26
TEPPCO Partners L.P. 4,000	150
• Tesoro Petroleum Corp. 4,800	97
• Transmontaigne, Inc. 1,600	8
• Transocean, Inc. 25,231	701
• Ultra Petroleum Corp. 6,500	213
• Universal Compression Holdings, Inc. 2,900	86
Unocal Corp. 20,007	721
Valero L.P. 1,600	78
• Varco International, Inc. 7,140	148
Vintage Petroleum, Inc. 10,500	158
• Westport Resources Corp. 5,725	196
XTO Energy, Inc. 19,457	519
	<b>14,922</b>

**Oil: International 2.9%**

• ATP Oil & Gas Corp. 1,600	11
ChevronTexaco Corp. 86,817	7,944
▲ ③ Exxon Mobil Corp. 531,816	22,629
GlobalSantaFe Corp. 19,155	505
	<b>31,089</b>

**Optical & Photo 0.2%**

• APA Optics, Inc. 1,000	3
• August Technology Corp. 1,300	17
• BMC Industries, Inc. 2,100	—
• Corning, Inc. 107,507	1,186
CPI Corp. 400	6
• Drexler Technology Corp. 1,000	15
Eastman Kodak Co. 26,000	671
• Fischer Imaging Corp. 500	2
Imation Corp. 2,000	78
• Ingram Micro, Inc., Class A 13,400	160

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Lexar Media, Inc. 5,400	50	• American Standard Cos., Inc. 4,800	505
• Meade Instruments Corp. 800	3	Ametek, Inc. 4,200	111
• Photonics, Inc. 1,400	21	Applied Industrial Technologies, Inc. 2,900	76
• Polaroid Corp. 3,800	—	Aptargroup, Inc. 2,200	86
• Robotic Vision Systems, Inc. 200	1	• Astec Industries, Inc. 500	9
• StockerYale, Inc. 500	1	Avery Dennison Corp. 9,700	623
• Zomax, Inc. 2,000	8	• AZZ, Inc. 700	11
• Zygo Corp. 500	5	Baldor Electric Co. 3,800	86
	<b>2,227</b>	Barnes Group, Inc. 700	19
<b>Paper &amp; Forest Products 0.8%</b>		• BE Aerospace, Inc. 1,100	7
Boise Cascade Corp. 6,400	216	BHA Group Holdings, Inc. 1,500	48
Bowater, Inc. 2,300	96	• Blount International, Inc. 1,200	14
• Buckeye Technologies, Inc. 1,200	13	Blyth, Inc. 4,800	156
Chesapeake Corp. 1,000	23	Briggs & Stratton Corp. 3,000	210
CSS Industries, Inc. 900	30	• Cantel Medical Corp. 2,381	39
Deltic Timber Corp. 700	24	• Capstone Turbine Corp. 2,600	7
Georgia-Pacific Corp. 44,365	1,557	Caterpillar, Inc. 28,700	2,231
International Paper Co. 35,304	1,423	CIRCOR International, Inc. 3,750	73
• Kadant, Inc. 1	—	Clarcor, Inc. 1,700	75
Kimberly-Clark Corp. 40,639	2,660	Cognex Corp. 2,900	92
• Louisiana-Pacific Corp. 4,800	113	• Columbus McKinnon Corp. 2,400	15
MeadWestvaco Corp. 11,674	305	Cooper Industries Ltd., Class A 7,200	395
Packaging Corp. of America 6,000	132	• Cuno, Inc. 1,300	57
Potlatch Corp. 13,400	508	Curtiss-Wright Corp. 800	38
Rayonier, Inc. 1,592	62	• CyberCare, Inc. 900	—
Rock-Tennessee Co., Class A 2,000	30	• Daisytek International Corp. 1,700	—
• Smurfit-Stone Container Corp. 10,900	187	Deere & Co. 19,200	1,306
Temple-Inland, Inc. 4,400	272	• DiamondCluster International, Inc., Class A 1,000	10
Wausau-Mosinee Paper Corp. 4,700	66	Dover Corp. 16,700	669
Weyerhaeuser Co. 16,750	992	• DT Industries, Inc. 1,200	—
	<b>8,709</b>	• Duratek, Inc. 4,000	52
<b>Producer Goods &amp; Manufacturing 4.6%</b>		Emerson Electric Co. 35,000	2,108
• Aeon, Inc. 4,075	81	• Evergreen Solar, Inc. 1,000	3
• Actuant Corp., Class A 2,840	97	• The Fairchild Corp., Class A 3,100	15
• Advanced Energy Industries, Inc. 3,900	52	Fastenal Co. 6,600	362
• Aeroflex, Inc. 5,400	68	Federal Signal Corp. 2,800	51
• AGCO Corp. 3,762	72	• Fisher Scientific International, Inc. 4,900	287
Alamo Group, Inc. 500	8	• Flowserve Corp. 3,900	83
Albany International Corp., Class A 3,918	119	• FMC Corp. 3,100	133
		• Foster Wheeler Ltd. 2,500	3

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Franklin Electric Co., Inc. 1,900	114	• Merix Corp. 3,700	58
• Gardner Denver, Inc. 2,700	71	• Micrel, Inc. 6,800	83
▲ General Electric Co. 826,066	24,741	• Middleby Corp. 3,500	177
The Gorman-Rupp Co. 2,300	60	• Milacron, Inc. 2,300	9
Graco, Inc. 7,012	198	• Millipore Corp. 5,100	267
• GrafTech International Ltd. 2,100	19	• Modtech Holdings, Inc. 1,000	7
Hardinge, Inc. 1,800	22	• Moog, Inc., Class A 3,525	116
Harsco Corp. 3,100	135	MSC Industrial Direct Co., Class A 4,300	123
Helix Technology Corp. 1,100	19	NACCO Industries, Inc., Class A 1,300	111
Herman Miller, Inc. 5,700	150	• NATCO Group, Inc., Class A 1,200	9
• Hexcel Corp. 2,000	17	NN, Inc. 1,800	21
HON Industries, Inc. 4,000	148	Nordson Corp. 4,000	138
Honeywell International, Inc. 68,962	2,385	• Oceaneering International, Inc. 3,800	106
Hubbell, Inc., Class B 3,800	171	Pall Corp. 10,900	259
Hughes Supply, Inc. 1,300	73	• Park-Ohio Holdings Corp. 2,600	29
• Ibis Technology Corp. 800	6	Parker Hannifin Corp. 8,500	470
IDEX Corp. 2,100	99	Penn Engineering & Manufacturing Corp. 1,000	17
Illinois Tool Works, Inc. 25,850	2,229	Pentair, Inc. 3,500	209
Ingersoll-Rand Co., Class A 13,700	884	• Plug Power, Inc. 2,248	17
• Ionics, Inc. 400	9	• Possis Medical, Inc. 1,100	28
• Jacuzzi Brands, Inc. 2,000	17	Precision Castparts Corp. 5,151	232
• Jarden Corp. 1,650	61	• Presstek, Inc. 1,100	12
JLG Industries, Inc. 1,800	27	Regal Beloit 3,200	64
Johnson Controls, Inc. 15,000	823	• Research Frontiers, Inc. 800	8
• Juno Lighting, Inc. 1,429	46	Robbins & Myers, Inc. 1,400	31
Kaydon Corp. 3,300	92	Roper Industries, Inc. 1,500	73
Kennametal, Inc. 4,000	173	• Safeguard Scientifics, Inc. 3,300	9
Knappe & Vogt Manufacturing Co. 2,200	29	Sauer-Danfoss, Inc. 3,800	57
• Kos Pharmaceuticals, Inc. 700	29	• Sequa Corp., Class A 2,800	137
• Ladish Co., Inc. 1,300	12	• The Shaw Group, Inc. 2,000	24
Lawson Products, Inc. 2,000	70	Snap-On, Inc. 4,000	135
Lennox International, Inc. 5,271	88	• SPX Corp. 8,610	382
Libbey, Inc. 1,500	39	Standex International Corp. 3,000	81
Lincoln Electric Holdings, Inc. 3,900	123	Steelcase, Inc., Class A 3,500	43
• Lone Star Technologies, Inc. 1,700	35	Stewart & Stevenson Services, Inc. 1,000	16
• Magnetek, Inc. 1,500	10	• Strattec Security Corp. 1,500	96
Manitowoc Co., Inc. 1,300	40	Tecumseh Products Co., Class A 3,200	124
• Material Sciences Corp. 4,000	39	Teleflex, Inc. 4,300	196
Matthews International Corp., Class A 1,900	58	Tennant Co. 2,100	83
• Maverick Tube Corp. 1,000	23	• Tenneco Automotive, Inc. 1,980	27

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Terex Corp. 3,700	122	Investment Corp. 2,000	47
The Timken Co. 7,300	161	American Land Lease, Inc. 1,700	33
Trinity Industries, Inc. 1,100	33	American Mortgage Acceptance Co. 1,500	20
• Triumph Group, Inc. 1,200	39	• American Real Estate Partners L.P. 3,800	64
• Ultratech Stepper, Inc. 1,300	21	• American Realty Investors, Inc. 1,037	8
Valhi, Inc. 8,600	105	• American Retirement Corp. 700	3
Valmont Industries, Inc. 2,400	49	AMLI Residential Properties 1,000	25
W.W. Grainger, Inc. 7,300	383	Annaly Mortgage Management, Inc. 9,400	163
Watsco, Inc. 3,400	99	Anthracite Capital, Inc. 4,900	52
Watts Water Technologies, Inc., Class A 1,500	37	Anworth Mortgage Asset Corp. 1,000	12
Woodward Governor Co. 500	31	Apartment Investment & Management Co., Class A 7,400	208
X-Rite, Inc. 2,000	27	Archstone-Smith Trust 15,285	419
York International Corp. 3,800	149	Arden Realty, Inc. 5,500	155
	<b>49,286</b>	AvalonBay Communities, Inc. 6,100	303
<b>Railroad &amp; Shipping 0.4%</b>		• Avatar Holdings, Inc. 700	27
Alexander & Baldwin, Inc. 5,600	177	Bedford Property Investors, Inc. 2,900	79
Burlington Northern Santa Fe Corp. 30,300	991	Boston Properties, Inc. 7,400	348
CSX Corp. 17,100	526	Brandywine Realty Trust 3,000	76
Florida East Coast Industries, Class A 3,600	131	BRE Properties, Class A 5,000	159
GATX Corp. 4,000	94	Burnham Pacific Properties, Inc. 2,400	—
• General Maritime Corp. 3,000	60	Camden Property Trust 2,300	97
• Greenbrier Cos., Inc. 1,600	27	Capital Automotive Real Estate Investment Trust 3,300	93
• Kansas City Southern Railway 5,050	70	Capstead Mortgage Corp. 2,240	29
Maritrans, Inc. 2,500	38	CarrAmerica Realty Corp. 5,400	154
Norfolk Southern Corp. 31,400	748	• Catellus Development Corp. 7,189	155
• OMI Corp. 6,500	65	CBL & Associates Properties, Inc. 2,200	111
Overseas Shipholding Group 3,700	121	Centerpoint Properties Trust 1,800	130
• SCS Transportation, Inc. 4,100	94	Chelsea Property Group, Inc. 4,000	204
Union Pacific Corp. 19,500	1,149	Colonial Properties Trust 2,500	88
Wabtec Corp. 2,828	46	Commercial Net Lease Realty 3,320	55
	<b>4,337</b>	Cornerstone Realty Income Trust, Inc. 2,200	17
<b>Real Property 1.7%</b>		Corporate Office Properties Trust SBI 3,500	71
• Alexander's, Inc. 700	109	Correctional Properties Trust 1,600	42
Alexandria Real Estate Equities, Inc. 2,500	142	Cousins Properties, Inc. 2,700	76
AMB Property Corp. 7,300	221	Crescent Real Estate Equity Co. 7,400	114
American Financial Realty Trust 3,500	52	Developers Diversified Realty Corp. 7,612	249
American Home Mortgage		Duke Realty Corp. 10,490	306
		EastGroup Properties, Inc. 900	26

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Entertainment Properties Trust 2,700	90	The Macerich Co. 5,200	218
Equity Inns, Inc. 2,700	22	Mack-Cali Realty Corp. 5,900	220
Equity Office Properties Trust 32,738	824	Maguire Properties, Inc. 3,000	68
Equity One, Inc. 6,600	108	Manufactured Home Communities, Inc. 3,000	94
Equity Residential 21,200	582	• Meristar Hospitality Corp. 2,200	13
Essex Property Trust, Inc. 2,600	158	MFA Mortgage Investments, Inc. 5,500	49
Federal Realty Investment Trust 5,200	193	Mid-America Apartment Communities, Inc. 2,500	81
• FelCor Lodging Trust, Inc. 5,700	57	The Mills Corp. 5,400	219
First Industrial Realty Trust 2,600	88	National Health Investors, Inc. 3,100	74
Forest City Enterprises, Inc., Class A 5,200	273	National Health Realty, Inc. 2,300	38
Gables Residential Trust 3,500	111	Nationwide Health Properties, Inc. 5,100	92
General Growth Properties, Inc. 18,600	504	New Plan Excel Realty Trust 8,500	191
Getty Realty Corp. 2,000	43	Novastar Financial, Inc. 2,000	65
Glenborough Realty Trust, Inc. 2,900	55	Omega Healthcare Investors, Inc. 2,784	26
Glimcher Realty Trust 3,800	80	Pan Pacific Retail Properties, Inc. 2,201	97
Health Care Property Investors, Inc. 10,648	254	Parkway Properties, Inc. 500	20
Health Care Real Estate Investment Trust, Inc. 2,700	86	Pennsylvania Real Estate Investment Trust 2,500	81
Healthcare Realty Trust, Inc. 2,400	86	Plum Creek Timber Co., Inc. 15,047	445
Heritage Property Investment Trust 4,000	102	Post Properties, Inc. 2,200	59
Highwoods Properties, Inc. 3,100	70	Prentiss Properties Trust 2,700	87
Home Properties, Inc. 2,500	93	• Price Legacy Corp. 60	1
• Homestore, Inc. 4,200	20	ProLogis 15,074	443
Hospitality Properties Trust 6,000	234	PS Business Parks, Inc. 3,000	114
• Host Marriott Corp. 25,400	302	Public Storage, Inc. 10,900	456
HRPT Properties Trust 13,500	129	RAIT Investment Trust 3,300	79
IMPAC Mortgage Holdings, Inc. 4,800	90	Ramco-Gershenson Properties 1,400	33
Innkeepers USA Trust 1,500	11	Realty Income Corp. 2,300	88
iStar Financial, Inc. 9,390	334	Reckson Associates Realty Corp. 5,300	126
• Jones Lang LaSalle, Inc. 2,300	54	Redwood Trust, Inc. 2,500	109
Keystone Property Trust 1,300	26	Regency Centers Corp. 5,700	216
Kilroy Realty Corp. 2,300	72	The Rouse Co. 7,900	342
Kimco Realty Corp. 9,350	400	Saul Centers, Inc. 2,100	53
Koger Equity, Inc. 2,700	57	Senior Housing Properties Trust 4,950	74
Kramont Realty Trust 1,400	22	• Shelbourne Properties I 500	5
LaSalle Hotel Properties 1,000	22	• Shelbourne Properties III 500	3
Lexington Corp. Properties Trust 3,000	55	Shurgard Storage Centers, Inc., Class A 3,000	100
Liberty Property Trust 8,300	303	Simon Property Group, Inc. 17,400	839
LNR Property Corp. 1,200	60	SL Green Realty Corp. 4,200	171
LTC Properties, Inc. 2,800	44		

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Sovran Self Storage, Inc. 800	27	• Big Lots, Inc. 11,100	157
The St. Joe Co. 5,300	208	• BJ's Wholesale Club, Inc. 6,100	148
Summit Properties, Inc. 3,300	75	Blair Corp. 1,500	39
Sun Communities, Inc. 3,000	105	Borders Group, Inc. 9,000	216
Tanger Factory Outlet Centers 800	31	• Brightpoint, Inc. 1,650	18
Taubman Centers, Inc. 4,100	80	• Brookstone, Inc. 7,425	148
Thornburg Mortgage, Inc. 5,300	137	Burlington Coat Factory Warehouse Corp. 2,500	47
The Town & Country Trust 1,000	23	• Carmax, Inc. 3,923	102
• Trammell Crow Co. 2,800	38	Casey's General Stores, Inc. 5,100	84
Trizec Properties, Inc. 12,700	182	The Cato Corp., Class A 1,200	24
United Dominion Realty Trust, Inc. 9,400	169	• Central Garden & Pet Co. 1,600	62
Universal Health Realty Income 900	23	• Charming Shoppes, Inc. 7,700	54
Urstadt Biddle Properties, Inc. 500	7	• Chico's FAS, Inc. 6,650	271
Urstadt Biddle Properties, Inc., Class A 1,000	14	• The Children's Place Retail Stores, Inc. 1,800	47
US Restaurant Properties, Inc. 1,000	16	Christopher & Banks Corp. 2,650	47
Ventas, Inc. 5,800	128	Circuit City Stores, Inc. 12,500	146
Vornado Realty Trust 10,500	530	Claire's Stores, Inc. 16,000	326
Washington Real Estate Investment Trust 3,100	84	• Coldwater Creek, Inc. 4,075	84
Weingarten Realty Investment 7,975	231	• Cole National Corp. 1,300	33
	<b>18,453</b>	• Cost Plus, Inc. 700	25
<b>Retail 6.2%</b>		• Costco Wholesale Corp. 36,100	1,352
• 1-800-Flowers.com, Inc., Class A 3,700	37	CVS Corp. 31,000	1,198
• 99 Cents Only Stores 3,066	61	DEB Shops, Inc. 1,600	37
• A.C. Moore Arts & Crafts, Inc. 1,400	38	Dillards, Inc., Class A 6,000	101
Aaron Rents, Inc. 2,500	72	Dollar General Corp. 27,775	521
• Abercrombie & Fitch Co., Class A 8,300	261	• Dollar Tree Stores, Inc. 8,650	233
• Advance Auto Parts, Inc. 6,360	274	• The Dress Barn, Inc. 5,500	92
Albertson's, Inc. 30,468	712	• Duane Reade, Inc. 700	12
• Alloy, Inc. 3,100	15	• Duckwall-ALCO Stores, Inc. 1,800	30
• Amazon.com, Inc. 33,700	1,465	Family Dollar Stores, Inc. 7,700	247
• American Eagle Outfitters, Inc. 5,050	130	Federated Department Stores, Inc. 22,400	1,098
• AnnTaylor Stores Corp. 6,550	265	• The Finish Line, Class A 1,800	60
• Arden Group, Inc., Class A 600	44	Foot Locker, Inc. 14,100	338
• Asbury Automotive Group, Inc. 4,100	66	• Footstar, Inc. 600	3
• Autonation, Inc. 21,600	368	Fred's, Inc. 3,262	61
• AutoZone, Inc. 8,900	779	Friedman's, Inc., Class A 6,500	33
• Barnes & Noble, Inc. 7,400	221	• GameStop Corp., Class A 500	9
• Bed, Bath & Beyond, Inc. 23,700	880	The Gap, Inc. 71,400	1,572
Best Buy Co., Inc. 26,150	1,419	• Genesco, Inc. 4,300	96

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Goody's Family Clothing, Inc. 5,000	62	• Saks, Inc. 16,900	243
• Great Atlantic & Pacific Tea Co. 2,200	18	• School Specialty, Inc. 1,600	57
• Guitar Center, Inc. 1,700	71	Sears, Roebuck & Co. 21,200	849
• The Gymboree Corp. 3,100	55	• Shoe Carnival, Inc. 1,200	16
Home Depot, Inc. 184,500	6,493	• ShopKo Stores, Inc. 8,900	118
• HOT Topic, Inc. 6,300	140	Spiegel, Inc., Class A 5,000	—
• Insight Enterprises, Inc. 4,650	78	• Staples, Inc. 41,200	1,061
J.C. Penney Co., Inc. Holding Co. 22,600	765	Talbots, Inc. 5,700	199
• Jo-Ann Stores, Inc. 3,795	107	Target Corp. 74,600	3,235
• Kirkland's, Inc. 1,000	18	Tiffany & Co. 13,000	507
• Kohl's Corp. 19,300	807	TJX Cos., Inc. 40,400	993
• Kroger Co. 55,800	976	• Too, Inc. 1,742	31
Limited Brands, Inc. 42,144	870	• Toys 'R' Us, Inc. 18,300	283
• Linens 'N Things, Inc. 4,800	156	• Tractor Supply Co. 4,000	156
Longs Drug Stores Corp. 4,300	84	• Tuesday Morning Corp. 2,500	74
Lowe's Cos., Inc. 63,700	3,316	Unifirst Corp. 3,900	115
The May Department Stores Co. 24,000	739	• United Stationers, Inc. 2,900	110
• The Men's Wearhouse, Inc. 2,400	61	• Urban Outfitters, Inc. 3,200	148
Michaels Stores, Inc. 4,900	245	▲ 6 Wal-Mart Stores, Inc. 349,100	19,899
• The Neiman Marcus Group, Inc., Class A 2,700	131	Walgreen Co. 81,900	2,824
• Nobel Learning Communities, Inc. 500	3	Weis Markets, Inc. 1,700	60
Nordstrom, Inc. 10,300	367	• West Marine, Inc. 1,100	32
• O'Reilly Automotive, Inc. 2,200	99	• The Wet Seal, Inc., Class A 3,075	17
• Office Depot, Inc. 26,000	455	• Whitehall Jewellers, Inc. 1,800	16
• Pacific Sunwear of California 9,975	214	Whole Foods Market, Inc. 6,100	488
• Party City Corp. 3,800	63	• Williams-Sonoma, Inc. 9,200	299
• Pathmark Stores, Inc. 3,900	33	• Winmark Corp. 1,200	33
• Payless Shoesource, Inc. 2,406	34	Winn-Dixie Stores, Inc. 16,800	128
• PC Connection, Inc. 3,000	20	• Zale Corp. 1,260	70
Pep Boys-Manny, Moe & Jack 2,500	69		<b>67,284</b>
• Petco Animal Supplies, Inc. 2,500	73	<b>Steel 0.1%</b>	
PETsMART, Inc. 7,600	211	• AK Steel Holding Corp. 4,027	19
Pier 1 Imports, Inc. 3,900	81	Allegheny Technologies, Inc. 6,350	65
• Pricesmart, Inc. 200	1	Ampco-Pittsburgh Corp. 2,800	36
RadioShack Corp. 14,100	434	Carpenter Technology Corp. 2,500	68
• Rent-A-Center, Inc. 5,250	154	Gibraltar Steel Corp. 2,500	62
• Retail Ventures, Inc. 700	5	Intermet Corp. 4,100	17
• Rite Aid Corp. 40,400	198	• International Steel Group, Inc. 2,500	73
Ross Stores, Inc. 13,400	409	Nucor Corp. 5,500	327
Ruddick Corp. 3,100	63	Quanex Corp. 2,500	102
• Safeway, Inc. 33,400	767	Roanoke Electric Steel Corp. 800	11



## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Ryerson Tull, Inc. 1,600	19	• Inet Technologies, Inc. 4,700	46
Schnitzer Steel Industries, Inc., Class A 1,650	43	• Inter-Tel, Inc. 6,000	144
• Steel Dynamics, Inc. 4,200	101	• Interdigital Communications Corp. 4,500	78
Steel Technologies, Inc. 3,700	71	• ITC Deltacom, Inc. 1	—
United States Steel Corp. 9,900	283	• ITXC Corp. 1,600	4
Worthington Industries, Inc. 7,200	130	• j2 Global Communications, Inc. 2,000	46
	<b>1,427</b>	• Level 3 Communications, Inc. 53,000	150
<b>Telephone 3.3%</b>		• Liberty Media Corp., Class A 216,239	2,366
Adtran, Inc. 7,000	172	• McLeodUSA, Inc., Class A Escrow 21,892	—
• Alamosa Holdings, Inc. 8,000	58	• Net2Phone, Inc. 1,600	6
• Alaska Communications Systems Group, Inc. 2,700	19	• Network Plus Corp. 2,000	—
Alltel Corp. 23,935	1,205	• Nextel Communications, Inc., Class A 88,900	2,121
Applied Signal Technology, Inc. 2,100	57	• Nextel Partners, Inc., Class A 12,700	169
AT&T Corp. 63,947	1,097	• North Pittsburgh Systems, Inc. 3,500	63
• AT&T Wireless Services, Inc. 219,734	3,034	• Novatel Wireless, Inc. 160	2
Atlantic Tele-Network, Inc. 1,300	41	• NTL, Inc. 6,000	341
• Avaya, Inc. 35,385	484	• NWH, Inc. 2,500	47
BellSouth Corp. 148,450	3,831	• Occam Networks, Inc. 1,900	—
• Carrier Access Corp. 2,500	27	• OmniSky Corp. 2,900	—
• Centennial Communications Corp. 8,000	48	• Pegasus Communications Corp. 3,160	63
CenturyTel, Inc. 10,500	303	• PentaStar Communications, Inc. 600	—
• Cincinnati Bell, Inc. 18,568	73	• Price Communications Corp. 3,855	61
• Citizens Communications Co. 22,400	292	• Primus Telecommunications Group, Inc. 7,500	42
• Commonwealth Telephone Enterprises, Inc. 9,400	392	• Qwest Communications International, Inc. 118,337	476
• Computer Access Technology Corp. 800	4	• RCN Corp. 2,300	1
• Copper Mountain Networks, Inc. 5,200	51	• SBC Communications, Inc. 268,212	6,678
• Covad Communications Group, Inc. 7,000	14	• Sonus Networks, Inc. 19,400	74
• Crown Castle International Corp. 20,900	292	• Sprint Corp. (FON Group) 114,250	2,044
CT Communications, Inc. 4,500	56	• Sunrise Telecom, Inc. 2,000	6
• CTC Communications Group, Inc. 1,550	—	• Talk America Holdings, Inc. 5,000	45
D&E Communications, Inc. 4,000	55	• Telephone & Data Systems, Inc. 4,300	284
• Ditech Communications Corp. 4,100	59	• Time Warner Telecom, Inc., Class A 4,500	17
• Equinix, Inc. 2,565	75	• Turnstone Systems, Inc. 1,600	—
• Extreme Networks, Inc. 4,500	25	• U.S. Cellular Corp. 6,100	209
• Finisar Corp. 7,900	14	• U.S. Wireless Corp. 400	—
• Global Crossing Ltd. 2,500	18	• Ulticom, Inc. 4,800	45
• Goamerica, Inc. 1,800	—	• Utstarcom, Inc. 1,200	32
Hickory Tech Corp. 6,100	65	• Verizon Communications, Inc. 224,286	8,464
• ID Systems, Inc. 3,000	27	• Warwick Valley Telephone Co. 2,100	52
			<b>36,064</b>



Security and Number of Shares	Value (\$ x 1,000)
<b>Tobacco 1.0%</b>	
Altria Group, Inc. 165,300	9,154
• M & F Worldwide Corp. 1,200	15
R.J. Reynolds Tobacco Holdings, Inc. 7,332	475
Schweitzer-Mauduit International, Inc. 5,800	180
Universal Corp. 1,800	90
UST, Inc. 12,700	473
Vector Group Ltd. 1,227	20
	<b>10,407</b>

<b>Travel &amp; Recreation 0.9%</b>	
• Alliance Gaming Corp. 3,000	75
• Ambassadors Group, Inc. 1,700	40
• Amerco, Inc. 900	25
• American Classic Voyages Co. 900	—
• Ameristar Casinos, Inc. 1,700	54
• Argosy Gaming Co. 1,600	60
• Aztar Corp. 1,900	49
• Bally Total Fitness Holding Corp. 1,300	5
Brunswick Corp. 13,900	571
• Caesars Entertainment, Inc. 24,300	322
Callaway Golf Co. 5,600	95
Carnival Corp. 50,000	2,134
Cedar Fair L.P. 5,300	165
Central Parking Corp. 1,600	31
Choice Hotels International, Inc. 3,400	153
• Dick's Sporting Goods, Inc. 1,000	27
• Dollar Thrifty Automotive Group, Inc. 3,500	92
Dover Downs Gaming & Entertainment, Inc. 1,480	17
• Empire Resorts, Inc. 500	7
Extended Stay America, Inc. 8,800	171
Harrah's Entertainment, Inc. 9,900	527
Hilton Hotels Corp. 30,426	532
• Interstate Hotels & Resorts, Inc. 82	—
• K2, Inc. 1,700	25
• Laidlaw International, Inc. 8,200	114
• Lakes Entertainment, Inc. 900	20
Mandalay Resort Group 4,100	236
The Marcus Corp. 4,600	75

Security and Number of Shares	Value (\$ x 1,000)
Marine Products Corp. 270	5
Marriott International, Inc., Class A 18,700	882
• MGM MIRAGE 12,300	563
• MTR Gaming Group, Inc. 2,300	20
• Multimedia Games, Inc. 1,500	33
• Navigant International, Inc. 4,300	81
• Prime Hospitality Corp. 4,300	43
• Rent-Way, Inc. 3,200	30
Royal Caribbean Cruises Ltd. 15,300	620
• Scientific Games Corp., Class A 6,500	117
• Shuffle Master, Inc. 1,875	61
• Six Flags, Inc. 7,500	56
Speedway Motorsports, Inc. 2,300	69
• The Sports Authority, Inc. 370	14
Starwood Hotels & Resorts Worldwide, Inc. 17,730	705
Station Casinos, Inc. 4,650	210
• Stellent, Inc. 1,100	8
• Vail Resorts, Inc. 3,800	59
• WMS Industries, Inc. 1,500	42
	<b>9,240</b>

<b>Trucking &amp; Freight 0.3%</b>	
Arkansas Best Corp. 1,100	29
BancTrust Financial Group, Inc. 1,100	19
C.H. Robinson Worldwide, Inc. 7,500	308
CNF, Inc. 4,500	164
• Consolidated Freightways Corp. 2,700	—
Expeditors International Washington, Inc. 8,100	326
• Forward Air Corp. 3,600	120
Heartland Express, Inc. 4,471	110
• J.B. Hunt Transport Services, Inc. 6,500	206
• Knight Transportation, Inc. 1,800	46
• Landstar Systems, Inc. 7,600	342
• Old Dominion Freight Line 1,800	67
Overnite Corp. 2,500	60
Paccar, Inc. 14,100	796
• Pacer International, Inc. 2,800	53
Ryder Systems, Inc. 6,400	235
• Swift Transportation Co., Inc. 5,970	101
USF Corp. 1,300	43

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Wabash National Corp. 2,500	63	Equitable Resources, Inc. 4,400	207
Werner Enterprises, Inc. 5,832	117	Exelon Corp. 27,237	1,823
• Yellow Roadway Corp. 2,594	88	FirstEnergy Corp. 25,717	1,006
	<b>3,293</b>	Florida Public Utilities Co. 1,066	22
<b>Utilities: Electric &amp; Gas 2.9%</b>		FPL Group, Inc. 14,700	935
• The AES Corp. 50,096	434	Great Plains Energy, Inc. 9,000	281
AGL Resources, Inc. 4,300	123	Green Mountain Power Corp. 3,800	97
• Allegheny Energy, Inc. 8,000	110	Hawaiian Electric Industries, Inc. 2,600	129
Allete, Inc. 8,200	283	Idacorp, Inc. 4,200	125
Alliant Energy Corp. 9,300	231	KeySpan Corp. 13,400	484
Ameren Corp. 15,100	660	Kinder Morgan, Inc. 10,700	644
American Electric Power Co., Inc. 31,320	953	The Laclede Group, Inc. 3,300	91
American States Water Co. 950	22	MDU Resources Group, Inc. 10,950	245
Aqua America, Inc. 3,671	75	MGE Energy, Inc. 400	12
Atmos Energy Corp. 1,800	44	National Fuel Gas Co. 5,800	142
Avista Corp. 3,800	64	New Jersey Resources Corp. 1,650	63
• BayCorp Holdings Ltd. 6	—	• NewPower Holdings, Inc. 3,800	3
Black Hills Corp. 1,400	43	Nicor, Inc. 3,000	102
• Calpine Corp. 12,300	53	NiSource, Inc. 22,864	461
Cascade Natural Gas Corp. 3,500	72	Northeast Utilities, Inc. 10,124	186
Centerpoint Energy, Inc. 23,600	255	Northwest Natural Gas Co. 3,200	94
Central Vermont Public Service Corp. 2,700	54	• NRG Energy, Inc. 6,500	141
CH Energy Group, Inc. 1,900	88	NSTAR 3,867	187
Cinergy Corp. 15,100	573	NUI Corp. 2,500	42
Cleco Corp. 3,400	61	OGE Energy Corp. 6,500	156
• CMS Energy Corp. 5,000	42	Oneok, Inc. 7,400	155
Consolidated Edison, Inc. 17,000	701	Otter Tail Corp. 1,100	29
Constellation Energy Group, Inc. 16,800	646	Peoples Energy Corp. 3,200	134
• Covanta Energy Corp. 2,100	—	Pepco Holdings, Inc. 5,000	95
• Distributed Energy Systems Corp. 1,400	5	• PG&E Corp. 34,900	960
Dominion Resources, Inc. 26,610	1,698	Piedmont Natural Gas Co. 1,600	65
DPL, Inc. 11,452	202	Pinnacle West Capital Corp. 6,800	266
DTE Energy Co. 13,801	539	PNM Resources, Inc. 2,000	58
Duke Energy Corp. 74,300	1,565	PPL Corp. 15,000	643
Duquesne Light Holdings, Inc. 6,100	114	Progress Energy, Inc. 18,659	798
Edison International 58,700	1,374	Public Service Enterprise Group, Inc. 19,000	815
El Paso Corp. 51,387	360	Puget Energy, Inc. 7,500	165
• El Paso Electric Co. 2,800	40	Questar Corp. 8,100	287
Energen Corp. 2,600	108	SCANA Corp. 7,905	272
Energy East Corp. 12,214	288	Sempra Energy 19,175	609
Entergy Corp. 18,200	994	• Sierra Pacific Resources 4,476	32

Security and Number of Shares	Value (\$ x 1,000)
The Southern Co. 58,900	1,694
• Southern Union Co. 3,010	59
Southwest Gas Corp. 3,600	82
TECO Energy, Inc. 5,600	71
Texas Genco Holdings, Inc. 2,680	95
TXU Corp. 26,400	901
• U.S. Energy Systems, Inc. 600	1
UGI Corp. 5,100	161
UIL Holdings Corp. 6,200	280
Unisource Energy Corp. 4,600	112
Vectren Corp. 5,766	139
Westar Energy, Inc. 5,700	116
WGL Holdings, Inc. 3,000	85
Williams Cos., Inc. 42,360	436
Wisconsin Energy Corp. 8,400	264
WPS Resources Corp. 2,400	110
Xcel Energy, Inc. 31,695	530
	<b>31,071</b>

#### 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 02/28/07 160	—
-------------------------------------------------	---

#### Business Machines & Software 0.0%

MicroStrategy, Inc. expires 06/24/04 57	—
--------------------------------------------	---

#### Business Services 0.0%

Redback Networks, Inc. expires 01/02/11 81	—
Redback Networks, Inc. expires 01/02/11 85	1
	<b>1</b>

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

#### Electronics 0.0%

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

#### Healthcare / Drugs & Medicine 0.0%

Magellan Health Services, Inc. expires 01/05/11 7	—
------------------------------------------------------	---

#### Non-Ferrous Metals 0.0%

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

#### Rights

0.0% of net assets

#### Business Machines & Software 0.0%

• Comdisco Holding Co. 4,700	<b>2</b>
------------------------------	----------

#### Business Services 0.0%

▶ Cell Pathways, Inc. expires 06/12/08 1,600	—
• Information Resources, Inc. 2,500	7
	<b>7</b>

#### Telephone 0.0%

▶ WilTel Communications, Inc. 4,800	—
-------------------------------------	---

#### Short-Term Investment

0.7% of net assets

Provident Institutional Temp Fund 7,865,111	<b>7,865</b>
------------------------------------------------	--------------

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

#### U.S. Treasury Obligation

0.0% of net assets

▲ U.S. Treasury Bill, 0.92%, 06/17/04 425	<b>425</b>
----------------------------------------------	------------

#### End of investments.

**Portfolio Holdings** continued

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

**Collateral Invested for Securities on Loan**  
 8.2% of net assets

**Commercial Paper & Other Corporate Obligations 4.4%**

American Express Credit Corp. 1.07%, 05/13/04	3,510	3,510
Bank of America 1.05%, 09/20/04	1,382	1,382
Canadian Imperial Bank Corp. 1.72%, 05/25/05	299	299
1.06%, 05/28/04	2,911	2,911
1.04%, 01/31/05	3,687	3,686
Concord Minutemen Capital Corp. 1.04%, 05/20/04	1,860	1,859
Credit Lyonnais 1.08%, 09/30/04	2,637	2,637
Crown Point Funding Corp. 1.04%, 05/10/04	720	719
Fairway Finance Corp. 1.04%, 05/13/04	153	153
Foreningssparbanken AB 1.06%, 05/17/04	7,696	7,695
General Electric Capital Corp. 1.06%, 05/10/04	3,709	3,711
Societe Generale 1.14%, 05/03/04	5,061	5,060
Svenska Handelsbanken 1.39%, 10/27/04	3,127	3,127
Westdeutsche Landesbank AG 1.05%, 09/23/04	2,936	2,936
1.05%, 09/29/04	3,183	3,182
1.05%, 10/12/04	4,228	4,227
		<b>47,094</b>

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

**Short-Term Investment 0.6%**

Deutsche Bank, Time Deposit 1.04%, 05/03/04	6,473	<b>6,473</b>
------------------------------------------------	-------	--------------

**Security and Number of Shares**
**Other Investment Companies 3.2%**

Institutional Money Market Trust 34,972,366		<b>34,972</b>
------------------------------------------------	--	---------------

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

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$84,157 of securities on loan)	\$1,078,260
Collateral invested for securities on loan	88,539
Receivables:	
Fund shares sold	1,170
Interest	5
Dividends	1,090
Income from securities on loan	16
Prepaid expenses	+ 56
<b>Total assets</b>	<b>1,169,136</b>

**Liabilities**

Collateral invested for securities on loan	88,539
Payables:	
Fund shares redeemed	328
Investments bought	1,984
Due to brokers for futures	56
Investment adviser and administrator fees	16
Transfer agent and shareholder service fees	10
Accrued expenses	+ 86
<b>Total liabilities</b>	<b>91,019</b>

**Net Assets**

<b>Total assets</b>	1,169,136
<b>Total liabilities</b>	– 91,019
<b>Net assets</b>	<b>\$1,078,117</b>

**Net Assets by Source**

Capital received from investors	1,071,820
Net investment income not yet distributed	3,510
Net realized capital losses	(21,449)
Net unrealized capital gains	24,236

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$563,884		30,620		\$18.42
Select Shares	\$514,233		27,873		\$18.45

Unless stated, all numbers x 1,000.

The fund paid \$1,053,929 for these securities.

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

Purchases	\$130,616
Sales/maturities	\$4,525

The fund's total security transactions with other SchwabFunds® during the period were \$169.

These derive from investments and futures. As of the report date, the fund had nine open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate contract value of \$2,489 and net unrealized losses of \$24 and thirteen open Russell 2000 futures due to expire on June 23, 2004 with an aggregate contract value of \$3,639 and net unrealized losses of \$71.

**Federal Tax Data**

<b>Portfolio cost</b>	\$1,055,473
<b>Net unrealized gains and losses:</b>	
Gains	\$188,045
Losses	+ (165,258)
	<b>\$22,787</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$8,003
Interest	30
Securities on loan	+ 97
<b>Total investment income</b>	<b>8,130</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	634
Net realized gains on futures contracts	+ 495
<b>Net realized gains</b>	<b>1,129</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	51,772
Net unrealized losses on futures contracts	+ (281)
<b>Net unrealized gains</b>	<b>51,491</b>

**Expenses**

Investment adviser and administrator fees	1,327
Transfer agent and shareholder service fees:	
Investor Shares	663
Select Shares	247
Trustees' fees	6
Custodian fees	41
Portfolio accounting fees	77
Professional fees	20
Registration fees	43
Shareholder reports	56
Interest expense	1
Other expenses	+ 15
Total expenses	2,496
Expense reduction	- 48
<b>Net expenses</b>	<b>2,448</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>8,130</b>
<b>Net expenses</b>	<b>- 2,448</b>
<b>Net investment income</b>	<b>5,682</b>
<b>Net realized gains</b>	<b>1,129</b>
<b>Net unrealized gains</b>	<b>+ 51,491</b>
<b>Increase in net assets from operations</b>	<b>\$58,302</b>

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 \$3 from the investment adviser (CSIM) and \$45 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	0.58
Select Shares	0.39

This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$52,620

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$5,682	\$8,702
Net realized gains or losses	1,129	(5,294)
Net unrealized gains	+ 51,491	155,552
<b>Increase in net assets from operations</b>	<b>58,302</b>	<b>158,960</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	4,835	3,195
Select Shares	+ 4,522	3,512
<b>Total dividends from net investment income</b>	<b>\$9,357</b>	<b>\$6,707</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	6,433	\$119,062	12,774	\$194,287
Select Shares	+ 5,826	106,725	11,399	172,567
<b>Total shares sold</b>	<b>12,259</b>	<b>\$225,787</b>	<b>24,173</b>	<b>\$366,854</b>
<b>Shares Reinvested</b>				
Investor Shares	237	\$4,213	209	\$2,984
Select Shares	+ 222	3,956	203	2,911
<b>Total shares reinvested</b>	<b>459</b>	<b>\$8,169</b>	<b>412</b>	<b>\$5,895</b>
<b>Shares Redeemed</b>				
Investor Shares	(2,913)	(\$53,895)	(4,461)	(\$68,649)
Select Shares	+ (2,670)	(49,477)	(5,507)	(85,326)
<b>Total shares redeemed</b>	<b>(5,583)</b>	<b>(\$103,372)</b>	<b>(9,968)</b>	<b>(\$153,975)</b>
<b>Net transactions in fund shares</b>	<b>7,135</b>	<b>\$130,584</b>	<b>14,617</b>	<b>\$218,774</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	51,358	\$898,588	36,741	\$527,561
Total increase	+ 7,135	179,529	14,617	371,027
<b>End of period</b>	<b>58,493</b>	<b>\$1,078,117</b>	<b>51,358</b>	<b>\$898,588</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$6,707
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	\$44
Select Shares	+ 25
<b>Total</b>	<b>\$69</b>

**Prior period:**

Investor Shares	\$76
Select Shares	+ 173
<b>Total</b>	<b>\$249</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 \$3,510 and \$7,185 at the end of the current period and prior period, respectively.

# Schwab International Index Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	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	12.74	10.47	12.22	17.13	17.93	14.21
Income or loss from investment operations:						
Net investment income	0.11	0.23	0.21	0.15	0.20	0.19
Net realized and unrealized gains or losses	1.35	2.25	(1.82)	(4.81)	(0.85)	3.66
Total income or loss from investment operations	1.46	2.48	(1.61)	(4.66)	(0.65)	3.85
Less distributions:						
Dividends from net investment income	(0.23)	(0.21)	(0.14)	(0.25)	(0.15)	(0.13)
Net asset value at end of period	13.97	12.74	10.47	12.22	17.13	17.93
Total return (%)	11.61 <sup>1</sup>	24.24	(13.34)	(27.58)	(3.69)	27.31
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.69 <sup>2</sup>	0.65	0.58	0.58	0.59 <sup>3</sup>	0.58
Gross operating expenses	0.72 <sup>2</sup>	0.74	0.76	0.75	0.82	0.99
Net investment income	1.64 <sup>2</sup>	2.01	1.70	1.14	1.60	1.24
Portfolio turnover rate	1 <sup>1</sup>	7	13	18	16	5
Net assets, end of period (\$ x 1,000,000)	541	494	443	519	637	447

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

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



Select Shares	11/1/03– 4/30/04*	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	12.75	10.47	12.23	17.14	17.96	14.23
Income or loss from investment operations:						
Net investment income	0.12	0.25	0.21	0.16	0.27	0.18
Net realized and unrealized gains or losses	1.35	2.26	(1.82)	(4.80)	(0.91)	3.70
Total income or loss from investment operations	1.47	2.51	(1.61)	(4.64)	(0.64)	3.88
Less distributions:						
Dividends from net investment income	(0.25)	(0.23)	(0.15)	(0.27)	(0.18)	(0.15)
Net asset value at end of period	13.97	12.75	10.47	12.23	17.14	17.96
Total return (%)	11.68 <sup>1</sup>	24.50	(13.31)	(27.45)	(3.65)	27.49
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses	0.50 <sup>2</sup>	0.49	0.47	0.47	0.48 <sup>3</sup>	0.47
Gross operating expenses	0.57 <sup>2</sup>	0.59	0.61	0.60	0.67	0.86
Net investment income	1.83 <sup>2</sup>	2.19	1.81	1.25	1.71	1.57
Portfolio turnover rate	1 <sup>1</sup>	7	13	18	16	5
Net assets, end of period (\$ x 1,000,000)	680	629	536	616	700	449

\* Unaudited.

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

**Portfolio Holdings** as of April 30, 2004, unaudited

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>Value</b> (\$x1,000)
<b>99.1% Foreign</b>		
<b>Common Stock</b>	1,037,463	1,208,745
<b>0.4% Foreign</b>		
<b>Preferred Stock</b>	2,719	4,456
<b>0.0% Warrants</b>	724	635
<b>0.0% Rights</b>	—	20
<b>99.5% Total Investments</b>	<b>1,040,906</b>	<b>1,213,856</b>
<b>16.4% Collateral Invested for Securities on Loan</b>	199,784	199,784
<b>(15.9)% Other Assets and Liabilities, Net</b>		(193,440)
<b>100.0% Total Net Assets</b>		<b>1,220,200</b>

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

**Foreign Common Stock 99.1% of net assets**

**Australia 3.9%**

Amcor Ltd.	170,097	853
AMP Ltd.	250,773	1,045
Australia & New Zealand Banking Group Ltd.	358,594	4,809
BHP Billiton Ltd.	727,139	6,023
Coles Myer Ltd.	218,165	1,319
Commonwealth Bank of Australia	245,112	5,532
Foster's Group Ltd.	374,154	1,321
Insurance Australia Group Ltd.	337,549	1,185
Macquarie Bank Ltd.	41,612	1,041
Macquarie Infrastructure Group	386,221	767
National Australia Bank Ltd.	296,328	6,307
• News Corp. Ltd.	292,452	2,697

Security and Number of Shares	Value (\$ x 1,000)
QBE Insurance Group Ltd. 125,449	1,056
Rio Tinto Ltd. 60,818	1,429
Suncorp-Metway Ltd. 107,619	1,041
Telstra Corp. Ltd. 416,897	1,439
Wesfarmers Ltd. 80,774	1,667
Westpac Banking Corp. 346,721	4,375
Woodside Petroleum Ltd. 101,251	1,209
Woolworths Ltd. 202,146	1,723
	<b>46,838</b>

**Belgium 0.8%**

Dexia	121,918	2,005
Electrabel SA	6,048	1,986
Fortis	201,153	4,379
Solvay SA	12,932	1,084
		<b>9,454</b>

**Canada 5.2%**

Alcan, Inc.	62,405	2,501
Bank of Montreal	99,813	3,767
Bank of Nova Scotia	198,704	5,079
Barrick Gold Corp.	99,691	1,894
BCE, Inc.	65,656	1,317
• Biovail Corp.	27,400	520
Bombardier, Inc., Class B	279,400	1,227
Brascan Corp.	31,900	1,079
Canadian Imperial Bank of Commerce	71,216	3,479
Canadian National Railway Co.	58,674	2,206
Canadian Natural Resources Ltd.	25,900	1,420
Canadian Pacific Railway Ltd.	32,300	716
Enbridge, Inc.	33,700	1,229
EnCana Corp.	91,017	3,561
George Weston Ltd.	11,500	767
Imperial Oil Ltd.	24,010	1,050
• Inco Ltd.	37,300	1,064
Loblaw Cos. Ltd.	21,098	901
Magna International, Inc., Class A	16,447	1,301
Manulife Financial Corp.	91,650	3,379
National Bank of Canada	36,900	1,194
• Nortel Networks Corp.	784,900	2,962
Petro-Canada	43,200	1,904
Placer Dome, Inc.	83,200	1,150

Security and Number of Shares	Value (\$ x 1,000)
Power Corp. of Canada 29,502	1,164
Power Financial Corp. 26,300	1,067
Royal Bank of Canada 127,717	5,660
Sun Life Financial Services of Canada, Inc. 122,164	3,229
Suncor Energy, Inc. 81,600	1,940
Talisman Energy, Inc. 25,625	1,453
Thomson Corp. 40,000	1,270
TransCanada Corp. 94,561	1,867
	<b>63,317</b>

**Denmark 0.6%**

AP Moller-Maersk A/S 224	1,411
Danske Bank A/S 103,537	2,327
Novo-Nordisk A/S, Class B 50,724	2,410
TDC A/S 23,628	803
	<b>6,951</b>

**France 10.9%**

Accor SA 37,106	1,562
Air Liquide SA 19,987	3,500
• Alcatel SA, Class A 245,737	3,662
Arcelor SA 74,513	1,238
Aventis SA 134,970	10,282
AXA 281,489	5,929
BNP Paribas 157,814	9,478
Bouygues 42,044	1,436
• Cap Gemini SA 21,739	769
Carrefour SA 112,519	5,221
Cie Generale D'Optique Essilor International SA 19,882	1,163
Compagnie de Saint-Gobain 60,643	3,062
Credit Agricole SA 67,809	1,673
European Aeronautic Defense & Space Co. 61,447	1,554
• France Telecom SA 209,724	5,061
Groupe Danone 24,586	4,120
L'oreal 66,705	5,030
Lafarge SA 33,456	2,787
Lagardere S.C.A. 24,730	1,490
LVMH Moet-Hennessy Louis Vuitton SA 44,980	3,170
Michelin (C.G.D.E.), Class B 28,839	1,350
Pernod-Ricard 11,468	1,448

Security and Number of Shares	Value (\$ x 1,000)
Peugeot SA 37,097	1,993
Pinault-Printemps-Redoute SA 12,173	1,256
Renault SA 34,255	2,556
Sanofi-Synthelabo SA 73,956	4,699
Schneider Electric SA 40,373	2,720
• Societe Generale, Class A 65,700	5,474
• Societe Television Francaise 1 26,048	805
• STMicroelectronics NV 117,296	2,586
Suez SA 155,587	3,118
• Total Fina Elf SA 126,170	23,337
Veolia Environnement 52,576	1,398
Vinci SA 13,931	1,356
• Vivendi Universal SA 177,845	4,475
♦ Vivendi Universal SA 54,392	1,345
	<b>132,103</b>

**Germany 7.1%**

Adidas-Salomon AG 9,200	1,063
Allianz AG 54,188	5,750
Altana AG 12,100	770
BASF AG 108,135	5,579
Bayer AG 128,045	3,489
• Bayerische Hypo-und Vereinsbank AG 66,874	1,161
Commerzbank AG 88,400	1,524
DaimlerChrysler AG 168,370	7,547
Deutsche Bank AG 103,176	8,503
Deutsche Boerse AG 19,400	1,067
Deutsche Post AG 75,227	1,658
• Deutsche Telekom AG 487,262	8,411
E.ON AG 118,150	7,832
• Infineon Technologies AG 75,100	962
Linde AG 14,312	783
Metro AG 29,214	1,295
Muenchener Rueckversicherungs AG 30,394	3,287
RWE AG 69,676	3,024
SAP AG 40,624	6,160
Schering AG 33,246	1,748
Siemens AG 157,090	11,346
ThyssenKrupp AG 63,966	1,110
Volkswagen AG 46,293	2,039
	<b>86,108</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Hong Kong / China 1.2%</b>	
Cheung Kong Holdings Ltd. 299,000	2,291
CLP Holdings Ltd. 387,080	2,060
Hang Seng Bank Ltd. 154,700	1,964
Hong Kong & China Gas Co. 718,400	1,234
HongKong Electric Holdings 277,756	1,221
Hutchison Whampoa Ltd. 413,800	2,785
Sun Hung Kai Properties Ltd. 265,694	2,282
Swire Pacific Ltd., Class A 190,000	1,242
	<b>15,079</b>

**Italy 3.2%**

Alleanza Assicurazioni SPA 100,995	1,117
Assicurazioni Generali SPA 185,554	4,893
Banca Intesa SPA 709,107	2,346
Banco Popolare di Verona e Novara 75,422	1,255
Enel SPA 429,348	3,423
ENI-Ente Nazionale Idrocarburi SPA 514,100	10,452
Mediaset SPA 110,368	1,211
Mediobanca SPA 95,210	1,104
Riunione Adriatica di Sicurta SPA 60,519	1,108
Sanpaolo IMI SPA 189,885	2,215
• Telecom Italia SPA 1,132,740	2,641
• TIM SPA 753,178	4,298
UniCredito Italiano SPA 722,614	3,370
	<b>39,433</b>

**Japan 19.2%**

Advantest Corp. 13,000	988
Aeon Co. Ltd. 48,000	2,105
Ajinomoto Co., Inc. 111,000	1,299
Asahi Glass Co. Ltd. 146,000	1,545
Asahi Kasei Corp. 250,000	1,366
Bridgestone Corp. 126,000	2,133
Canon, Inc. 162,000	8,500
Chubu Electric Power Co., Inc. 122,100	2,545
Dai Nippon Printing Co. Ltd. 117,000	1,775
Denso Corp. 92,000	1,938
East Japan Railway Co. 653	3,337
Eisai Co. Ltd. 37,000	945

Security and Number of Shares	Value (\$ x 1,000)
Fanuc Ltd. 24,300	1,489
Fuji Photo Film Co. Ltd. 92,000	2,960
Fujisawa Pharmaceutical Co. Ltd. 47,000	1,092
• Fujitsu Ltd. 326,000	2,266
Honda Motor Co. Ltd. 152,700	6,130
Hoya Corp. 21,600	2,337
Ito-Yokado Co. Ltd. 68,000	2,828
• Itochu Corp. 273,000	1,155
Japan Tobacco, Inc. 126	1,007
JFE Holdings, Inc. 94,000	2,108
The Kansai Electric Power Co. 130,000	2,275
Kao Corp. 109,000	2,603
KDDI Corp. —	3
Keyence Corp. 5,900	1,417
• Kintetsu Corp. 305,830	1,097
Kirin Brewery Co. Ltd. 127,000	1,259
Komatsu Ltd. 193,000	1,100
Konica Minolta Holdings, Inc. 81,000	1,122
Kyocera Corp. 31,500	2,606
Kyushu Electric Power Co. 82,400	1,419
Matsushita Electric Industrial Co. Ltd. 403,912	5,933
Millea Holdings, Inc. 284	4,040
Mitsubishi Corp. 198,000	1,888
Mitsubishi Electric Corp. 303,000	1,532
Mitsubishi Estate Co. Ltd. 190,000	2,247
Mitsubishi Heavy Industries Ltd. 565,000	1,556
Mitsubishi Tokyo Financial Group, Inc. 787	7,003
Mitsui & Co. Ltd. 239,000	1,971
Mitsui Fudosan Co. Ltd. 142,000	1,563
Mitsui Sumitomo Insurance Co. Ltd. 247,000	2,326
• Mizuho Financial Group, Inc. 1,155	5,463
Murata Manufacturing Co. Ltd. 43,900	2,880
NEC Corp. 269,000	2,113
Nikko Cordial Corp. 240,000	1,366
Nintendo Co. Ltd. 19,700	1,860
Nippon Oil Corp. 250,000	1,377
Nippon Steel Corp. 1,020,000	2,135
Nippon Telegraph & Telephone Corp. 1,053	5,534

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Nissan Motor Co. Ltd. 486,000	5,412	Yamanouchi Pharmaceutical Co. Ltd. 59,000	1,967
Nitto Denko Corp. 28,000	1,555	Yamato Transport Co. Ltd. 78,000	1,185
Nomura Holdings, Inc. 345,000	5,602		<b>234,778</b>
NTT Data Corp. 284	1,112		
NTT DoCoMo, Inc. 3,463	6,872	<b>Netherlands 5.4%</b>	
OJI Paper Co. Ltd. 165,000	1,030	ABN – Amro Holdings NV 298,017	6,481
Olympus Corp. 43,000	834	Aegon NV 259,846	3,401
Omron Corp. 43,000	1,048	Akzo Nobel NV 51,942	1,893
Osaka Gas Co. Ltd. 394,000	1,093	• ASML Holding NV 93,364	1,486
Pioneer Corp. 31,000	885	DSM NV 16,462	789
Ricoh Co. Ltd. 118,000	2,352	Heineken NV 39,259	1,657
Rohm Co. Ltd. 21,000	2,620	ING Groep NV 340,404	7,296
Sankyo Co. Ltd. 72,000	1,334	• Koninklijke Ahold NV 138,958	1,076
Sanyo Electric Co. Ltd. 309,000	1,400	Koninklijke Philips Electronics NV 255,925	6,970
Secom Co. Ltd. 38,500	1,650	Reed Elsevier NV 117,871	1,656
Sekisui House Ltd. 94,000	997	⑧ Royal Dutch Petroleum Co. 408,067	19,846
Seven-Eleven Japan Co. 78,000	2,651	Royal KPN NV 360,914	2,600
Sharp Corp. 184,000	3,318	TPG NV 67,143	1,448
Shin-Etsu Chemical Co. Ltd. 68,900	2,785	Unilever NV 110,002	7,246
Shionogi & Co. Ltd. 61,000	960	VNU NV 47,654	1,333
The Shizuoka Bank Ltd. 116,000	990	Wolters Kluwer NV 55,267	931
SMC Corp. 11,000	1,261		<b>66,109</b>
Softbank Corp. 41,000	1,858	<b>Singapore 0.6%</b>	
Sompo Japan Insurance, Inc. 160,000	1,443	DBS Group Holdings Ltd. 217,778	1,830
Sony Corp. 168,500	6,520	Oversea-Chinese Banking Corp. 185,000	1,316
Sumitomo Corp. 137,000	1,052	Singapore Press Holdings Co. Ltd. 74,666	922
Sumitomo Electric Industries Ltd. 131,000	1,211	Singapore Telecommunications Ltd. 1,180,696	1,624
Sumitomo Mitsui Financial Group, Inc. 764	5,774	United Overseas Bank Ltd. 237,000	1,908
Takeda Chemical Industries Ltd. 166,200	6,702		<b>7,600</b>
TDK Corp. 22,000	1,571	<b>Spain 3.7%</b>	
Tohoku Electric Power Co. 83,700	1,345	Altadis SA 57,998	1,639
The Tokyo Electric Power Co., Inc. 230,300	4,936	Banco Bilbao Vizcaya Argentaria SA 587,573	7,755
Tokyo Electron Ltd. 28,000	1,705	Banco Popular Espanol 29,001	1,600
Tokyo Gas Co. Ltd. 507,000	1,879	Banco Santander Central Hispano SA 834,597	8,964
Toppan Printing Co. Ltd. 122,000	1,434	Endesa SA 173,742	3,185
Toshiba Corp. 566,000	2,600	Gas Natural SDG SA 37,672	925
⑨ Toyota Motor Corp. 530,500	19,181		
• UFJ Holdings, Inc. 686	4,243		
West Japan Railway Co. 225	875		

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Iberdrola SA 149,580	2,950	BAA PLC 211,384	1,949
Inditex SA 47,334	1,029	BAE Systems PLC 605,069	2,251
Repsol YPF SA 178,984	3,770	Barclays PLC 1,294,064	11,669
Telefonica SA 932,829	13,877	BG Group PLC 679,151	3,923
	<b>45,694</b>	BHP Billiton PLC 472,369	3,774
		BOC Group PLC 97,556	1,568
		Boots Group PLC 162,117	1,757
<b>Sweden 1.8%</b>		① BP PLC 4,327,143	37,408
Electrolux AB, Series B 61,579	1,217	British American Tobacco PLC 301,717	4,575
Hennes & Mauritz AB, Series B 98,150	2,403	British Land Co. PLC 100,943	1,163
Nordea AB 453,696	3,058	British Sky Broadcasting PLC 246,398	2,910
Sandvik AB 44,107	1,435	• BT Group PLC 1,675,638	5,304
Skandinaviska Enskilda Banken, Series A 85,410	1,241	• Cable & Wireless PLC 485,728	1,064
Svenska Cellulosa AB, Series B 35,963	1,410	Cadbury Schweppes PLC 396,080	3,150
Svenska Handelsbanken AB, Series A 112,602	2,174	Carnival PLC 30,775	1,379
• Telefonaktiebolaget LM Ericsson, Class B 2,846,579	7,713	Centrica PLC 861,673	3,339
Volvo AB, Series B 40,445	1,384	Compass Group PLC 440,157	2,771
	<b>22,035</b>	Diageo PLC 614,379	8,242
		Dixons Group PLC 356,181	981
<b>Switzerland 8.2%</b>		Emap PLC 52,220	801
• ABB Ltd. 204,408	1,151	Friends Provident PLC 333,413	834
Adecco SA, Registered 26,587	1,188	④ GlaxoSmithKline PLC 1,165,815	24,126
• Ciba Specialty Chemicals AG 14,322	994	GUS PLC 205,342	2,844
Compagnie Financiere Richemont AG, Series A 102,430	2,635	Hanson Plc 150,209	1,145
Credit Suisse Group 231,120	8,146	HBOS PLC 747,598	9,685
Holcim Ltd. 30,865	1,594	Hilton Group PLC 287,543	1,267
⑦ Nestle SA, Registered 79,293	20,059	③ HSBC Holdings PLC 2,119,648	30,372
⑥ Novartis AG, Registered 465,877	20,768	Imperial Tobacco Group PLC 142,051	3,146
Roche Holdings - Genus 138,238	14,500	Intercontinental Hotels Group PLC 149,688	1,399
Serono SA, Series B 1,193	715	ITV PLC 564,218	1,236
Swiss Reinsurance, Registered 65,184	4,288	J. Sainsbury PLC 268,529	1,326
Swisscom AG, Registered 5,043	1,565	Kingfisher PLC 442,761	2,224
Syngenta AG 20,323	1,626	Land Securities Group PLC 95,357	1,853
UBS AG, Registered 231,176	16,430	Legal & General Group PLC 1,220,030	2,023
• Zurich Financial Services AG 28,547	4,513	Lloyds TSB Group PLC 1,097,042	8,200
	<b>100,172</b>	Man Group PLC 57,326	1,716
		Marks & Spencer Group PLC 443,141	2,171
<b>United Kingdom 27.3%</b>		National Grid Transco PLC 616,442	4,676
Amvescap PLC 119,189	786	Next PLC 57,431	1,421
AstraZeneca PLC 333,267	15,585	Pearson PLC 158,738	1,852
Aviva PLC 444,350	4,342	Prudential PLC 382,001	3,001

Security and Number of Shares	Value (\$ x 1,000)
Reckitt Benckiser PLC 111,099	2,888
Reed Elsevier PLC 261,955	2,439
Rentokil Initial PLC 364,152	1,214
Reuters Group PLC 267,194	1,767
Rio Tinto PLC 206,808	4,537
Rolls-Royce Group PLC 14,830,900	15
Rolls-Royce Group PLC 296,618	1,218
⑩ Royal Bank of Scotland Group PLC 547,776	16,446
SABMiller PLC 162,857	1,767
Sage Group PLC 246,979	757
Scottish & Newcastle PLC 145,929	1,063
Scottish & Southern Energy PLC 173,758	2,103
Scottish Power PLC 382,227	2,598
Severn Trent Water PLC 70,101	973
Shell Transport & Trading Co. PLC 1,886,367	13,013
Smith & Nephew PLC 175,479	1,781
Smiths Group PLC 107,917	1,337
Tesco PLC 1,445,671	6,377
Unilever PLC 548,778	5,177
United Utilities PLC 124,590	1,190
② Vodafone Group PLC 13,328,748	32,382
Wm. Morrison Supermarkets 215,328	914
Wolseley PLC 111,522	1,634
WPP Group PLC 230,860	2,276
	<b>333,074</b>

#### Foreign Preferred Stock

0.4% of net assets

#### Australia 0.3%

News Corp. Ltd. 398,140	<b>3,407</b>
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#### Germany 0.1%

Henkel KGaA 12,100	<b>1,049</b>
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Security and Number of Shares	Value (\$ x 1,000)
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#### Warrants

0.0% of net assets

#### France 0.0%

• Casino Guichard Perrachon SA, expires 12/15/05 1,026	1
• France Telecom-CVG Equant NV, expires 06/29/04 35,326	634
	<b>635</b>

#### United States 0.0%

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

0.0% of net assets

#### Sweden 0.0%

• Electrolux AB, expires 06/01/04 61,579	<b>20</b>
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#### End of investments.

#### Collateral Invested for Securities on Loan

16.4% of net assets

#### Other Investment Companies 16.4%

Securities Lending Investment Fund 199,784,171	<b>199,784</b>
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#### End of collateral invested for securities on loan.

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$190,008 of securities on loan)	\$1,213,856	
Collateral invested for securities on loan	199,784	
Foreign currency	30	
Receivables:		
Fund shares sold	354	
Dividends	6,891	
Investments sold	229	
Income from securities on loan	248	
Dividend tax reclaim	509	
Prepaid expenses	+	27
<b>Total assets</b>		<b>1,421,928</b>

**Liabilities**

Collateral invested for securities on loan	199,784	
Cash overdraft	695	
Payables:		
Fund shares redeemed	732	
Interest expense	2	
Withholding taxes	331	
Investment adviser and administrator fees	24	
Transfer agent and shareholder service fees	10	
Accrued expenses	+	150
<b>Total liabilities</b>		<b>201,728</b>

**Net Assets**

<b>Total assets</b>	1,421,928	
<b>Total liabilities</b>	-	201,728
<b>Net assets</b>		<b>\$1,220,200</b>

**Net Assets by Source**

Capital received from investors	1,352,144	
Net investment income not yet distributed	9,119	
Net realized capital losses	(313,930)	
Net unrealized capital gains	172,867	

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$540,677		38,700		\$13.97
Select Shares	\$679,523		48,655		\$13.97

Unless stated, all numbers x 1,000.

The fund paid \$1,040,906 for these securities. Not counting short-term obligations and government securities, the fund's security transactions during the period were:

Purchases	\$6,690
Sales/maturities	\$33,070

The fund paid \$30 for these currencies.

**Federal Tax Data**

<b>Portfolio cost</b>	\$1,045,873
<b>Net unrealized gains and losses:</b>	
Gains	\$254,877
Losses	+ (86,894)
	<b>\$167,983</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
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>



## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$13,821
Interest	10
Securities on loan	+ 334
<b>Total investment income</b>	<b>14,165</b>

An additional \$1,675 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized losses on investments sold	(6,723)
Net realized gains on foreign currency transactions	+ 48
<b>Net realized losses</b>	<b>(6,675)</b>

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

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	126,487
Net unrealized losses on foreign currency transactions	+ (118)
<b>Net unrealized gains</b>	<b>126,369</b>

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

**Expenses**

Investment adviser and administrator fees	2,435
Transfer agent and shareholder service fees:	
Investor Shares	673
Select Shares	339
Trustees' fees	5
Custodian fees	205
Portfolio accounting fees	90
Professional fees	20
Registration fees	21
Shareholder reports	67
Interest expense	2
Other expenses	+ 11
Total expenses	3,868
Expense reduction	- 314
<b>Net expenses</b>	<b>3,554</b>

For the fund's independent trustees only.

Includes \$179 from the investment adviser (CSIM) and \$135 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 28, 2005, as follows:

**Increase in Net Assets from Operations**

Total investment income	14,165
Net expenses	- 3,554
<b>Net investment income</b>	<b>10,611</b>
<b>Net realized losses</b>	<b>(6,675)</b>
<b>Net unrealized gains</b>	<b>+ 126,369</b>
<b>Increase in net assets from operations</b>	<b>\$130,305</b>

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

This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$119,694.

## Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net Investment income	\$10,611	\$21,074
Net realized losses	(6,675)	(37,839)
Net unrealized gains	+ 126,369	241,954
<b>Increase in net assets from operations</b>	<b>130,305</b>	<b>225,189</b>

**Distributions Paid**

Dividends from net investment income		
Investor Shares	9,070	9,001
Select Shares	+ 12,466	11,662
<b>Total dividends from net investment income</b>	<b>\$21,536</b>	<b>\$20,663</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	3,779	\$52,590	5,440	\$59,471
Select Shares	+ 3,897	54,352	8,086	86,648
<b>Total shares sold</b>	<b>7,676</b>	<b>\$106,942</b>	<b>13,526</b>	<b>\$146,119</b>
<b>Shares Reinvested</b>				
Investor Shares	629	\$8,293	815	\$8,329
Select Shares	+ 884	11,650	1,072	10,936
<b>Total shares reinvested</b>	<b>1,513</b>	<b>\$19,943</b>	<b>1,887</b>	<b>\$19,265</b>
<b>Shares Redeemed</b>				
Investor Shares	(4,435)	(\$61,681)	(9,803)	(\$105,853)
Select Shares	+ (5,500)	(76,711)	(10,942)	(119,750)
<b>Total shares redeemed</b>	<b>(9,935)</b>	<b>(\$138,392)</b>	<b>(20,745)</b>	<b>(\$225,603)</b>
<b>Net transactions in fund shares</b>	<b>(746)</b>	<b>(\$11,507)</b>	<b>(5,332)</b>	<b>(\$60,219)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	88,101	\$1,122,938	93,433	\$978,631
Total increase or decrease	+ (746)	97,262	(5,332)	144,307
<b>End of period</b>	<b>87,355</b>	<b>\$1,220,200</b>	<b>88,101</b>	<b>\$1,122,938</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 were:

Ordinary Income	\$20,663
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	\$33
Select Shares	+ 14
<b>Total</b>	<b>\$47</b>

**Prior period:**

Investor Shares	\$62
Select Shares	+ 46
<b>Total</b>	<b>\$108</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 \$9,119 and \$20,044 at the end of 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	11.3%
Growth Portfolio	10.2%
Balanced Portfolio	6.5%
Conservative Portfolio	2.4%

**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 4/30/04 (\$ × 1,000)	Average borrowing* (\$ × 1,000)	Weighted average interest rate* (%)
<b>Schwab S&amp;P 500 Fund</b>	—	8,866	1.37
<b>Schwab 1000</b>	—	1,742	1.34
<b>Schwab Small-Cap Index Fund</b>	—	1,110	1.49
<b>Schwab Total Stock Market Index Fund</b>	—	7,006	1.40
<b>Schwab International Index Fund</b>	695	593	1.52

\* 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.

# 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 4/30/04) 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., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; 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.

## 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	2003 (all trusts).	Vice Chair, 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>1,2</sup> 2/22/55	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.; SVP, 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.

<sup>2</sup> Effective June 8, 2004, Jeffrey Lyons resigned as trustee from each of the trusts.



## 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, 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, Laudus Trust, Laudus Variable Insurance Trust. <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 (corporate 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). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <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); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
<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 investment trust).
<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

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

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

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

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

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

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

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

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 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. 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. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any 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.

## Proxy Voting Policies and Procedures

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

## 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, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

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

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

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

**Investment Adviser**

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

**Distributor**

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

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# Schwab MarketMasters Funds®

## Semiannual Report

April 30, 2004

Schwab U.S.  
MarketMasters Fund™

Schwab Balanced  
MarketMasters Fund™

Schwab Small-Cap  
MarketMasters Fund™

Schwab International  
MarketMasters Fund™

*charles* SCHWAB

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

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### Schwab U.S. MarketMasters Fund

Ticker Symbol: **SWOGX**

The fund seeks capital growth.

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### Schwab Balanced MarketMasters Fund

Ticker Symbol: **SWOBX**

The fund seeks capital growth and income.

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### Schwab Small-Cap MarketMasters Fund

Ticker Symbol: **SWOSX**

The fund seeks long-term capital appreciation.

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### Schwab International MarketMasters Fund

Investor Shares: **SWOIX** Select Shares®: **SWMIX**

The fund seeks long-term capital appreciation.

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## *Introducing Select Shares® for the Schwab MarketMasters Funds*

On April 1, 2004 SchwabFunds® announced the availability of a new lower operating expense share class of the Schwab International MarketMasters Fund. The availability of this new share class came as good news to investors seeking exposure to international equities as well as those who already own the fund who were now eligible to lower their net operating expenses.

We are pleased to announce that effective June 1, 2004, Select Shares will become available for the U.S., Balanced and Small-Cap MarketMasters Funds. (See the table at right for specifics.)

The new Select Shares, have lower net operating expense and higher investment minimums compared with Investor Shares. (See the prospectus for additional information).

Select Shares are also available to current shareholders who have positions of \$25,000 or greater in Investor Shares of one of the Schwab MarketMasters Funds. We encourage

shareholders of Investor Shares to review their portfolio along with the fund's prospectus to see if they are eligible to exchange into Select Shares.

Select Shares	OER	Investment Minimum
U.S. MarketMasters Fund	1.07%	\$25,000
Balanced MarketMasters Fund	0.95%	\$25,000
Small-Cap MarketMasters Fund	1.37%	\$25,000
International MarketMasters Fund	1.47%	\$25,000

To learn more, please see the funds' prospectus at [www.schwab.com/schwabfunds](http://www.schwab.com/schwabfunds). Or, call **1-800-435-4000** to order a prospectus or to speak with a Schwab representative.



# From the Chairman



Charles R. Schwab  
Chairman

When I look at the current economic trends, I see a lot of positive indicators. Corporate profits, revenues, capital spending and the employment numbers have been strong. With the GDP and capital spending also strong, we seem to be in the early stages of what could be a long-term economic recovery. However, even though stock market and economic cycles have historically been in synch, this now seems to be less certain.

The stock market, reflecting the uncertainty around the globe, has become increasingly volatile. Whether it's the war in Iraq or global terrorism, investors are exposed to frightening images over and over again throughout the day. This may play on investors' emotions, potentially contributing to the market's recent volatility.

Given this, and because it can be so difficult to fight your emotions, I believe it's more important than ever to stay diversified. By being diversified across and within all asset classes, you have an "all-weather" portfolio that can offer you some balance in any market climate. There are very obvious reasons why diversification is useful, but what I believe is its understated beauty is that it gives many of you the discipline you need to stick with a well thought out strategy.

I have been a fan of mutual funds throughout my long investing career. I say this because I firmly believe that mutual funds are a cost-effective and convenient way for investors to achieve a diversified portfolio. And as we face increasing uncertainty in the world and in the stock markets, this is perhaps more important than ever.

Overall, despite the likelihood of short-term market volatility, I maintain complete faith in the strength of the U. S. economy. I always have believed and continue to believe that the stock market is the best place for long-term investing, and that with a wise investing plan – and a well diversified portfolio – you will be well-positioned to meet your financial goals.

Sincerely,

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

# Management's Discussion

for the six months ended April 30, 2004



**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 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The stock market's continued recovery during the report period was welcome news to long-term investors, especially those of you who had suffered through declining share prices before then.

For years, investors sold stocks and stock mutual funds when the economy was weak or when geopolitical tensions heightened, despite the fact that stock and fund prices often were relatively cheap during those dark hours. Over the past year, however, I've spoken with many individual investors who benefited from sticking with their long-term asset-allocation plans. As a result, they were able to participate in the past year's stock market gains. They learned how difficult it is to successfully "time the market" and determine when to "be in cash." Many have given up this chase altogether and have benefited both financially and emotionally.

Given the ongoing geopolitical situation, however, it's quite understandable that many investors are nervous, and some are again acting more on their emotions than on sound investment principles. When you invest in SchwabFunds®, you can be assured that our portfolio managers understand your concerns and are diligent in their approach to the investment process. Key to this is their knowledge of and adherence to each fund's objective, their vigilant focus on positive outcomes and management of the fund's risk. In short, each of our portfolio manager's responsibility is to remain consistent in implementing their investment strategies, despite the market's fluctuations.

No matter what type of investor you are or how much risk you are willing to carry, we have investment consultants who can help you develop an asset-allocation plan and we have portfolio managers who will use their rigorous discipline to help you meet your long- or short-term financial goals. Thank you for investing with us.

Sincerely,

*Randall W. Merk*



**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 adviser, 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

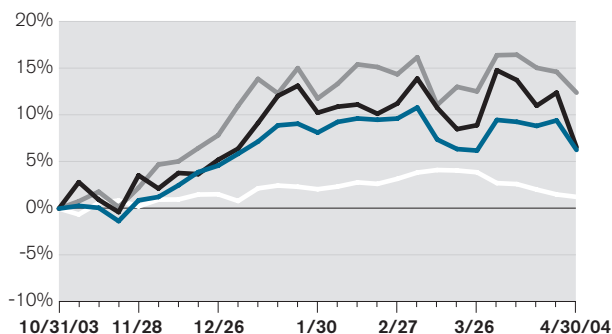
The economy, which had improved during the second half of 2003, picked up steam at the end of the year and continued to show signs of recovery through the current report period of November 1, 2003 through April 30, 2004. The securities market reflected the positive news through first-quarter 2004. During that time, the market started to bounce around a little, as evidenced by the volatility in the S&P 500® Index in February and March. Toward the end of the report period, in late April, the market fell precipitously and many of the funds' 2004 gains were lost. Nonetheless, its earlier performance was strong enough to push the broader market up 6.27% for the report period, as measured by the S&P 500® Index.

While the economy officially emerged from recession in 2001, the recovery didn't fully materialize until 2003. And it wasn't until late in 2003 when investors started buying companies with good solid fundamentals. During this time, both the manufacturing and services sectors exhibited strong growth. Capital spending showed signs of life amid rising corporate profits.

### 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.

- 6.27% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.54% **Russell 2000® Index:** measures U.S. small-cap stocks
- 12.39% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.25% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and you cannot invest in them directly. Remember that past performance is not an indication of future results. Data source: Charles Schwab & Co., Inc.

*With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq.*

The economy continued to expand in 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise, despite a mid-quarter pause in the upward trend in consumer confidence, and higher commodity prices were holding. Mortgage refinancing activity, while still significant, started to show signs of waning as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid growth.

On the currency front, the dollar rebounded from its lows, due to two reasons. First, the U. S. economy grew more than most other countries' economies did. The second reason is the expectation that interest rates will rise, which has served to stimulate inflows of foreign capital.

The Federal Reserve (Fed) left interest rates unchanged during the period. Inflation began to accelerate, alleviating Fed fears of possible deflation. Consequent expectations that the Fed would soon begin to raise interest rates weighed on markets toward the end of the period. Nevertheless, economic fundamentals remained sound. With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq. Business profits exhibited another strong quarterly gain and investment in equipment and inventories remained healthy. In sum, it appeared that the economy, indeed, was back on track.

## The Funds

All four funds posted positive returns for the report period with the Schwab MarketMasters Balanced Fund outperforming its benchmark and category average. During the period, we remained in close contact with the funds' sub-advisors, and made adjustments to their allocations based on a combination of market conditions and daily cash flows. We maintained our small-cap bias, which led performance until the end of the report period and helped to position the funds to perform better. Toward the end of the report period, we shifted assets toward a growth bias in anticipation of what we believe will be the next market cycle.

## Performance at a Glance

Total return for the six months ended 4/30/04, except where noted.

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

**Schwab U.S. MarketMasters Fund** . . . . . **4.53%**  
 Benchmark . . . . . **6.27%**  
 Fund Category<sup>1</sup> . . . . . **5.47%**  
*Performance Details . . . . . page 7*

**Schwab Balanced MarketMasters Fund** . . . . . **4.75%**  
 Benchmark . . . . . **4.26%**  
 Fund Category<sup>1</sup> . . . . . **4.20%**  
*Performance Details . . . . . page 9*

**Schwab Small-Cap MarketMasters Fund** . . . . . **5.42%**  
 Benchmark . . . . . **6.54%**  
 Fund Category<sup>1</sup> . . . . . **8.17%**  
*Performance Details . . . . . page 11*

**Schwab International MarketMasters Fund**  
 Investor Shares . . . . . **10.54%**  
 Select Shares<sup>2</sup> . . . . . **-3.37%**  
 Benchmark . . . . . **12.39%**  
 Fund Category<sup>1</sup> . . . . . **10.59%**  
*Performance Details . . . . . pages 13-14*

**The Schwab U.S. MarketMasters Fund** returned 4.53% versus 6.27% for the S&P 500® Index. With value the style in favor, sub-advisor Eagle Asset Management's growth bias hurt performance. Eagle's weak stock selection also contributed to its underperformance. Sub-advisor, Harris Associates LP, which focuses on large-cap value stocks, helped performance, as did sub-advisor TCW Investment Management Company, which focuses on small- to mid-cap value stocks. These two sub-advisors' performance helped to offset Eagle's growth orientation.

**The Schwab Balanced MarketMasters Fund** outperformed its benchmark, the Balanced Blended Index (60% S&P 500® Index /40% Lehman Brothers Aggregate) by 0.49%. The fund was underweight in bonds throughout the report period, as we believed stocks would have a higher return potential. This overweight of stocks helped performance, as did sub-advisors Janus Capital Management LLC and Aronson+Johnson+Ortiz, LP. Janus performed particularly well, helped not only by strong stock selection but also by being overweight in top performing sectors such as energy and health care. On the fixed-income side, sub-advisor PIMCO also performed well. Eagle Asset Management, our growth manager, lagged for the period due to its style and stock selection.

**The Schwab Small Cap MarketMasters Fund** underperformed its benchmark, the Russell 2000® Index, by 1.12%. This was largely due to sub-advisor Veredus Asset Management, LLC, whose focus is on growth stocks. Small-cap growth lagged small-cap value over the report period, but Veredus also was hurt by poor stock selection, and by being underweight in top performing sectors, including consumer staples and health care. Two of the fund's sub-advisors, Tocqueville Asset Management, LP and TCW Investment Management Company performed well during the report period. Tocqueville did well due to a large overweight in the top performing energy sector. TCW gained ground due to strong stock selection. Both managers also were helped by their value focus.

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

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

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

<sup>1</sup> Source for category information: Morningstar, Inc.

<sup>2</sup> Select Shares total return is for 4/2/04 – 4/30/04.

*As of April 1, 2004, TAMRO Capital Partners LLC replaced sub-advisor Royce and Associates in the Schwab Small-Cap MarketMasters Fund. Royce's performance was strong, but the company decided to stop offering its sub-advisory services.*

**The Schwab International MarketMasters Fund** performed in line with the category average. Compared to its benchmark, the MSCI-EAFE®, the fund underperformed by 1.85% over the report period. Poor stock selection on the part of sub-advisors, William Blair & Co. and Artisan Partners negatively affected performance. Sub-advisor American Century did particularly well, thanks to excellent stock selection, its emphasis on small-cap stocks and its overweight position in Japanese stocks and emerging markets.

As in the U.S., value led the market during most of the report period.

Foreign securities can involve risks such as political and economic instability and currency risk. These risks may be greater in emerging markets. Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

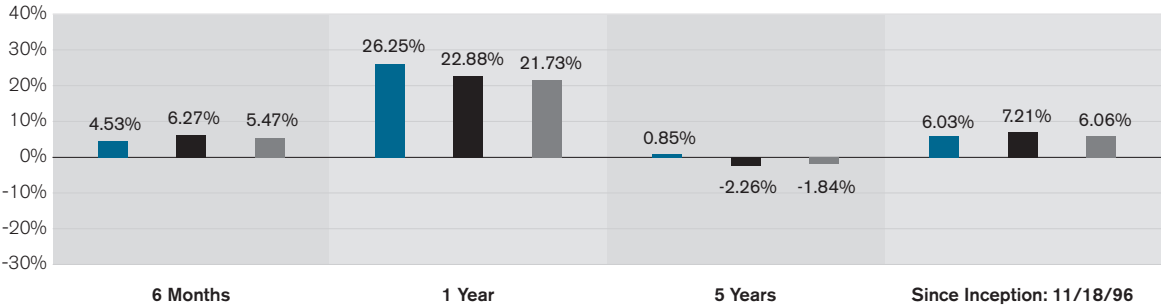
# Schwab U.S. MarketMasters Fund

Performance as of 4/30/04

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

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

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

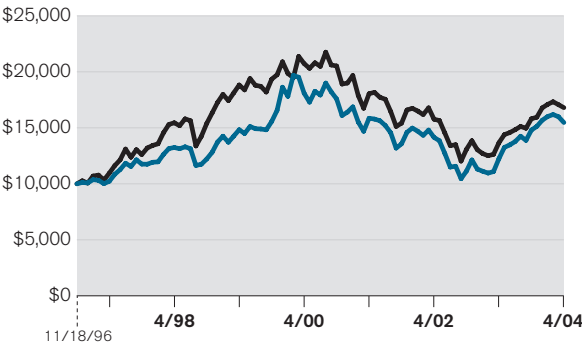


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$15,471 Fund
- \$16,799 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. Results for the report period are not annualized. Because the fund was originally an asset allocation fund with a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

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

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Top Holdings<sup>2</sup>

Security	% of Net Assets
1 Time Warner, Inc.	2.3%
2 Pfizer, Inc.	2.1%
3 Cendant Corp.	1.7%
4 Citigroup, Inc.	1.6%
5 First Data Corp.	1.4%
6 Interpublic Group of Cos., Inc.	1.4%
7 Carnival Corp.	1.4%
8 Intel Corp.	1.3%
9 The Gap, Inc.	1.2%
10 General Electric Co.	1.2%
Total	15.6%

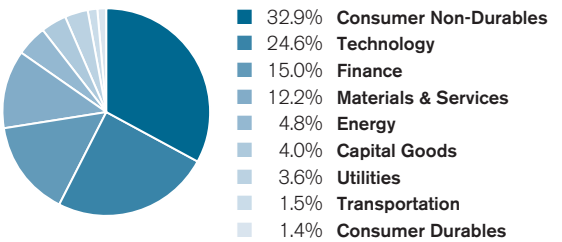
Number of Holdings	178
Weighted Average Market Cap (\$ x 1,000,000)	\$42,880
Price/Earnings Ratio (P/E)	25.3
Price/Book Ratio (P/B)	2.4
Portfolio Turnover Rate <sup>3</sup>	37%

Investment Managers and Allocations

Investment Manager	Investment Style	% of Net Assets
Eagle Asset Management, Inc.	Large-Cap Growth	26.1%
Harris Associates L.P.	Mid/Large-Cap Value	21.3%
TCW Investment Management Company	Small/Mid-Cap Blend	21.7%
Thornburg Investment Management, Inc.	Large-Cap Blend	27.2%

Sector Weightings % of Portfolio<sup>4</sup>

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



Portfolio holdings may have changed since the report date.

<sup>1</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

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

<sup>3</sup> Not annualized.

<sup>4</sup> Cash and cash equivalents are excluded.



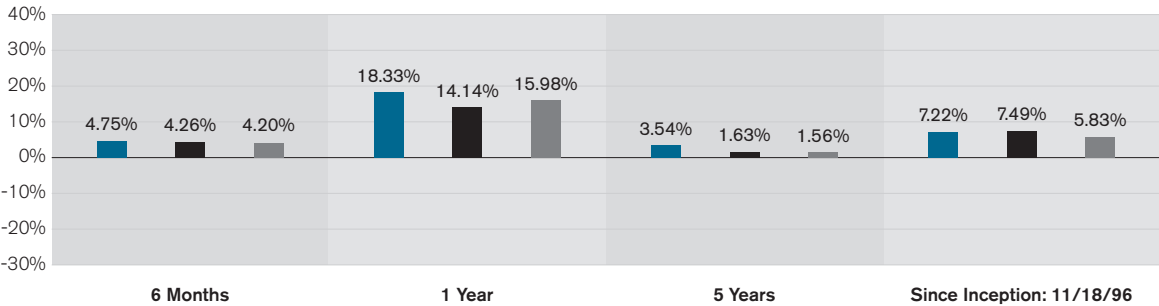
# Schwab Balanced MarketMasters Fund

Performance as of 4/30/04

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

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

- Fund
- Benchmark: **Balanced Blended Index**
- Fund Category: **Morningstar Moderate Allocation**

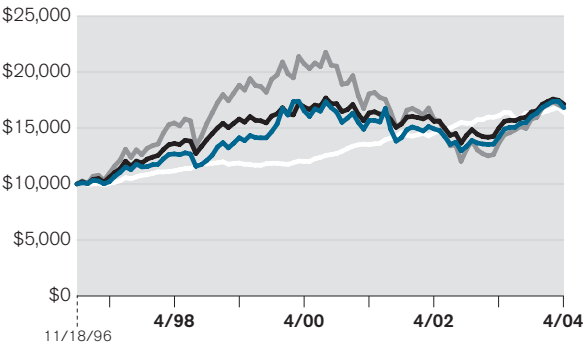


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$16,814 Fund
- \$17,130 Balanced Blended Index
- \$16,799 S&P 500® Index
- \$16,384 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. Results for the report period are not annualized.

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

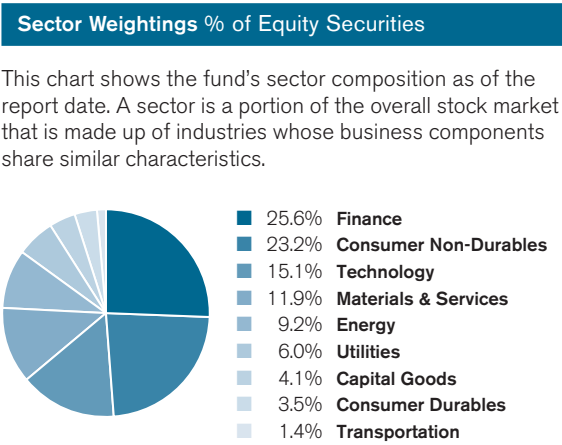
<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The Balanced Blended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

Fund Facts as of 4/30/04

Top Holdings <sup>1</sup>		
Security		% of Net Assets
① Bundes Republic of Deutschland		2.9%
5.25%, 07/04/2010		
② Citigroup, Inc.		2.0%
③ Bundes Republic of Deutschland		1.8%
3.75%, 01/04/2009		
④ U.S. Treasury Note	1.63%, 04/30/2005	1.6%
⑤ U.S. Treasury Note	2.00%, 11/30/2004	1.2%
⑥ Bank of America Corp.		1.1%
⑦ U.S. Treasury Bill	0.99%, 06/10/2004	1.1%
⑧ Royal Bank of Scotland	1.02%, 05/12/2004	0.9%
⑨ Barclays U.S. Funding Corp.	1.02%, 05/21/2004	0.9%
⑩ Danske Corp.	1.02%, 06/08/2004	0.9%
Total		14.4%

Statistics		
Number of Long Holdings		452
Number of Short Positions		6
Weighted Average Market Cap (\$ x 1,000,000)		\$43,452
Price/Earnings Ratio (P/E)		17.6
Price/Book Ratio (P/B)		2.1
Portfolio Turnover Rate <sup>2</sup>		129%

Investment Managers and Allocations		
Investment Manager	Investment Style	% of Net Assets
Aronson + Johnson + Ortiz, LP	Large-Cap Value	30.3%
Eagle Asset Management, Inc.	Large-Cap Growth	17.6%
Janus Capital Management LLC/ Perkins, Wolf, McDonnell and Company, LLC	Mid-Cap Value	16.7%
Pacific Investment Management Company LLC	Total Return Fixed-Income	30.9%



Portfolio holdings may have changed since the report date.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.

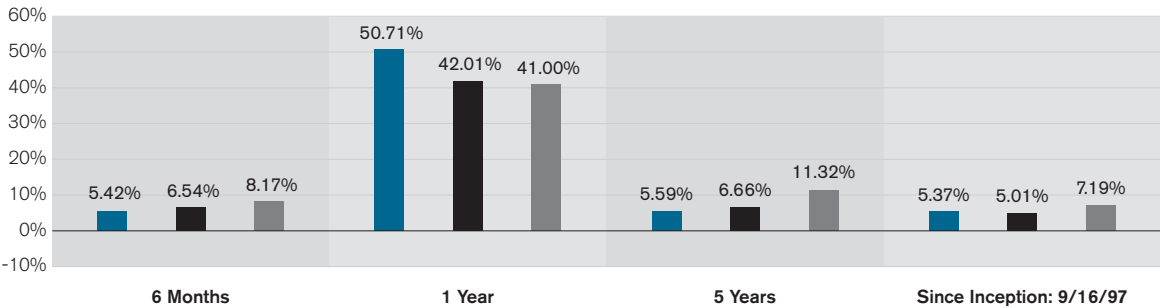
# Schwab Small-Cap MarketMasters Fund

Performance as of 4/30/04

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

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

- Fund
- Benchmark: **Russell 2000® Index**
- Fund Category: **Morningstar Small-Cap Blend**

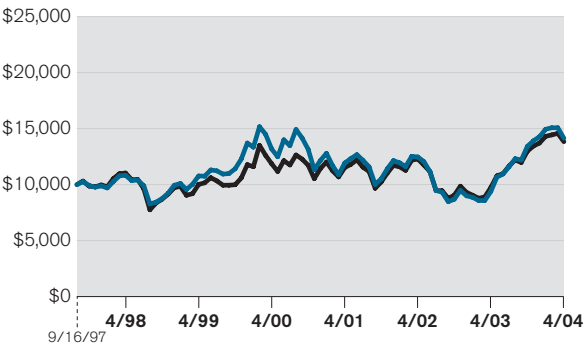


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$14,143 **Fund**
- \$13,829 **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. Results for the report period are not annualized. Because the fund originally used a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

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

## Fund Facts as of 4/30/04

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

Security	% of Net Assets
① Cytec Corp.	1.6%
② Toll Brothers, Inc.	1.2%
③ Martek Biosciences Corp.	1.1%
④ The Chicago Mercantile Exchange	1.1%
⑤ Pharmaceutical Product Development, Inc.	1.1%
⑥ Keane, Inc.	1.0%
⑦ Hooper Holmes, Inc.	1.0%
⑧ Global Industry Ltd.	0.9%
⑨ Centene Corp.	0.9%
⑩ O'Charleys, Inc.	0.9%
<b>Total</b>	<b>10.8%</b>

## Statistics

<b>Number of Holdings</b>	223
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$1,705
<b>Price/Earnings Ratio</b> (P/E)	39.3
<b>Price/Book Ratio</b> (P/B)	2.0
<b>Portfolio Turnover Rate</b> <sup>3</sup>	91%

Portfolio holdings may have changed since 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.

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

<sup>3</sup> Not annualized.

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

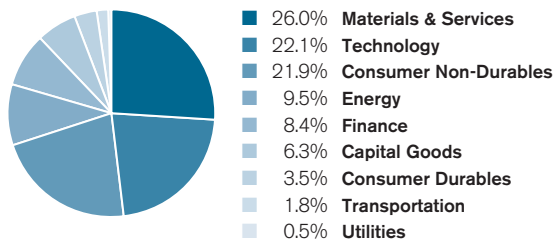
<sup>5</sup> Cash and cash equivalents are excluded.

## Investment Managers and Allocations

Investment Manager	Investment Style	% of Net Assets
<b>TAMRO Capital Partners LLC/Royce &amp; Associates, LLC<sup>4</sup></b>	Small-Cap Value	27.7%
<b>TCW Investment Management Company</b>	Small/Mid-Cap Blend	14.3%
<b>Tocqueville Asset Management LP</b>	Small-Cap Blend	20.7%
<b>Veredus Asset Management LLC</b>	Small-Cap Growth	33.6%

Sector Weightings % of Portfolio<sup>5</sup>

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.



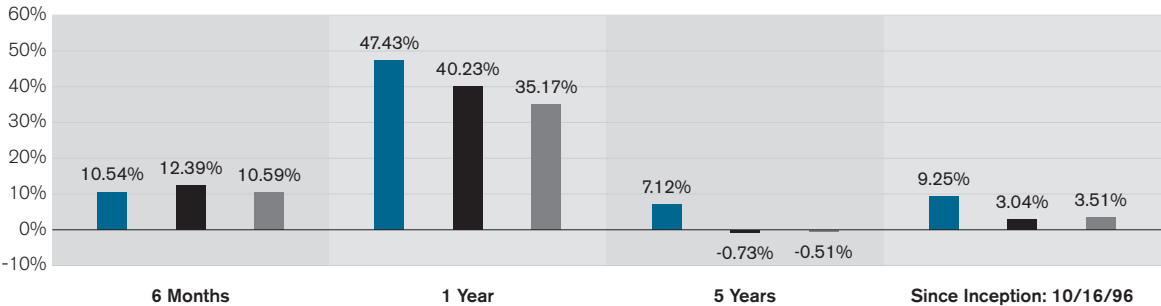
# Schwab International MarketMasters Fund

## Investor Shares Performance as of 4/30/04

### 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: **MSCI-EAFE® Index**
- Fund Category: **Morningstar Foreign Large-Cap Blend**

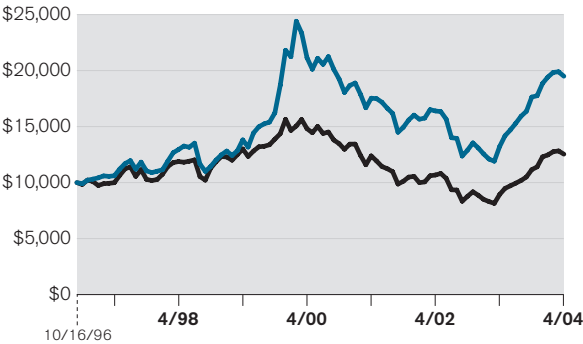


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$19,497 **Investor Shares**
- \$12,539 **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. Results for the report period are not annualized. Because the fund originally used a multi-fund strategy, its performance prior to June 3, 2002 does not reflect the current strategy and may have been different if it did.

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

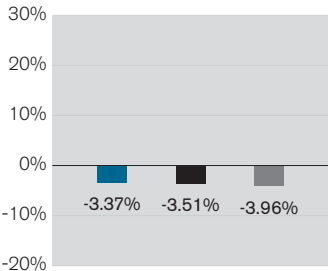
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares Performance as of 4/30/04

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

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

- Fund: **Select Shares**
- Benchmark: **MSCI-EAFE® Index**
- Fund Category: **Morningstar Foreign Large-Cap Blend**



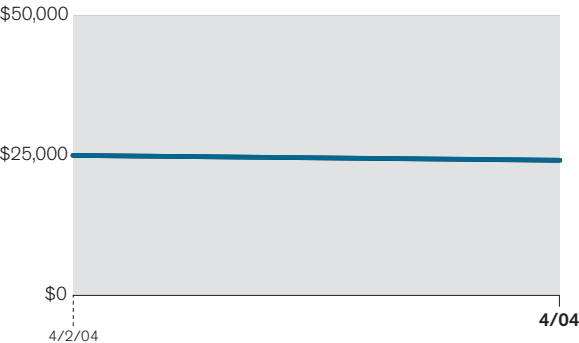
Since Inception: 4/2/04

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

Performance of a Hypothetical \$25,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$25,000 investment (the minimum investment for this share class) in the fund's Select Shares, compared with a similar investment in its benchmark.

- \$24,157 **Select Shares**
- \$24,122 **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. Results for the report period are not annualized.

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

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

## Fund Facts as of 4/30/04

Top Holdings<sup>1</sup>

Security	% of Net Assets
① Nestle SA	1.4%
② Diageo PLC	1.3%
③ Bayerische Motoren-Werke AG	1.2%
④ United Bank of Switzerland AG	1.2%
⑤ GlaxoSmithKline PLC	1.1%
⑥ Tesco PLC	1.0%
⑦ Euronext N.V.	1.0%
⑧ British Sky Broadcasting Group PLC	0.9%
⑨ Grupo Televisa SA de CV	0.9%
⑩ Cadbury Schweppes PLC	0.9%
<b>Total</b>	<b>10.9%</b>

## Statistics

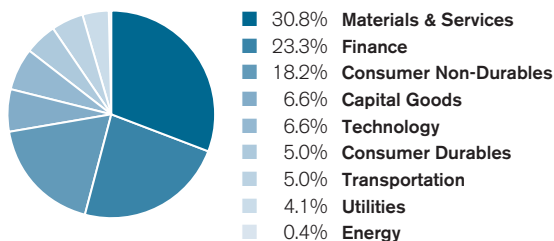
<b>Number of Holdings</b>	371
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$18,055
<b>Price/Earnings Ratio</b> (P/E)	23.4
<b>Price/Book Ratio</b> (P/B)	2.8
<b>Portfolio Turnover Rate</b> <sup>2</sup>	42%

## Investment Managers and Allocations

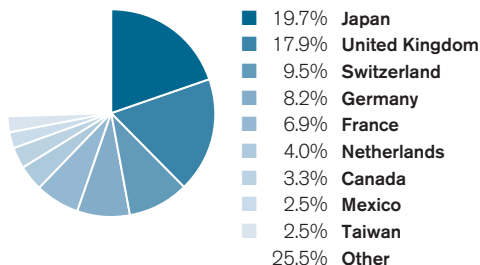
Investment Manager	Investment Style	% of Net Assets
<b>American Century Investment Management, Inc.</b>	International Small Company	21.0%
<b>Artisan Partners Limited Partnership</b>	International Growth	21.1%
<b>Harris Associates L.P.</b>	International Value	29.1%
<b>William Blair &amp; Company, LLC</b>	International Growth	26.2%

Sector Weightings % of Portfolio<sup>3</sup>

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<sup>3</sup>

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



Portfolio holdings may have changed since the report date.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Cash and cash equivalents are excluded.

# Schwab U.S. MarketMasters Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	9.94	7.48	9.20	13.89	14.06	11.43
Income or loss from investment operations:						
Net investment income or loss	(0.04)	(0.01)	0.06	0.38	0.38	0.16
Net realized and unrealized gains or losses	0.49	2.47	(1.68)	(3.21)	1.55	2.91
Total income or loss from investment operations	0.45	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	10.39	9.94	7.48	9.20	13.89	14.06
Total return (%)	4.53 <sup>1</sup>	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 <sup>2</sup>	1.25	0.83 <sup>3,4</sup>	0.50 <sup>4</sup>	0.51 <sup>4,5</sup>	0.50 <sup>4</sup>
Gross operating expenses	1.39 <sup>2</sup>	1.42	1.16 <sup>4</sup>	0.89 <sup>4</sup>	0.89 <sup>4</sup>	0.93 <sup>4</sup>
Net investment income or loss	(0.21) <sup>2</sup>	(0.12)	0.50	3.27	2.34	1.23
Portfolio turnover rate	37 <sup>1</sup>	97	390	145	179	284
Net assets, end of period (\$ x 1,000,000)	196	169	129	176	248	181

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

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

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

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



**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>91.8% Common Stock</b>	156,983	179,634
<b>1.0% Foreign Common Stock</b>	1,559	1,936
<b>0.3% Short-Term Investments</b>	639	639
<b>6.7% Other Investments</b>	12,975	12,975
<b>99.8% Total Investments</b>	<b>172,156</b>	<b>195,184</b>
<b>0.2% Other Assets and Liabilities, Net</b>		487
<b>100.0% Total Net Assets</b>		<b>195,671</b>

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

**Common Stock** 91.8% of net assets

**Air Transportation 0.8%**

Southwest Airlines, Inc. 104,032 **1,486**

**Apparel 0.5%**

Jones Apparel Group, Inc. 26,465 **969**

**Banks 3.2%**

Bank of America Corp. 6,700 539  
 Bank of New York Co., Inc. 57,700 1,681  
 BankNorth Group, Inc. 25,300 775  
 Mellon Financial Corp. 23,900 709  
 North Fork Bancorp, Inc. 23,200 861

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

Wells Fargo & Co. 24,600 1,389  
 Zions Bancorp. 7,400 418  
**6,372**

**Business Machines & Software 4.2%**

• Cisco Systems, Inc. 74,150 1,548  
 • Dell Computer Corp. 35,800 1,243  
 • EMC Corp. 54,980 614  
 Hewlett Packard Co. 67,000 1,320  
 • Maxtor Corp. 88,400 575  
 Microsoft Corp. 55,400 1,439  
 • Siebel Systems, Inc. 35,250 362  
 • Tech Data Corp. 11,100 377  
 • Unisys Corp. 51,900 676  
**8,154**

**Business Services 9.3%**

• Affiliated Computer Services, Inc. 17,500 849  
**③** Cendant Corp. 136,650 3,236  
 • CheckFree Corp. 13,300 400  
 • DigitalNet Holdings, Inc. 2,800 66  
 • Doubleclick, Inc. 63,400 512  
 • eBay, Inc. 9,850 786  
 • Eclipsys Corp. 50,700 715  
**⑤** First Data Corp. 60,650 2,753  
 • FTI Consulting, Inc. 31,900 525  
**⑥** Interpublic Group of Cos., Inc. 175,200 2,749  
 • Lamar Advertising Co. 9,850 404  
 • Network Associates, Inc. 59,200 928  
 • Nortel Networks Corp. 93,250 349  
 Reynolds & Reynolds Co., Class A 27,000 771  
 • Sirius Satellite Radio, Inc. 71,700 237  
 • Veritas Software Corp. 21,000 560  
 Waste Management, Inc. 70,000 1,988  
 • WebMD Corp. 31,450 276  
**18,104**

**Chemical 0.4%**

• Entegris, Inc. 40,050 407  
 Rohm & Haas Co. 9,800 380  
**787**

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Consumer Durables 1.1%</b>	
Leggett & Platt, Inc. 29,900	676
Maytag Corp. 22,800	636
• Tempur-Pedic International, Inc. 52,350	817
	<b>2,129</b>
<b>Electronics 13.8%</b>	
• Agere Systems, Inc., Class B 305,900	664
• Agilent Technologies, Inc. 18,150	490
• Alliant Techsystems, Inc. 13,400	795
• Altera Corp. 11,650	233
Anixter International, Inc. 27,800	815
• Applied Materials, Inc. 60,550	1,104
• Applied Micro Circuits Corp. 131,300	579
• Arrow Electronics, Inc. 40,400	1,021
• Celestica, Inc. 55,600	977
• Cox Radio, Inc. 20,350	422
• Cypress Semiconductor Corp. 29,150	407
• Fairchild Semiconductor Corp. 69,000	1,343
⑧ Intel Corp. 97,900	2,519
• Jabil Circuit, Inc. 27,650	730
• LAM Research Corp. 54,550	1,208
• LSI Logic Corp. 135,900	1,011
• National Semiconductor Corp. 9,300	379
• Nextel Communications, Inc., Class A 45,900	1,095
• Novellus Systems, Inc. 17,900	518
• NVIDIA Corp. 21,700	446
PerkinElmer, Inc. 41,450	798
Qualcomm, Inc. 1,000	63
Seagate Technology 33,100	414
Tektronix, Inc. 27,200	805
• Teradyne, Inc. 57,600	1,174
Texas Instruments, Inc. 61,000	1,531
• Thermo Electron Corp. 28,500	832
• Ultra Clean Holdings, Inc. 46,500	346
• Uniphase Corp. 194,800	592
• Varian, Inc. 17,200	706
• Vishay Intertechnology, Inc. 46,900	816
• Waters Corp. 50,000	2,158
	<b>26,991</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Energy: Raw Materials 1.1%</b>	
• Cooper Cameron Corp. 21,200	1,025
Devon Energy Corp. 13,500	826
ENSCO International, Inc. 14,300	392
	<b>2,243</b>
<b>Food &amp; Agriculture 1.0%</b>	
The Pepsi Bottling Group, Inc. 70,000	<b>2,049</b>
<b>Healthcare / Drugs &amp; Medicine 12.5%</b>	
Abbott Laboratories 17,100	753
Allergan, Inc. 7,850	691
• Amgen, Inc. 11,750	661
• Anthem, Inc. 11,900	1,054
• Apogent Technologies, Inc. 1,950	63
Baxter International, Inc. 50,000	1,583
Beckman Coulter, Inc. 12,300	687
• Boston Scientific Corp. 5,900	243
• Caremark Rx, Inc. 57,950	1,962
• Charles River Laboratories, Inc. 21,900	1,007
• Edwards Lifesciences Corp. 22,100	762
• Genentech, Inc. 2,250	276
• Genzyme Corp. 36,075	1,571
• Guidant Corp. 30,000	1,890
Health Management Associates, Inc. 79,500	1,839
• Health Net, Inc. 38,150	971
Johnson & Johnson, Inc. 25,550	1,381
② Pfizer, Inc. 116,900	4,180
• Quest Diagnostic, Inc. 10,200	860
• St. Jude Medical, Inc. 7,200	549
• Univision Communications, Inc. 12,400	420
Wyeth 17,700	674
• Zimmer Holdings, Inc. 4,600	367
	<b>24,444</b>
<b>Household Products 0.1%</b>	
Procter & Gamble Co. 2,850	<b>301</b>
<b>Insurance 3.6%</b>	
Aetna, Inc. 2,450	203
AON Corp. 56,700	1,478

Security and Number of Shares	Value (\$ x 1,000)
• Assurant, Inc. 17,500	426
Lincoln National Corp. 25,500	1,144
Marsh & McLennan Cos., Inc. 35,200	1,587
Old Republic International Corp. 26,900	625
St. Paul Cos., Inc. 39,000	1,586
	<b>7,049</b>

**Media 9.1%**

• Cablevision Systems New York Group, Class A 90,000	1,965
Clear Channel Communications, Inc. 20,400	846
• Comcast Corp., Class A 59,600	1,728
• Directv Group, Inc. 79,111	1,416
• EchoStar Communications Corp. 18,700	621
• Entercom Communications Corp. 9,900	452
• Fox Entertainment Group, Inc., Class A 40,200	1,120
Gannett, Inc. 8,700	754
• InterActive Corp. 33,080	1,054
Readers Digest Association, Inc. 46,200	662
The Walt Disney Co. 51,300	1,181
• ① Time Warner, Inc. 271,300	4,563
Viacom, Inc., Class B 28,600	1,105
• Westwood One, Inc. 9,350	276
	<b>17,743</b>

**Miscellaneous Finance 6.7%**

④ Citigroup, Inc. 63,100	3,035
Countrywide Credit Industries, Inc. 6,849	406
• E•TRADE Group, Inc. 80,200	911
Fannie Mae 28,400	1,952
Merrill Lynch & Co., Inc. 12,200	662
• Piper Jaffray Cos., Inc. 4,450	215
Sovereign Bancorp, Inc. 100,000	1,998
T.Rowe Price Group, Inc. 21,100	1,082
The Goldman Sachs Group, Inc. 9,150	883
Washington Mutual, Inc. 50,200	1,977
	<b>13,121</b>

**Non-Durables & Entertainment 4.0%**

• American Greetings Corp., Class A 37,800	775
Darden Restaurants, Inc. 42,500	963

Security and Number of Shares	Value (\$ x 1,000)
• Electronic Arts, Inc. 21,600	1,093
• EMCOR Group, Inc. 22,600	924
International Game Technology, Inc. 10,900	411
McDonalds Corp. 65,000	1,770
• Yum! Brands, Inc. 50,000	1,940
	<b>7,876</b>

**Oil: Domestic 3.2%**

Amerada Hess Corp. 26,200	1,864
Exxon Mobil Corp. 31,200	1,327
• Pride International, Inc. 18,000	304
• Transocean, Inc. 40,900	1,136
Unocal Corp. 46,700	1,683
	<b>6,314</b>

**Producer Goods & Manufacturing 4.0%**

Caterpillar, Inc. 5,600	435
Deere & Co. 18,500	1,259
Dover Corp. 13,600	544
Emerson Electric Co. 15,200	915
⑩ General Electric Co. 79,450	2,380
Grainger, Inc. 19,200	1,006
Pall Corp. 22,600	538
York International Corp. 18,600	729
	<b>7,806</b>

**Railroads 0.6%**

Union Pacific Corp. 20,600	<b>1,214</b>
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**Real Property 0.2%**

Boston Properties, Inc. 6,700	<b>315</b>
-------------------------------	------------

**Retail 7.0%**

• American Eagle Outfitters, Inc. 41,000	1,053
• Costco Cos., Inc. 50,000	1,873
Family Dollar Stores, Inc. 18,700	601
Home Depot, Inc. 16,800	591
J.C. Penny Co., Inc. 37,700	1,277
Lowe's Cos., Inc. 25,400	1,322
Talbots, Inc. 23,500	821
Target Corp. 30,300	1,314

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
⑨ The Gap, Inc. 110,000	2,421
Tiffany & Co. 40,000	1,560
Wal-Mart Stores, Inc. 16,750	955
	<b>13,788</b>

**Telephone 2.5%**

Alltel Corp. 33,200	1,671
• Liberty Media Corp., Class A 190,000	2,079
• NII Holdings, Inc. 30,600	1,071
	<b>4,821</b>

**Travel & Recreation 2.0%**

⑦ Carnival Corp. 63,400	2,705
Harrah's Entertainment, Inc. 14,350	763
Starwood Hotel & Resorts Worldwide, Inc. 9,700	386
	<b>3,854</b>

**Utilities: Electric & Gas 0.9%**

Dominion Resources, Inc. 26,700	<b>1,704</b>
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**Foreign Common Stock 1.0% of net assets****South Korea 0.4%**

Samsung Electronics Co. Ltd. Preferred 1,800	<b>854</b>
----------------------------------------------	------------

**United Kingdom 0.6%**

Lloyds TSB Group PLC 144,800	<b>1,082</b>
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Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
---------------------------------	-----------------------------	-----------------------

**Short-Term Investments 0.3% of net assets****U.S. Government Securities 0.3%**

U.S. Treasury Bills		
▲ 0.88%, 06/17/04	40	40
▲ 0.92%, 06/17/04	600	599
		<b>639</b>

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

**Other Investments 6.7% of net assets****Other Investment Companies 6.7%**

▲ Provident Institutional Funds—TempCash 3,092,032	3,092
▲ Provident Institutional Funds—TempFund 9,882,955	9,883
	<b>12,975</b>

End of investments.

## Statement of

**Assets and Liabilities**

As of April 30, 2004, unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$195,184
Receivables:	
Fund shares sold	90
Dividends	241
Investments sold	1,624
Prepaid expenses	+ 28
<b>Total assets</b>	<b>197,167</b>

**Liabilities**

Payables:	
Fund shares redeemed	111
Investments bought	1,273
Due to brokers for futures	46
Investment adviser and administrator fees	24
Transfer agency and shareholder service fees	3
Accrued expenses	+ 39
<b>Total liabilities</b>	<b>1,496</b>

**Net Assets**

<b>Total assets</b>	197,167
<b>Total liabilities</b>	– 1,496
<b>Net assets</b>	<b>\$195,671</b>

**Net Assets by Source**

Capital received from investors	227,468
Net investment loss	(194)
Net realized capital losses	(54,608)
Net unrealized capital gains	23,005

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$195,671		18,829		\$10.39

Unless stated, all numbers x 1,000.

The fund paid \$172,156 for these securities.

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

Purchases	\$79,531
Sales/maturities	\$63,469

These derive from investments, foreign currency transactions and futures. As of the report date, the fund had twenty-three open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate net contract value of 6,360 and a net unrealized loss of \$21.

**Federal Tax Data**

<b>Portfolio cost</b>	\$173,706
<b>Net unrealized gains and losses:</b>	
Gains	\$26,804
Losses	+ (5,326)
	<b>\$21,478</b>

**As of October 31, 2003:****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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$982
Interest	+	3
<b>Total investment income</b>		<b>985</b>

■ An additional \$1 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized gains on investments sold	8,900
Net realized gains of futures contracts	689
Net realized losses on foreign currency	+ (12)
<b>Net realized gains</b>	<b>9,577</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(2,055)
Net unrealized losses on futures contracts	(190)
Net unrealized losses on foreign currency	+ (2)
<b>Net unrealized losses</b>	<b>(2,247)</b>

■ Calculated as 1.00% of average daily net assets.

**Expenses**

Investment adviser and administrator fees	943
Transfer agent and shareholder service fees	236
Trustees' fees	3
Custodian and portfolio accounting fees	62
Professional fees	19
Registration fees	10
Shareholder reports	37
Other expenses	<div><div>+</div><div>2</div></div>
Total expenses	<div><div>1,312</div></div>
Expense reduction	<div><div>−</div><div>133</div></div>
<b>Net expenses</b>	<div><div>1,179</div></div>

■ 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**

Total investment income	985
Net expenses	— 1,179
Net investment loss	<u>(194)</u>
Net realized gains	9,577
Net unrealized losses	+ (2,247)
Increase in net assets from operations	<u>\$7,136</u>

■ 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 28, 2005, 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 \$7,330.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment loss	(\$194)	(\$170)
Net realized gains	9,577	30
Net unrealized gains or losses	+ (2,247)	40,130
<b>Increase in net assets from operations</b>	<b>\$7,136</b>	<b>\$39,990</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,026	\$42,764	3,184	\$28,358
Shares redeemed	+ (2,162)	(22,848)	(3,420)	(28,461)
<b>Net transactions in fund shares</b>	<b>1,864</b>	<b>\$19,916</b>	<b>(236)</b>	<b>(\$103)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	16,965	\$168,619	17,201	\$128,732
Total increase or decrease +	1,864	27,052	(236)	39,887
<b>End of period</b>	<b>18,829</b>	<b>\$195,671</b>	<b>16,965</b>	<b>\$168,619</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 net investment loss in the amount of \$194 at the end of the current period.

# Schwab Balanced MarketMasters Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	11.07	9.35	10.12	13.44	13.44	11.36
Income or loss from investment operations:						
Net investment income	0.04	0.12	0.20	0.43	0.45	0.27
Net realized and unrealized gains or losses	0.48	1.75	(0.73)	(2.12)	1.18	2.11
Total income or loss from investment operations	0.52	1.87	(0.53)	(1.69)	1.63	2.38
Less distributions:						
Dividends from net investment income	(0.13)	(0.15)	(0.24)	(0.52)	(0.35)	(0.30)
Distributions from net realized gains	—	—	—	(1.11)	(1.28)	—
Total distributions	(0.13)	(0.15)	(0.24)	(1.63)	(1.63)	(0.30)
Net asset value at end of period	11.46	11.07	9.35	10.12	13.44	13.44
Total return (%)	4.75 <sup>1</sup>	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 <sup>2</sup>	1.10	0.76 <sup>3,4</sup>	0.50 <sup>4</sup>	0.51 <sup>4,5</sup>	0.50 <sup>4</sup>
Gross operating expenses	1.31 <sup>2</sup>	1.33	1.10 <sup>4</sup>	0.89 <sup>4</sup>	0.90 <sup>4</sup>	0.95 <sup>4</sup>
Net investment income	0.70 <sup>2</sup>	1.13	1.89	3.67	3.18	2.20
Portfolio turnover rate	129 <sup>1</sup>	256	380	95	114	244
Net assets, end of period (\$ x 1,000,000)	128	109	97	118	153	122

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> Annualized.

<sup>3</sup> The ratio of net operating expenses would have been 0.72% if certain non-routine expenses (proxy fees) had not been included.

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

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



**Portfolio Holdings** as of April 30, 2004, unaudited

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.

<b>Holdings by Category</b>	<b>Cost/Proceeds</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>62.9% Common Stock</b>	72,634	80,241
<b>5.5% Foreign Government Securities</b>	6,990	7,033
<b>3.8% U.S. Government Securities</b>	4,927	4,888
<b>2.4% Corporate Bonds</b>	2,841	3,020
<b>1.9% Municipal Bonds</b>	2,508	2,466
<b>1.6% Agency Mortgage-Backed Securities</b>	2,092	2,077
<b>1.0% Non-Agency Mortgage-Backed Securities</b>	1,266	1,265
<b>19.3% Short-Term Investments</b>	24,672	24,672
<b>6.2% Other Investments</b>	7,889	7,889
<b>0.0% Options</b>	2	2
<b>104.6% Total Investments</b>	<b>125,821</b>	<b>133,553</b>
<b>(8.8%) Short Sales</b>	(11,405)	(11,254)
<b>(0.1%) Options Written</b>	(214)	(115)
<b>4.3% Other Assets and Liabilities, Net</b>		5,435
<b>100.0% Total Net Assets</b>		<b>127,619</b>

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

**Common Stock** 62.9% of net assets**Alcoholic Beverages 0.3%**

■ Coors (Adolph) Co., Class B 5,100 **335**

**Apparel 0.4%**

■ Jones Apparel Group, Inc. 4,100 150  
 ■ Timberland Co., Class A 5,000 314  
**464**

**Automobile Products / Motor Vehicles 1.3%**

■▲ Autoliv, Inc. 9,400 400  
 ■ Ford Motor Co. 22,900 352  
 ▲ Genuine Parts Co. 8,800 315  
 ◆ Magna International, Inc. 3,200 253  
 ■ SPX Corp. 3,500 155  
 ■ United Defense Industries, Inc. 4,800 166  
**1,641**

**Banks 5.2%**

■▲⑥ Bank of America Corp. 18,100 1,457  
 ▲ Brookline Bancorp, Inc. 14,100 200  
 ▲ Compass Bancshares, Inc. 6,000 230  
 ◆ Doral Financial Corp. 10,350 339  
 ■ J.P. Morgan Chase & Co. 12,700 478  
 ■ Keycorp 15,400 457  
 ▲ Mercantile Bankshares Corp. 5,400 232  
 ■ National City Corp. 15,100 524  
 ▲ National Commerce Financial Corp. 8,600 229  
 ▲ Peoples Bank 3,400 143  
 ■ PNC Financial Services Corp. 10,500 558  
 ▲ Southtrust Corp. 7,600 236  
 ■ UnionBanCal Corp. 6,400 342  
 ■ Wachovia Corp. 17,300 791  
 ■ Westcorp 3,500 154  
 ▲ Wilmington Trust Co. 3,800 132  
 ■ Zions Bancorp. 2,500 141  
**6,643**

**Business Machines & Software 2.6%**

▲ 3Com Corp. 22,700 140  
 ▲ Advanced Digital Information Corp. 2,400 25

See financial notes. 25

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
■▲ Autodesk, Inc. 8,900	298
■▲ Cisco Systems, Inc. 38,450	802
▲ Dell Computer Corp. 15,750	547
▲ EMC Corp. 24,200	270
▲ Integrated Device Technology, Inc. 10,300	139
▲ Maxtor Corp. 19,300	126
▲ Microsoft Corp. 24,300	631
■ NCR Corp. 800	36
■ Siebel Systems, Inc. 15,450	159
▲ Xerox Corp. 10,000	134
	<b>3,307</b>

**Business Services 3.6%**

■ Accenture Ltd.	14,300	940
■▲ Dendant Corp.	41,900	992
▲ Check Point Software Technologies Ltd.	6,900	162
▲ CheckFree Corp.	5,200	156
■ Deluxe Corp.	7,400	306
▲ DigitalNet Holdings, Inc.	1,000	24
▲ Ebay, Inc.	3,900	311
▲ First Data Corp.	5,250	238
▲ H&R Block, Inc.	1,400	63
▲ IDT Corp.	7,900	147
▲ Internet Security Systems, Inc.	9,500	126
▲ Jacobs Engineering Group, Inc.	2,400	100
▲ Lamar Advertising Co.	4,500	185
▲ Netiq Corp.	10,000	129
▲ Nortel Networks Corp.	41,550	155
■ Polycom, Inc.	5,100	97
▲ Priority Healthcare Corp., Class B	7,400	148
▲ Republic Services, Inc., Class A	8,100	234
▲ Sirius Satellite Radio, Inc.	31,500	104
▲ The ServiceMaster Co.	11,400	138
▲ Veritas Software Corp.	8,400	224
▲ Verity, Inc.	6,300	78
▲ WebMD Corp.	13,800	121
▲ Wireless Facilities, Inc.	6,200	60
		<b>4,638</b>

**Chemical 0.5%**

▲ Air Products & Chemicals, Inc.	3,400	169
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Security and Number of Shares	Value (\$ x 1,000)
▲ Entegris, Inc. 17,250	175
▲ Lubrizol Corp. 7,500	239
	<b>583</b>

**Construction 1.6%**

■ D.R. Horton, Inc.	13,200	380
▲ Fluor Corp.	2,700	103
■• Hovnanian Enterprises, Inc.	5,000	180
■ KB Home	4,100	283
■• NVR, Inc.	600	271
▲ Pulte Corp.	4,200	206
▲ Standard Pacific Corp.	2,000	101
■ The Ryland Group, Inc.	3,900	308
■ The Stanley Works	5,300	225
		<hr/>
		<b>2,057</b>

**Consumer Durables 0.7%**

▲ Hillenbrand Industries, Inc.	4,300	290
▲ La-Z-Boy Chair Co.	8,000	167
■ Rent-A-Center, Inc.	3,000	88
▲ Tempur-Pedic International, Inc.	23,200	362
		<b>907</b>

## Containers 0.1%

■ Ball Corp.	2,200	145
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**Electronics 5.3%**

▲ Agilent Technologies, Inc.	8,050	218
▲ Altera Corp.	5,100	102
▲ American Power Conversion Corp.	9,000	168
▲ Applied Materials, Inc.	26,600	485
▲ Applied Micro Circuits Corp.	58,450	258
■ Arrow Electronics, Inc.	6,700	169
■ Avnet, Inc.	10,200	221
▲ Cox Radio, Inc.	9,050	187
▲ Cypress Semiconductor Corp.	12,750	178
▲ Fairchild Semiconductor Corp.	30,450	593
▲ Intel Corp.	42,550	1,095
▲ Jabil Circuit, Inc.	12,450	329
▲ LAM Research Corp.	23,950	530
▲ LSI Logic Corp.	27,400	204
■ Motorola, Inc.	7,800	142

Security and Number of Shares	Value (\$ x 1,000)
▲•Newport Corp. 4,200	62
▲•NVIDIA Corp. 9,500	195
▲•Pinnacle Systems, Inc. 18,600	146
■•Plantronics, Inc. 5,600	213
▲•QLogic Corp. 2,300	62
▲•Qualcomm, Inc. 600	38
■•Scientific Atlanta, Inc. 9,800	317
▲•Synopsys, Inc. 5,700	152
▲•Texas Instruments, Inc. 9,200	231
▲•Ultra Clean Holdings, Inc. 15,050	112
▲•Uniphase Corp. 85,500	260
▲•Zoran Corp 4,000	66
	<b>6,733</b>

**Energy: Raw Materials 2.0%**

▲•Anadarko Petroleum Corp. 2,400	129
▲•Arch Coal, Inc. 4,300	132
▲•Burlington Resources, Inc. 2,000	134
■•Canadian Natural Resources Ltd. 2,900	160
▲•Cooper Cameron Corp. 4,000	193
▲•Devon Energy Corp. 2,800	171
▲•EOG Resources, Inc. 4,400	217
▲•Forest Oil Corp. 6,900	181
■•Hewlett Packard Co. 7,600	150
▲•Joy Global, Inc. 5,300	139
▲•Key Energy Group, Inc. 13,500	144
▲•Noble Energy, Inc. 3,100	143
■•Occidental Petroleum Corp. 9,100	429
■•Valero Energy Corp. 2,700	172
▲•Weatherford International Ltd. 1,400	61
	<b>2,555</b>

**Food & Agriculture 1.4%**

■•Agrium, Inc. 19,800	246
■▲Bunge Ltd. 8,200	304
▲•Fresh del Monte Produce, Inc. 4,400	103
▲•H.J. Heinz Co. 5,100	195
■▲Supervalu, Inc. 19,100	588
■•Tyson Foods, Inc. 22,500	421
	<b>1,857</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Healthcare / Drugs & Medicine 6.0%**

▲•Abbott Laboratories 7,600	334
▲•Allergan, Inc. 3,400	299
▲•Amgen, Inc. 5,150	290
■•Apogent Technologies, Inc. 11,900	386
■•Bausch & Lomb, Inc. 2,800	176
▲•Boston Scientific Corp. 2,550	105
■•Bristol-Meyers Squibb Co. 6,900	173
▲•Caremark Rx, Inc. 10,900	369
▲•Covance, Inc. 4,300	145
▲•Cytec Corp. 7,400	158
▲•Genentech, Inc. 1,200	147
▲•Genzyme Corp. 5,800	253
▲•HCA, Inc. 2,200	89
▲•Invacare Corp. 1,800	72
▲•Johnson & Johnson, Inc. 11,450	619
■•King Pharmaceuticals, Inc. 11,700	202
▲•Laboratory Corporation of America 5,200	207
▲•Lifepoint Hospitals, Inc. 3,600	129
▲•Manor Care, Inc. 5,200	169
▲•McKesson Corp. 7,550	248
■•Merck & Co., Inc. 6,700	315
▲•Mylan Laboratories, Inc. 8,550	196
▲•Omnicare, Inc. 4,200	174
■•Pacificare Health Systems, Inc. 4,100	147
▲•Pfizer, Inc. 27,750	992
▲•Province Healthcare Co. 8,200	131
▲•St. Jude Medical, Inc. 3,500	267
▲•Steris Corp. 11,200	248
▲•Univision Communications, Inc. 5,600	189
▲•Wyeth 7,950	303
▲•Zimmer Holdings, Inc. 2,100	168
	<b>7,700</b>

**Household Products 0.1%**

▲•Procter & Gamble Co. 1,450	<b>153</b>
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**Insurance 3.1%**

■▲Aetna, Inc. 4,900	406
■•Allstate Corp. 11,900	546
▲•Cincinnati Financial Corp. 5,670	232

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
▲ Everest Reinsurance Group Ltd. 1,500	128	■ Independence Community Bank Corp. 4,100	149
■ Fidelity National Financial, Inc. 10,037	367	■ IndyMac Bankcorp., Inc. 9,500	305
■ First American Financial Corp. 6,200	168	■ IPC Holdings Ltd. 12,800	471
■ Fremont General Corp. 11,300	244	■ LNR Property Corp. 3,000	151
▲ Lincoln National Corp. 2,000	90	■ MBNA Corp. 8,400	205
■ Loews Corp. 3,600	209	■ MDC Holdings, Inc. 4,400	272
▲ Mercury General Corp. 3,100	158	▲ Merrill Lynch & Co., Inc. 5,550	301
▲ Old Republic International Corp. 12,750	296	■ Morgan Stanley 6,600	339
■ PMI Group, Inc. 8,400	361	▲ Provident Financial Services, Inc. 8,500	153
■ Principal Financial Group, Inc. 11,300	399	▲ SEI Investments Co. 3,700	109
■ RenaissanceRe Holdings Ltd. 2,900	153	■ The Bear Stearns Cos., Inc. 4,900	393
■ Torchmark Corp. 4,300	224	▲ The Goldman Sachs Group, Inc. 4,200	405
	<b>3,981</b>	▲ Waddell & Reed Financial, Inc. 6,600	147
		▲ Washington Federal, Inc. 15,820	370
<b>Media 3.3%</b>		■ Washington Mutual, Inc. 12,000	473
▲ Belo Corp., Class A 4,600	131	■ Webster Financial Corp. 3,600	157
▲ Clear Channel Communications, Inc. 9,050	376		<b>9,845</b>
▲• Comcast Corp., Class A 10,050	291	<b>Non-Durables &amp; Entertainment 1.2%</b>	
▲• EchoStar Communications Corp. 8,250	274	■• Activision, Inc. 17,850	269
▲• Entercom Communications Corp. 4,450	203	▲• American Greetings Corp., Class A 7,400	152
▲ Gannett, Inc. 3,950	342	▲• Brinker International, Inc. 5,800	223
■▲ McGraw Hill Cos., Inc. 5,100	402	■ Darden Restaurants, Inc. 14,100	319
■• PanAmSat Corp. 7,900	182	■• Energizer Holdings, Inc. 4,200	182
▲ The Walt Disney Co. 19,200	442	■ Hasbro, Inc. 2,300	43
■▲• Time Warner, Inc. 45,800	770	▲ International Game Technology, Inc. 3,950	149
▲• Tom Brown, Inc. 4,800	230	▲• Mattel, Inc. 8,600	146
▲ Viacom, Inc., Class B 12,900	499		<b>1,483</b>
▲• Westwood One, Inc. 3,850	114		
	<b>4,256</b>		
		<b>Non-Ferrous Metals 0.6%</b>	
<b>Miscellaneous Finance 7.7%</b>		■ Alcan Aluminum Ltd. 3,600	145
■ A.G. Edwards, Inc. 9,000	329	■ Engelhard Corp. 11,300	328
■▲ Astoria Financial Corp. 12,000	413	■• Inco Ltd. 6,100	175
▲• Berkshire Hathaway, Inc., Class B 126	393	■• Phelps Dodge Corp. 2,000	132
▲ CIT Group, Inc. 7,600	261		<b>780</b>
■▲② Citigroup, Inc. 54,150	2,604	<b>Oil: Domestic 3.0%</b>	
■ Countrywide Credit Industries, Inc. 7,800	462	■ Amerada Hess Corp. 5,200	370
▲ Federated Investors, Inc. 5,500	162	▲• Cal Dive International, Inc. 6,600	178
■ Flagstar Bancorp, Inc. 9,400	192	■ Chevron Corp. 3,700	339
■ Franklin Resources, Inc. 4,600	252	■ Conoco Phillips 11,200	799
■ GreenPoint Financial Corp. 4,400	172		
▲ Home Properties of New York, Inc. 5,500	205		

Security and Number of Shares	Value (\$ x 1,000)
■▲ Marathon Oil Corp. 16,600	557
▲ National Oilwell, Inc. 2,900	81
▲ Newfield Exploration Co. 4,100	216
■▲ Precision Drilling Corp. 6,500	311
■ Sunoco, Inc. 6,400	403
■▲ Teekay Shipping Corp. 6,600	401
▲ Varco International, Inc. 6,200	128
	<b>3,783</b>

**Oil: International 0.5%**

■ Exxon Mobil Corp. 12,200	519
▲ Global SantaFe Corp. 4,400	116
	<b>635</b>

**Optical & Photo 0.3%**

▲ Imation Corp. 2,900	113
■ Ingram Micro, Inc., Class A 18,900	226
	<b>339</b>

**Paper & Forest Products 0.5%**

■ Louisiana-Pacific Corp. 11,800	278
▲ Rayonier, Inc. 5,575	218
▲ Temple-Inland, Inc. 2,300	142
	<b>638</b>

**Producer Goods & Manufacturing 2.1%**

▲ Albany International Corp. Class A 800	24
▲ Caterpillar, Inc. 2,500	194
▲ Emerson Electric Co. 6,750	407
▲ Federal Signal Corp. 4,700	86
▲ General Electric Co. 35,250	1,056
■ Grainger, Inc. 7,800	409
▲ Harsco Corp. 2,400	104
■ Hon Industries, Inc. 2,900	107
▲ Mettler-Toledo International, Inc. 2,300	103
▲ Pentair, Inc. 800	48
▲ Trinity Industries, Inc. 3,700	112
	<b>2,650</b>

**Railroad & Shipping 0.2%**

■ Burlington Northern Santa Fe Corp. 3,000	98
▲ Kansas City Southern Industries, Inc. 9,300	129
	<b>227</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Real Property 0.3%</b>	
▲ Plum Creek Timber Co., Inc. 3,300	97
▲ Prentiss Properties Trust 5,500	176
▲ Weingarten Realty Investors 3,000	87
	<b>360</b>

**Retail 2.6%**

■ Ann Taylor Stores Corp. 3,800	154
▲ Big Lots, Inc. 12,300	174
■ BJ's Wholesale Club, Inc. 8,200	199
■ Claire's Stores, Inc. 7,800	159
▲ CVS Corp. 4,600	178
▲ Family Dollar Stores, Inc. 8,500	273
■ Federated Department Stores, Inc. 9,200	451
▲ Home Depot, Inc. 7,700	271
■ Kroger Co. 21,300	373
■▲ Safeway, Inc. 13,100	301
▲ Talbots, Inc. 3,300	115
■ Radio Shack Corp. 4,300	132
▲ Toys 'R' Us, Inc. 11,400	176
▲ Wal-Mart Stores, Inc. 7,500	427
	<b>3,383</b>

**Steel 0.4%**

■ Nucor Corp. 5,700	339
▲ Steel Dynamics, Inc. 6,200	149
	<b>488</b>

**Telephone 2.0%**

▲ Alltel Corp. 5,200	262
■ BellSouth Corp. 26,100	674
▲ Liberty Media Corp., Class A 15,700	172
■ NII Holdings, Inc. 4,500	157
■ SBC Communications, Inc. 15,600	388
■ Telephone & Data Systems, Inc. 4,500	297
■ Verizon Communications, Inc. 15,600	589
	<b>2,539</b>

**Tobacco 0.5%**

■ Altria Group, Inc. 3,100	172
■ R.J. Reynolds Tobacco Holdings, Inc. 6,400	415
	<b>587</b>

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Travel &amp; Recreation 0.9%</b>	
■ Brunswick Corp. 7,800	321
◆▲ Fairmont Hotels & Resorts, Inc. 7,000	173
▲ Harrah's Entertainment, Inc. 6,500	346
■ Mandalay Resort Group 2,600	149
■ MGM MIRAGE 4,000	183
	<b>1,172</b>

<b>Trucking &amp; Freight 0.7%</b>	
▲ CNF, Inc. 5,200	190
▲ Laidlaw International, Inc. 18,800	260
■ Ryder Systems, Inc. 8,800	324
▲ U.S. Freightways Corp. 4,600	153
	<b>927</b>

<b>Utilities: Electric &amp; Gas 1.9%</b>	
■ Alliant Energy Corp. 6,000	149
■ Constellation Energy Group, Inc. 5,100	196
■ Edison International 17,300	405
■ Entergy Corp. 2,400	131
■ Exelon Corp. 2,100	141
■ Northeast Utilities 13,200	242
▲ Oneok, Inc. 5,900	124
■ Sempra Energy 6,300	200
■ Texas Genco Holdings, Inc. 6,900	244
■ TXU Corp. 7,900	270
■ Wisconsin Energy Corp. 6,400	201
■ Xcel Energy, Inc. 8,800	147
	<b>2,450</b>

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Foreign Government Securities**  
 5.5% of net assets

Bundes Republic of Deutschland		
◆① Series 00		
5.25%, 07/04/10	2,800	3,646
◆③ Series 99		
3.75%, 01/04/09	1,900	2,320
▶ UK Treasury Gilt		
5.00%, 09/07/14	600	1,067
		<b>7,033</b>

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**U.S. Government Securities** 3.8% of net assets

U.S. Treasury Bond		
7.50%, 11/15/16	450	559
■ 5.50%, 08/15/28	100	102
■ 5.38%, 02/15/31	60	61
U.S. Treasury Note		
■⑤ 2.00%, 11/30/04	1,500	1,507
■ 1.75%, 12/31/04	500	501
④ 1.63%, 04/30/05	2,000	2,001
■ U.S. Treasury Stripped Bond		
0.00%, 11/15/16	300	157
		<b>4,888</b>

**Corporate Bonds** 2.4% of net assets

**Fixed-Rate Obligations 1.9%**

■ AT&T Corp.		
8.50%, 11/15/31	90	96
Centerpoint Energy		
Series B		
8.13%, 07/15/05	100	106
DaimlerChrysler NA Holding		
7.40%, 01/20/05	400	415
■ El Paso Corp.		
7.80%, 08/01/31	100	79
7.75%, 01/15/32	150	118
Federal Republic of Brazil		
Series C		
8.00%, 04/15/14	352	325
■ Ford Motor Co.		
8.90%, 01/15/32	500	557
Pemex Project Funding Master Trust		
9.13%, 10/13/10	250	294
PP&L Capital Funding		
Series C		
7.75%, 04/15/05	100	105
■ Republic of Panama		
9.38%, 01/16/23	250	263
		<b>2,358</b>

**Variable-Rate Obligations 0.5%**

Alcan, Inc., 144A		
1.43%, 06/08/04	200	200
■ Entergy Gulf States, 144A		
2.01%, 06/18/04	200	201

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Federal Republic of Brazil <i>Series EI</i> 2.06%, 10/15/04	64	61
PG&E Corp. 1.81%, 07/06/04	200	200
		<b>662</b>

#### Municipal Bonds 1.9% of net assets

#### Fixed-Rate Obligations 1.5%

California State <i>Revenue Anticipation Note Warrant, Series A</i> 2.00%, 06/16/04	300	300
■ Golden State, California Securitization Corp. <i>Revenue Bond, Series 2003-A-1</i> 6.25%, 06/01/33	250	234
■+ Massachusetts State Water Resource Authority <i>General Revenue Bond, Series 2002J</i> 5.00%, 08/01/32	250	250
■ Tobacco Settlement Financing Corp. of Rhode Island <i>Revenue Bond, Series 2002A</i> 6.25%, 06/01/42	500	439
■+ Triborough, New York Bridge & Tunnel Authority <i>Revenue Bond, Series 2002B</i> 5.00%, 11/15/32	750	743
		<b>1,966</b>

#### Variable-Rate Obligations 0.4%

Missouri Higher Education Loan Authority <i>Student Loan Revenue Bond, Series 2001UU</i> 1.11%, 05/04/04	500	<b>500</b>
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#### Agency Mortgage-Backed Securities

1.6% of net assets

#### Collateralized Mortgage Obligations 0.3%

Fannie Mae <i>Series 2003-3 Class PA</i> 4.50%, 08/25/09	176	179
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Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Freddie Mac <i>Series 2535 Class DT</i> 5.00%, 09/15/16	198	203
<i>Series 2504 Class B</i> 6.00%, 08/15/26	29	29
		<b>411</b>

#### U.S. Government Agency Mortgages 1.3%

Fannie Mae <i>Pool# 535846</i> 6.00%, 04/01/16	60	62
<i>Pool# 662469</i> 5.00%, 09/01/17	289	291
<i>Pool# 703711</i> 5.00%, 02/01/18	144	145
<i>Pool# 555454</i> 6.00%, 03/01/18	42	44
<i>Pool# 555602</i> 5.00%, 06/01/18	83	84
<i>Pool# 757506</i> 5.00%, 02/01/19	248	250
<i>ARM Pool# 606116</i> 4.75%, 09/01/31	44	46
<i>Pool# 732153</i> 4.50%, 07/01/33	171	161
<i>Pool# 733910</i> 4.50%, 08/01/33	216	203
Freddie Mac <i>Pool# C90580</i> 6.00%, 09/01/22	369	380
		<b>1,666</b>

#### Non-Agency Mortgage-Backed Securities

1.0% of net assets

#### Fixed-Rate Obligations 0.4%

Bank of America Mortgage Securities <i>Series 2004-2 Class 5A1</i> 6.50%, 10/25/19	332	343
Residential Funding Mortgage Security I <i>Series 2003-S9 Class A1</i> 6.50%, 03/25/32	140	143
		<b>486</b>

#### Variable-Rate Obligations 0.6%

Bear Stearns Adjustable Rate Mortgage Trust <i>Series 2002-9 Class 2A</i> 5.30%, 05/01/04	135	136
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**Portfolio Holdings** continued

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<i>Series 2002-11 Class 1A1</i> 5.68%, 05/01/04	149	150
<i>Series 2002-5 Class 6A</i> 6.05%, 05/01/04	68	68
Structured Asset Securities Corp. <i>Series 2002-13 Class 2A1</i> 1.59%, 05/25/04	343	344
Wells Fargo Mortgage Backed Securities Trust <i>Series 2002-E Class 2A1</i> 5.22%, 05/01/04	80	81
		<b>779</b>

**Short -Term Investments** 19.3% of net assets**U.S. Government Securities** 3.5%

Fannie Mae 1.00%, 06/09/04	200	200
U.S. Treasury Bills		
▲ 0.93%, 06/03/04	215	215
▲ 0.94%, 06/03/04	60	60
1.02%, 06/03/04	800	799
⑦ 0.99%, 06/10/04	1,400	1,399
▲ 0.89%, 06/17/04	10	10
▲ 0.92%, 06/17/04	600	599
▲ 0.94%, 06/17/04	270	270
0.96%, 06/17/04	900	899
		<b>4,451</b>

**Commercial Paper & Other Corporate  
Obligations** 15.8%

Alcon Capital Corp., Section 4(2) 1.12%, 08/26/04	400	398
Altria Group, Inc. 1.80%, 10/29/04	350	350
AMRO N.A. Finance, Inc. 1.03%, 06/11/04	700	699
ANZ (Delaware), Inc. 1.02%, 06/10/04	900	899
1.03%, 06/22/04	300	299
Barclays U.S. Funding Corp. ⑨ 1.02%, 05/21/04	1,100	1,099
1.03%, 06/08/04	100	100
CBA (Delaware) Finance, Inc. 1.03%, 05/10/04	1,000	1,000
1.02%, 06/09/04	200	200
CDC Commercial Corp., Section 4(2) 1.05%, 07/07/04	1,000	998

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Danske Corp. 1.03%, 05/12/04	100	100
⑩ 1.02%, 06/08/04	1,100	1,099
Euro Investment Bank 1.01%, 06/15/04	1,100	1,098
1.02%, 06/15/04	100	100
General Electric Capital Corp. 1.05%, 07/07/04	100	100
1.04%, 07/08/04	100	100
1.06%, 07/12/04	900	898
HBOS Treasury Services PLC 1.03%, 06/21/04	200	200
1.06%, 07/16/04	900	898
KFW International Finance, Section 4(2) 1.11%, 08/20/04	1,000	997
1.11%, 08/23/04	800	797
Nestle Capital Corp. Section 4(2) 1.02%, 05/06/04	700	700
⑧ Royal Bank of Scotland 1.02%, 05/12/04	1,100	1,100
Shell Finance, PLC 1.02%, 05/12/04	800	800
Svenska Handelsbanken, Inc. 1.03%, 05/24/04	1,100	1,099
Swedish National Housing Finance, Section 4(2) 1.06%, 07/16/04	1,000	998
Toyota Motor Credit 1.04%, 06/08/04	800	799
UBS Finance, Inc. 1.03%, 06/10/04	1,000	999
1.02%, 06/24/04	200	200
Westpac Capital Corp. 1.02%, 06/04/04	200	200
1.09%, 08/12/04	900	897
		<b>20,221</b>

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

**Other Investments** 6.2% of net assets**Other Investment Companies** 6.2%

▲ Provident Institutional Funds— TempCash 1,463,709	1,464
▲ Provident Institutional Funds— TempFund 6,425,232	6,425
	<b>7,889</b>



Security Description	Number of Contracts	Value (\$ x 1,000)
----------------------	------------------------	-----------------------

**Options** 0.0% of net assets

**Put Options** 0.0%

U.S. Treasury Note Futures, Strike Price 97, Expires 05/21/04	105	2
RUIX Index Futures, Strike Price 104.50, Expires 05/24/04	23	—
3 Month Euro Euribor Futures, Strike Price 96, Expires 12/13/04	11	—
3 Month Euro Euribor Futures, Strike Price 95.875, Expires 12/13/04	5	—
90 Day LIBOR Futures, Strike Price 91.75, Expires 12/15/04	5	—
90 Day LIBOR Futures, Strike Price 91, Expires 03/16/05	3	—
		<b>2</b>

**End of investments.**

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

**Short Sales** 8.8% of net assets

**U.S. Government Securities** 8.8%

U.S. Treasury Note 4.38%, 05/15/07	500	521
4.00%, 11/15/12	1,100	1,072
3.88%, 02/15/13	4,800	4,618
3.63%, 05/15/13	3,200	3,020
4.25%, 08/15/13	200	197
4.00%, 02/15/14	1,900	1,826
		<b>11,254</b>

Security Description	Number of Contracts	Value (\$ x 1,000)
----------------------	------------------------	-----------------------

**Options Written** 0.1% of net assets

**Call Options** 0.1%

3 Month LIBOR, Strike Price 3.80, Expires 10/07/04	50	1
3 Month LIBOR, Strike Price 4.00, Expires 10/31/05	70	4
3 Month LIBOR, Strike Price 5.00, Expires 01/07/05	370	91
U.S. Treasury Note Futures, Strike Price 115, Expires 05/21/04	11	0
U.S. Treasury Note Futures, Strike Price 115, Expires 08/27/04	5	2
U.S. Treasury Note Futures, Strike Price 116, Expires 05/21/04	1	—
		<b>98</b>

**Put Options** 0.0%

3 Month LIBOR, Strike Price 6.00, Expires 10/07/04	50	2
3 Month LIBOR, Strike Price 7.00, Expires 01/07/05	370	7
3 Month LIBOR, Strike Price 7.00, Expires 10/31/05	70	7
U.S. Treasury Note Futures, Strike Price 107, Expires 05/21/04	17	1
		<b>17</b>

**End of short sales and options written.**

In addition to the above, the fund held the following at 4/30/04. All numbers x 1,000.

Swap Agreements		
	Notional Amount	Unrealized Gains/(Losses)
<b>British Pounds</b>		
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.25%, expires 03/17/05, Morgan Stanley	4,500	(26)
<b>European Euro</b>		
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 5.00%, expires 06/16//04, UBS AG	2,300	(92)
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.00%, expires 03/15/05, Barclays Bank	300	1
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.00%, expires 12/21/05, Goldman Sachs	1,200	(8)
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.00%, expires 12/21/05, Barclays Bank	1,100	(5)
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 4.00%, expires 03/15/05, JP Morgan Chase	800	(2)
Receive variable rate payments of 6 month LIBOR, Pay fixed rate payments of 5.00%, expires 06/16/04, Morgan Stanley	100	—
<b>U.S. Dollars</b>		
Credit Default		
Eii 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	—

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	—
Discount		
Spread Lock Rate 0.3150%, expires 06/21/04, Goldman Sachs Capital Markets, L.P.	700	—
Spread Lock Rate 0.3775%, expires 06/21/04, Goldman Sachs Capital Markets, L.P.	200	2
Spread Lock Rate 0.3175%, expires 06/23/04, Goldman Sachs Capital Markets, L.P.	700	—
Spread Lock Rate 0.3775%, expires 06/23/04, Goldman Sachs Capital Markets, L.P.	700	5
		<b>(124)</b>

### Futures Contracts

	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
S&P 500 Index, Long expires 06/18/04	19	5,254	(17)
90 Day Eurodollar, Long expires 03/16/09	1	235	--
90 Day Eurodollar, Long expires 06/16/08	1	236	—
90 Day Eurodollar, Long expires 09/15/08	1	236	—
90 Day Eurodollar, Long expires 12/15/08	1	236	—
90 Day Eurodollar, Long expires 06/13/05	2	484	(1)

All numbers x 1,000 except number of futures contracts.

### Futures Contracts (continued)

	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
90 Day Eurodollar, Long expires 06/18/07	2	475	(1)
90 Day Eurodollar, Long expires 12/13/04	2	489	(3)
10 Year, Long U.S. Treasury Note, expires 06/21/04	204	22,542	(539)
10 Year, Long U.S. Treasury Note, expires 09/21/04	34	3,709	(63)
20 Year, Short U.S. Treasury Note, expires 06/21/04	2	214	10
90 Day LIBOR, Long expires 06/17/04	1	212	(2)
90 Day LIBOR, Long expires 03/16/05	3	631	(10)
90 Day LIBOR, Long expires 09/15/04	1	211	(2)
90 Day LIBOR, Long expires 12/15/04	5	1,053	(4)
3 Month, Long Eurodollar LIBOR, expires, 06/13/05	3	874	(4)
3 Month, Long Eurodollar LIBOR, expires, 12/13/04	8	2,342	—
10 Year, Long Eurobond, expires, 06/08/04	8	1,094	(20)
5 Year, Long Euro-Bobl, expires 06/08/04	13	1,737	(21)
			<b>(677)</b>

### 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)
05/10/2004	European Euro	153	U.S. Dollars	184	—
05/10/2004	U.S. Dollars	157	European Euro	132	(1)
05/18/2004	Japanese Yen	53,381	U.S. Dollars	484	—
05/19/2004	Chilean Pesos	10,964	U.S. Dollars	18	(1)

All numbers x 1,000 except number of futures contracts.

### Forward Foreign Currency Contracts (continued)

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)
05/19/2004	Russian Ruble	257	U.S. Dollars	9	—
05/24/2004	Brazilian Real	27	U.S. Dollars	9	—
05/24/2004	Hong Kong Dollars	70	U.S. Dollars	9	—
05/24/2004	Peru New Sol	35	U.S. Dollars	10	—
05/24/2004	Singapore Dollars	15	U.S. Dollars	9	—
05/24/2004	Slovakian Koruna	329	U.S. Dollars	10	—
05/24/2004	South African Rand	67	U.S. Dollars	10	(1)
05/24/2004	South Korean Won	10,481	U.S. Dollars	9	—
05/24/2004	Taiwanese Dollars	298	U.S. Dollars	9	—
05/26/2004	Mexican Pesos	177	U.S. Dollars	16	—
05/26/2004	U.S. Dollars	16	British Pounds	9	—
06/17/2004	Russian Ruble	257	U.S. Dollars	9	—
06/18/2004	Brazilian Real	27	U.S. Dollars	9	—
06/18/2004	Chilean Pesos	5,454	U.S. Dollars	9	—
06/18/2004	Hong Kong Dollars	70	U.S. Dollars	9	—
06/18/2004	Mexican Pesos	101	U.S. Dollars	9	—
06/18/2004	Singapore Dollars	15	U.S. Dollars	9	—
06/18/2004	South Korean Won	10,620	U.S. Dollars	9	—
06/18/2004	Taiwanese Dollars	299	U.S. Dollars	9	—
06/21/2004	India Rupee	543	U.S. Dollars	12	—
06/21/2004	India Rupee	814	U.S. Dollars	18	—
06/21/2004	Peru New Sol	63	U.S. Dollars	18	—
06/21/2004	Slovakian Koruna	602	U.S. Dollars	18	—
06/21/2004	South African Rand	123	U.S. Dollars	18	—
07/26/2004	Brazilian Real	27	U.S. Dollars	9	—
07/26/2004	Hong Kong Dollars	125	U.S. Dollars	16	—
07/26/2004	Singapore Dollars	27	U.S. Dollars	16	—
07/26/2004	South Korean Won	18,576	U.S. Dollars	16	—
09/08/2004	China Renminbi	6,077	U.S. Dollars	750	(10)
					<b>(13)</b>

## Statement of

**Assets and Liabilities**

As of April 30, 2004, unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$133,553
Foreign currency	202
Receivables:	
Fund shares sold	147
Dividends	75
Interest	339
Due from brokers for futures	86
Investments sold	7,852
Investments sold short	11,535
Prepaid expenses	+ 8
<b>Total assets</b>	<b>153,797</b>

**Liabilities**

Securities sold short at value	11,254
Options written, at value	115
Swap agreements at fair value	135
Unrealized losses on forward foreign currency contracts	13
Payables:	
Fund shares redeemed	209
Investments bought	14,240
Due to brokers for futures	38
Interest on short sales	131
Investment adviser and administrator fees	5
Transfer agency and shareholder service fees	2
Accrued expenses	+ 36
<b>Total liabilities</b>	<b>26,178</b>

**Net Assets**

<b>Total assets</b>	153,797
<b>Total liabilities</b>	- 26,178
<b>Net assets</b>	<b>\$127,619</b>

**Net Assets by Source**

Capital received from investors	132,058
Net investment income not yet distributed	132
Net realized capital losses	(11,716)
Net unrealized capital gains	7,145

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$127,619		11,140		\$11.46

All numbers x 1,000 except number of written option contracts.

The fund paid \$125,821 for these securities which includes certain restricted but deemed liquid 144A and section 4(2) securities worth \$5,289 or 4.1% of the fund's total net assets.

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

Purchases	\$99,192
Sales/maturities	\$80,612

The fund's long-term government security transactions were:

Purchases	\$27,849
Sales/maturities	\$44,842

The fund paid \$182 for this currency.

The proceeds for securities sold short is \$11,405.

Options Written	Number of Contracts	Premiums Received
Beginning of period	940	\$182
Options written	279	56
Options closed	(5)	(4)
Options expired	(200)	(20)
Options exercised	+ -	-
End of period	<b>1,014</b>	<b>\$214</b>

The fund received \$11 to enter into these swap agreements.

These derive from investments, short sales, options, foreign currency transactions, futures and swap agreements.

**Federal Tax Data**

<b>Portfolio cost</b>	\$126,350
<b>Net unrealized gains and losses:</b>	
Gains	\$9,613
Losses	+ (2,410)
	<b>\$7,203</b>

**As of October 31, 2003:****Undistributed earnings:**

Ordinary income	\$1,062
Long-term capital gains	\$-

**Capital losses utilized** \$511

**Unused capital losses:**

Expires 10/31 of:	Loss amount:
2009	\$8,981
2010	+ 9,116
	<b>\$18,097</b>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$641
Interest	+	456
<b>Total investment income</b>		<b>1,097</b>

An additional \$1 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized gains on investments sold	5,619
Net realized losses on short sales	(285)
Net realized gains on foreign currency transactions	42
Net realized gains on option contracts	20
Net realized gains on futures contracts	1,385
Net realized gains on swap agreements	+ 205
<b>Net realized gains</b>	<b>6,986</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(1,706)
Net unrealized gains on short sales	224
Net unrealized losses on foreign currency transactions	(62)
Net unrealized gains on option contracts	75
Net unrealized losses on futures contracts	(838)
Net unrealized losses on swap agreements	+
<b>Net unrealized losses</b>	<b>(2,441)</b>

Calculated as 0.85% of average daily net assets.

**Expenses**

Investment adviser and administrator fees	518
Transfer agent and shareholder service fees	153
Trustees' fees	3
Custodian and portfolio accounting fees	78
Professional fees	18
Registration fees	9
Shareholder reports	17
Other expenses	+ 3
Total expenses	<u>799</u>
Expense reduction	- 128
<b>Net expenses</b>	<u><b>671</b></u>

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

For the fund's independent trustees only.

**Increase in Net Assets from Operations**

Total investment income	1,097
Net expenses	— 671
Net investment income	<u>426</u>
Net realized gains	6,986
Net unrealized losses	+ (2,441)
Increase in net assets from operations	<u>\$4,971</u>

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 28, 2005, to 1.10% 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 \$4,545.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$426	\$1,126
Net realized gains	6,986	917
Net unrealized gains or losses	+ (2,441)	16,449
<b>Increase in Net Assets from Operations</b>	<b>4,971</b>	<b>18,492</b>

**Distributions Paid**

Dividends from net investment income	<b>\$1,360</b>	<b>\$1,516</b>
--------------------------------------	----------------	----------------

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,333	\$27,061	1,150	\$11,825
Shares reinvested	112	1,273	151	1,431
Shares redeemed	+ (1,148)	(13,299)	(1,851)	(18,430)
<b>Net transactions in fund shares</b>	<b>1,297</b>	<b>\$15,035</b>	<b>(550)</b>	<b>(\$5,174)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	9,843	\$108,973	10,393	\$97,171
Total increase or decrease +	1,297	18,646	(550)	11,802
<b>End of period</b>	<b>11,140</b>	<b>\$127,619</b>	<b>9,843</b>	<b>\$108,973</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary income	\$1,516
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 \$132 and \$1,066 at the end of the current period and prior period, respectively.



# Schwab Small-Cap MarketMasters Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	11.08	7.18	8.73	12.27	11.04	8.51
Income or loss from investment operations:						
Net investment income or loss	(0.06)	(0.09)	0.04	0.41	0.39	0.24
Net realized and unrealized gains or losses	0.66	3.99	(1.54)	(2.68)	1.30	2.34
Total income or loss from investment operations	0.60	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	11.68	11.08	7.18	8.73	12.27	11.04
Total return (%)	5.42 <sup>2</sup>	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 <sup>3</sup>	1.55	0.93 <sup>4,5</sup>	0.50 <sup>5</sup>	0.51 <sup>5,6</sup>	0.50 <sup>5</sup>
Gross operating expenses	1.76 <sup>3</sup>	1.80	1.31 <sup>5</sup>	0.91 <sup>5</sup>	0.92 <sup>5</sup>	1.01 <sup>5</sup>
Net investment income or loss	(1.10) <sup>3</sup>	(0.98)	0.06	4.17	2.86	2.23
Portfolio turnover rate	91 <sup>2</sup>	94	324	172	128	145
Net assets, end of period (\$ x 1,000,000)	138	115	81	111	162	123

\* Unaudited.

<sup>1</sup> Per-share amount was less than \$0.01.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.84% if certain non-routine expenses (proxy fees) had not been included.

<sup>5</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>6</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>92.8% Common Stock</b>	123,699	128,152
<b>0.3% Short-Term Investments</b>	350	350
<b>6.5% Other Investments</b>	9,015	9,015
<b>99.6% Total Investments</b>	<b>133,064</b>	<b>137,517</b>
<b>0.4% Other Assets and Liabilities, Net</b>		526
<b>100.0% Total Net Assets</b>		<b>138,043</b>

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

**Common Stock** 92.8% of net assets

**Air Transportation 1.2%**

• Continental Airlines, Inc.	66,260	706
SkyWest, Inc.	31,940	581
Southwest Airlines, Inc.	23,500	336
		<b>1,623</b>

**Apparel 1.2%**

• Aeropostale, Inc.	21,450	472
Jones Apparel Group, Inc.	12,385	453
• Jos. A. Bank Clothiers, Inc.	12,900	406
OshKosh B'Gosh, Inc.	13,400	310
		<b>1,641</b>

**Automobile Products / Motor Vehicles 0.9%**

• CSK Auto Corp.	48,590	897
• Tower Automotive	59,300	304
		<b>1,201</b>

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

**Banks 0.9%**

BankNorth Group, Inc.	11,800	361
Mellon Financial Corp.	10,200	302
North Fork Bancorp, Inc.	10,800	401
Zions Bancorp.	3,500	198
		<b>1,262</b>

**Business Machines & Software 1.6%**

• 3Com Corp.	124,650	768
• Ascential Software Corp.	17,700	301
• Computer Horizons Corp.	111,600	412
• Maxtor Corp.	41,500	270
• Tech Data Corp.	5,200	177
• Unisys Corp.	24,300	316
		<b>2,244</b>

**Business Services 13.7%**

• Agile Software Corp.	33,800	255
• Akamai Technologies, Inc.	47,800	565
• Analogic Corp.	19,340	916
• Ciber, Inc.	69,090	605
• Credence Systems Corp.	35,700	398
• Digimarc Corp.	35,570	401
• Doubleclick, Inc.	114,110	921
• Eclipsys Corp.	61,530	868
• eFunds Corp.	23,850	383
• Exult, Inc.	47,300	289
• InFocus Corp.	34,200	279
• Internet Security Systems, Inc.	51,070	679
• Interpublic Group of Cos., Inc.	25,800	405
• Intevac, Inc.	30,200	303
• Ivillage, Inc.	43,800	280
• Keane, Inc.	99,800	1,417
• Navigant Consulting, Inc.	22,200	389
• Network Associates, Inc.	27,600	433
• Packeteer, Inc.	49,400	595
• Performance Food Group Co.	23,290	818
• Polycom, Inc.	43,800	836
• Priority Healthcare Corp., Class B	37,000	742
Reynolds & Reynolds Co., Class A	12,600	360
• RSA Security, Inc.	42,200	676
• SafeNet, Inc.	38,400	826

Security and Number of Shares	Value (\$ x 1,000)
Standard Register Co. 23,200	342
• SupportSoft, Inc. 24,000	237
• Tetra Technologies, Inc. 19,050	455
• Tibco Software, Inc. 68,540	514
• Tier Technologies, Inc. 59,100	608
Vastera, Inc. 83,500	330
• Watson Wyatt & Co. Holdings 36,450	956
• WebEx Communications, Inc. 38,800	871
	<b>18,952</b>

**Chemical 1.1%**

Airgas, Inc. 22,400	496
Olin Corp. 16,700	288
• OM Group, Inc. 20,300	517
Rohm & Haas Co. 4,500	175
	<b>1,476</b>

**Construction 5.7%**

Beazer Homes USA, Inc. 10,000	984
D.R. Horton, Inc. 26,250	756
• EMCOR Group, Inc. 10,550	431
Hovnanian Enterprises, Inc. 24,600	885
Martin Marietta Materials, Inc. 12,130	525
• NCI Building Systems, Inc. 17,850	522
Pulte Corp. 6,500	320
Standard Pacific Corp. 20,800	1,049
• Toll Brothers, Inc. 40,200	1,591
• WCI Communities, Inc. 32,200	783
	<b>7,846</b>

**Consumer Durables 0.9%**

Leggett & Platt, Inc. 14,000	316
Maytag Corp. 10,700	299
♦ Natuzzi S.P.A. 46,000	499
• Tempur-Pedic International, Inc. 10,500	164
	<b>1,278</b>

**Containers 0.7%**

• Mobile Mini, Inc. 53,400	<b>1,028</b>
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**Electronics 9.5%**

• Agere Systems, Inc., Class B 142,700	310
• Alliant Techsystems, Inc. 6,300	374

Security and Number of Shares	Value (\$ x 1,000)
Anixter International, Inc. 13,000	381
• Arrow Electronics, Inc. 19,000	480
C & D Technologies, Inc. 59,700	925
• Captaris, Inc. 48,300	267
• Celestica, Inc. 26,200	461
Cohu, Inc. 7,000	123
• DSP Group, Inc. 28,900	716
• Electro Scientific Industries, Inc. 20,400	417
• Electronics For Imaging, Inc. 20,700	525
• General Cable Corp. 124,660	960
• LSI Logic Corp. 34,700	258
• National Semiconductor Corp. 4,325	176
• Novellus Systems, Inc. 8,300	240
PerkinElmer, Inc. 19,400	373
• Powerwave Technologies, Inc. 73,200	496
• Radisys Corp. 25,000	467
• Rofin-Sinar Technologies, Inc. 22,900	531
Seagate Technology 15,300	191
• Silicon Image, Inc. 48,800	497
• Tekelec 44,700	745
Tektronix, Inc. 12,600	373
• Teradyne, Inc. 27,000	550
• Thermo Electron Corp. 13,300	388
• TRC Cos., Inc. 27,600	451
• Triquint Semiconductor, Inc. 50,500	277
• Varian, Inc. 8,000	328
• Vicor Corp. 34,000	473
• Vishay Intertechnology, Inc. 21,700	378
	<b>13,131</b>

**Energy: Raw Materials 2.7%**

• Cooper Cameron Corp. 9,900	479
Devon Energy Corp. 6,100	373
ENSCO International, Inc. 6,700	184
Joy Global, Inc. 24,900	654
• Key Energy Group, Inc. 51,800	552
• Offshore Logistics, Inc. 46,750	1,026
Tidewater, Inc. 18,300	516
	<b>3,784</b>

**Food & Agriculture 2.7%**

American Italian Pasta Co. Class A 24,580	761
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**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Delta & Pineland Co. 28,150	683	• Quest Diagnostic, Inc. 4,600	388
• Hain Celestial Group, Inc. 54,320	1,076	• Theragenics Corp. 53,100	278
Sensient Technologies Corp. 36,930	756	• Wright Medical Group, Inc. 29,700	1,020
• VistaCare, Inc., Class A 18,400	463		<b>20,007</b>
	<b>3,739</b>		
<b>Gold 0.4%</b>		<b>Insurance 2.2%</b>	
• Kinross Gold Corp. 48,891	270	• Alleghany Corp. 2,256	592
• Meridian Gold, Inc. 26,200	260	• Assurant, Inc. 8,100	198
	<b>530</b>	• FPIC Insurance Group, Inc. 26,160	578
		⑦ Hooper Holmes, Inc. 256,670	1,414
		Old Republic International Corp. 12,500	290
			<b>3,072</b>
<b>Healthcare / Drugs &amp; Medicine 14.5%</b>		<b>Media 1.0%</b>	
• Accredo Heath, Inc. 23,100	893	• Emmis Communications Corp. 30,240	708
• Andrx Corp. 30,880	707	• Raindance Communications, Inc. 119,200	261
• Apogent Technologies, Inc. 900	29	Readers Digest Association, Inc. 21,500	308
• Applera Corp. - Celera Genomics Group 37,210	439	• Salem Communications Corp. Class A 4,300	128
• Arthrocare Corp. 22,300	524		<b>1,405</b>
Beckman Coulter, Inc. 5,700	318		
• Biolase Technology Corp. 16,600	214		
• Cardiodynamics International Corp. 99,500	582		
• ⑨ Centene Corp. 38,142	1,278	<b>Miscellaneous 0.9%</b>	
• Charles River Laboratories, Inc. 10,300	474	• Sierra Wireless, Inc. 52,400	<b>1,171</b>
• Cholestech Corp. 71,425	699		
• Community Health Systems, Inc. 20,120	519	<b>Miscellaneous Finance 4.5%</b>	
• ① Cytec Corp. 103,500	2,215	• Accredited Home Lenders Holding Co. 31,600	916
• Edwards Lifesciences Corp. 10,400	358	Countrywide Credit Industries, Inc. 3,000	178
• Enzon, Inc. 45,000	653	• Knight Trading Group, Inc. 95,000	1,104
• Eon Labs, Inc. 6,400	421	MDC Holdings, Inc. 17,953	1,109
Health Management Associates, Inc. 10,400	241	• Piper Jaffray Cos., Inc. 1,960	95
• Health Net, Inc. 17,900	455	• Portfolio Recovery Associates, Inc. 29,400	785
• Human Genome Sciences, Inc. 43,100	526	Raymond James Financial, Inc. 20,100	505
• Incyte Corp. 64,980	516	④ The Chicago Mercantile Exchange 13,000	1,525
• Intuitive Surgical, Inc. 28,200	455		<b>6,217</b>
• Ivax Corp. 39,250	836		
• ③ Martek Biosciences Corp. 24,400	1,549	<b>Non-Durables &amp; Entertainment 4.2%</b>	
• Medquist, Inc. 45,740	622	• California Pizza Kitchen, Inc. 42,000	882
• Perrigo Co. 39,900	861	Darden Restaurants, Inc. 19,800	449
⑤ Pharmaceutical Product Development, Inc. 50,420	1,491	• Hibbett Sporting Goods, Inc. 3,000	73
• Province Healthcare Co. 27,900	446		

Security and Number of Shares	Value (\$ x 1,000)
• Marvel Enterprises, Inc. 40,800	775
• 10 O' Charleys, Inc. 65,750	1,242
• P.F. Chang's China Bistro, Inc. 18,000	879
• Ryans Family Steak House, Inc. 46,570	845
• Tupperware Corp. 31,700	594
	<b>5,739</b>

#### Non-Ferrous Metals 0.9%

• Century Aluminum Co. 13,300	263
• Commercial Metals Co. 22,100	579
• RTI International Metals, Inc. 25,900	380
	<b>1,222</b>

#### Oil: Domestic 6.0%

• Chesapeake Energy Corp. 36,400	501
• Comstock Resources, Inc. 35,100	714
• Core Laboratories N.V. 25,500	580
• 8 Global Industry Ltd. 214,800	1,289
• National Oilwell, Inc. 29,700	829
• Patterson Energy, Inc. 32,200	1,165
• Pioneer Natural Resources Co. 26,900	880
• Plains Exploration & Production Co. 30,040	592
• Pride International, Inc. 8,300	140
• Spinnaker Exploration Co. 30,375	1,083
• Transocean, Inc. 18,100	503
	<b>8,276</b>

#### Pharmaceutical Preparations 0.2%

• Collagenex Pharmaceuticals 22,500	<b>229</b>
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#### Producer Goods & Manufacturing 6.5%

• Baldor Electric Co. 38,500	869
• Dover Corp. 5,800	232
• Flowserve Corp. 35,600	761
• GrafTech International Ltd. 83,400	740
• Grainger, Inc. 8,900	466
• Ionics, Inc. 16,800	388
• Nordson Corp. 9,400	325
• Oceaneering International, Inc. 40,000	1,120
• Pall Corp. 34,650	824
• Safeguard Scientifics, Inc. 204,300	531

Security and Number of Shares	Value (\$ x 1,000)
• Steelcase, Inc., Class A 48,500	596
• Teleflex, Inc. 20,310	927
• The Manitowoc Co., Inc. 29,750	905
• York International Corp. 8,700	341
	<b>9,025</b>

#### Real Property 1.8%

• FelCor Lodging Trust, Inc. 79,900	799
• Innkeepers USA Trust 139,530	1,067
• Post Properties, Inc. 20,830	560
	<b>2,426</b>

#### Retail 2.9%

• American Eagle Outfitters, Inc. 19,300	496
• Big 5 Sporting Goods Corp. 8,400	209
• Genesco, Inc. 43,740	973
• J.C. Penny Co., Inc. 17,100	579
• Longs Drug Stores Co. 41,450	812
• Talbots, Inc. 10,700	374
• Wetseal, Inc., Class A 103,090	568
	<b>4,011</b>

#### Steel 0.8%

• AK Steel Holding Corp. 91,600	431
• Cleveland Cliffs, Inc. 9,200	436
• Schnitzer Steel Industries, Inc., Class A 11,500	302
	<b>1,169</b>

#### Telephone 0.4%

• Commonwealth Telephone Enterprises, Inc. 7,600	317
• Talk America Holdings, Inc. 31,900	284
	<b>601</b>

#### Travel & Recreation 1.8%

• Carnival Corp. 6,100	260
• Central Parking Corp. 37,850	723
• Choice Hotels International, Inc. 8,300	373
• Starwood Hotel & Resorts Worldwide, Inc. 4,500	179
• Vail Resorts, Inc. 60,910	947
	<b>2,482</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	
<b>Trucking &amp; Freight 0.5%</b>		
• Overnite Corp. 27,600		<b>662</b>
<b>Utilities: Electric &amp; Gas 0.5%</b>		
Williams Cos., Inc. 68,300		<b>703</b>
Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
<b>Short-Term Investments 0.3% of net assets</b>		
<b>U.S. Government Securities 0.3%</b>		
▲ U.S. Treasury Bills 0.92%, 06/17/04	350	<b>350</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Other Investments 6.5% of net assets****Other Investment Companies 6.5%**

▲ Provident Institutional Funds— TempCash 2,001,918	2,002
▲ Provident Institutional Funds— TempFund 7,013,353	7,013
	<b>9,015</b>

End of investments.

All numbers x 1,000 except number of futures contracts.

**Futures Contracts**

	Number of Contracts	Contract Value	Unrealized Gains/(Losses)
S&P 500 Index, Long expires, 06/18/04	3	830	(30)
Russell 2000 Index, Long expires, 06/18/04	13	3,639	(92)
			<b>(122)</b>

Statement of

**Assets and Liabilities**

As of April 30, 2004, unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$137,517
Receivables:	
Fund shares sold	33
Dividends	22
Investments sold	1,605
Prepaid expenses	+ 10
<b>Total assets</b>	<b>139,187</b>

**Liabilities**

Payables:	
Fund shares redeemed	116
Investments bought	932
Due to brokers for futures	44
Investment adviser and administrator fees	9
Transfer agency and shareholder service fees	2
Accrued expenses	+ 41
<b>Total liabilities</b>	<b>1,144</b>

**Net Assets**

<b>Total assets</b>	139,187
<b>Total liabilities</b>	- 1,144
<b>Net assets</b>	<b>\$138,043</b>

**Net Assets by Source**

Capital received from investors	134,139
Net investment loss	(734)
Net realized capital gains	307
Net unrealized capital gains	4,331

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$138,043		11,815		\$11.68

Unless stated, all numbers x 1,000.

The fund paid \$133,064 for these securities.

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

Purchases	\$123,350
Sales/maturities	\$110,914

These derive from investments and futures.

**Federal Tax Data**

<b>Portfolio cost</b>	\$133,354
<b>Net unrealized gains and losses:</b>	
Gains	\$11,627
Losses	+ (7,464)
	<b>\$4,163</b>

**As of October 31, 2003:****Undistributed earnings:**

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

**Capital losses utilized** \$3,062**Unused capital losses:**

Expires 10/31 of:	Loss amount:
2009	\$12,029
2010	+ 10,153
	<b>\$22,182</b>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$303
Interest	+	2
<b>Total investment income</b>		<u>305</u>

An additional \$1 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized gains on investments sold	22,867
Net realized gains on futures contracts	+ 403
<b>Net realized gains</b>	<b>23,270</b>

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	(16,903)
Net unrealized losses on futures contracts	+ (157)
<b>Net unrealized losses</b>	<b><u>(17,060)</u></b>

Calculated as 1.30% of average daily net assets.

**Expenses**

Investment adviser and administrator fees	872
Transfer agent and shareholder service fees	168
Trustees' fees	3
Custodian and portfolio accounting fees	82
Professional fees	17
Registration fees	8
Shareholder reports	28
Other expenses	<div><div>+</div><div>2</div></div>
Total expenses	1,180
Expense reduction	<div><div>−</div><div>141</div></div>
<b>Net expenses</b>	<div><div></div><div><b>1,039</b></div></div>

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**

Total investment income	305
Net expenses	— 1,039
Net investment loss	<u>(734)</u>
Net realized gains	23,270
Net unrealized losses	+ (17,060)
Increase in net assets from operations	<u>\$5,476</u>

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 28, 2005, 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 \$6,210.



Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment loss	(\$734)	(\$886)
Net realized gains	23,270	2,970
Net unrealized gains or losses	+ (17,060)	38,944
<b>Increase in net assets from operations</b>	<b>5,476</b>	<b>41,028</b>

**Distributions Paid**

Dividends from net investment income	\$—	\$3
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**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,940	\$35,702	1,528	\$14,258
Shares reinvested	—	—	0*	3
Shares redeemed	+ (1,505)	(18,182)	(2,500)	(21,725)
<b>Net transactions in fund shares</b>	<b>1,435</b>	<b>\$17,520</b>	<b>(972)</b>	<b>(\$7,464)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	10,380	\$115,047	11,352	\$81,486
Total increase or decrease +	1,435	22,996	(972)	33,561
<b>End of period</b>	<b>11,815</b>	<b>\$138,043</b>	<b>10,380</b>	<b>\$115,047</b>

\*Amount was less than 500 shares.

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary income	\$3
Long-term capital gains	\$—

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

Includes net investment loss in the amount of \$734 at the end of the current period.

# Schwab International MarketMasters Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	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	11.95	8.74	10.80	15.53	14.84	10.58
Income or loss from investment operations:						
Net investment income or loss	(0.00) <sup>1</sup>	0.03	0.10	0.73	0.53	0.11
Net realized and unrealized gains or losses	1.26	3.18	(1.43)	(3.90)	2.49	4.28
Total income or loss from investment operations	1.26	3.21	(1.33)	(3.17)	3.02	4.39
Less distributions:						
Dividends from net investment income	(0.04)	(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	(0.04)	—	(0.73)	(1.56)	(2.33)	(0.13)
Net asset value at end of period	13.17	11.95	8.74	10.80	15.53	14.84
Total return (%)	10.54 <sup>2</sup>	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 <sup>3</sup>	1.65	0.99 <sup>4,5</sup>	0.50 <sup>5</sup>	0.51 <sup>5,6</sup>	0.50 <sup>5</sup>
Gross operating expenses	1.89 <sup>3</sup>	1.92	1.32 <sup>5</sup>	0.88 <sup>5</sup>	0.90 <sup>5</sup>	0.97 <sup>5</sup>
Net investment income or loss	(0.11) <sup>3</sup>	0.33	0.60	5.13	1.94	0.94
Portfolio turnover rate	42 <sup>2</sup>	99	158	51	80	249
Net assets, end of period (\$ x 1,000,000)	466	302	206	215	278	104

\* Unaudited.

<sup>1</sup> Per-share amount was less than \$0.01.

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.93% if certain non-routine expenses (proxy fees) had not been included.

<sup>5</sup> Prior to the fund's change in structure on June 3, 2002, the expenses incurred by underlying funds in which the fund invested were not included in this ratio.

<sup>6</sup> The ratio of net operating expenses would have been 0.50% if certain non-routine expenses (proxy fees) had not been included.

Select Shares	4/2/04 <sup>1</sup> – 4/30/04 <sup>*</sup>
<b>Per-Share Data (\$)</b>	
Net asset value at beginning of period	13.64
Loss from investment operations:	
Net investment income	0.02
Net realized and unrealized losses	(0.48)
Total loss from investment operations	(0.46)
Net asset value at end of period	13.18
Total return (%)	(3.37) <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>	
Ratio to average net assets:	
Net operating expenses	1.47 <sup>3</sup>
Gross operating expenses	1.99 <sup>3</sup>
Net investment income	3.86 <sup>3</sup>
Portfolio turnover rate	42 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	20

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>93.8% Foreign Common Stock</b>	392,937	456,093
<b>0.3% Short-Term Investments</b>	1,498	1,498
<b>8.1% Other Investments</b>	39,121	39,121
<b>102.2% Total Investments</b>	<b>433,556</b>	<b>496,712</b>
<b>(2.2%) Other Assets and Liabilities, Net</b>		(10,544)
<b>100.0% Total Net Assets</b>		<b>486,168</b>

Security and Number of Shares

Value  
(\$ x 1,000)

**Foreign Common Stocks** 93.8% of net assets**Australia 2.1%**

Australia and New Zeland Banking Group Ltd.	244,000	3,272
Bendigo Bank Ltd.	61,700	443
Billabong International Ltd.	70,500	387
Commonwealth Bank of Australia	28,550	644
John Fairfax Holdings Ltd.	1,002,000	2,424
Macquarie Bank Ltd.	50,700	1,269
Perpetual Trustees Australia Ltd.	13,000	385
Sigma Co. Ltd.	82,100	459
Toll Holdings Ltd.	130,200	977
		<b>10,260</b>

Security and Number of Shares

Value  
(\$ x 1,000)

**Austria 0.4%**

Erste Bank der Oesterreichischen Sparkassen AG	12,850	<b>1,923</b>
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**Belgium 0.5%**

• Icos Vision Systems Corp. N.V.	25,154	757
Interbrew SA	52,000	1,562
		<b>2,319</b>

**Brazil 0.8%**

Banco Bradesco SA	100	4
Banco Bradesco SA Preferred	4,575	—
Banco Itau SA Preferred	9,147,150	726
Confecoos Guararapes SA	21,305	69
◆ Eregli Demir Ve Celik Fabrik	18,361,503	521
Gerdau SA	2	—
◆ Petroleo Brasileiro SA	12,800	370
◆ Telemig Celular Participacoes SA	37,207	1,139
◆ Telesp Celular Participacoes SA	111,800	797
Usiminas SA	43,130	432
		<b>4,058</b>

**Canada 3.1%**

• Alimentation Couche-Tard, Inc.	33,900	577
• CanWest Global Communications Corp.	42,200	366
• Cognos, Inc.	23,200	728
Corus Entertainment, Inc.	31,900	637
Encana Corp.	45,300	1,772
• Extencicare, Inc., Class A	161,315	1,748
Home Capital Group, Inc., Class B	74,992	1,276
• MacDonald, Dettwiler and Associates Ltd.	12,450	244
Manulife Financial Corp.	67,400	2,485
Peyto Energy Trust	71,388	1,505
• Precision Drilling Corp.	15,400	731
• Research in Motion Ltd.	7,400	644
• Shoppers Drug Mart Corp.	25,800	570
◆ Sierra Wireless, Inc.	21,698	485
Suncor Energy, Inc.	52,000	1,237
		<b>15,005</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Chile 0.3%</b>	
♦ LanChile SA 42,800	822
S.A.C.I. Falabella SA 219,700	400
	<b>1,222</b>
<b>China 0.1%</b>	
Zhejiang Expressway Co. Ltd. 770,000	<b>481</b>
<b>Croatia 0.1%</b>	
Molson, Inc., Class A 13,000	<b>296</b>
<b>Denmark 0.5%</b>	
A P Moller - Maersk A/S 20	126
Bryggerigruppen A/S 7,585	525
H. Lundbeck A/S 6,500	132
Novo Nordisk A/S 17,500	832
• TopDanmark Development A/S 16,773	986
	<b>2,601</b>
<b>Egypt 0.1%</b>	
Orascom Construction Industries 36,500	<b>565</b>
<b>Estonia 0.1%</b>	
Hansabank Ltd. 38,800	<b>297</b>
<b>Finland 0.9%</b>	
Metso Oyj 171,100	2,098
Nokian Renkaat Oyj 22,095	1,854
Perlos Oyj 50,814	503
	<b>4,455</b>
<b>France 6.5%</b>	
• Accor SA 2,300	97
Aventis SA 49,600	3,779
Banque National de Paris 39,800	2,390
Christian Dior SA 20,300	1,275
Credit Agricole SA 20,360	502
• Hermes International 6,400	1,275
Ipsos 13,237	1,362
• JC Decaux SA 150,000	3,147
M6 Metropole Television 15,400	448
• Michelin (C.G.D.E.), Class B 33,500	1,568

Security and Number of Shares	Value (\$ x 1,000)
Mr. Bricolage SA 9,900	324
• Neopost SA 78,100	4,308
• Orpea 23,100	532
Pernod-Ricard 18,375	2,319
Publicis Groupe SA 98,500	2,952
Rodriguez Group 5,800	319
Total SA, Class B 9,000	1,665
Trader Classified Media N.V. 35,558	392
• Vivendi Universal SA 117,000	2,944
	<b>31,598</b>

<b>Germany 7.7%</b>	
Allianz AG 29,895	3,172
AWD Holding AG 26,976	907
Balda AG 57,409	544
• Bayerische Motoren-Werke AG 135,200	5,830
• DAB Bank AG 64,453	564
Deutsche Boerse AG 74,600	4,103
• Deutsche Telekom AG 104,500	1,804
DIS Deutscher Industrie Service AG 21,675	572
GfK AG 34,976	1,183
Grenskeleasing AG 28,714	1,103
Henkel KGaA 45,800	3,667
Henkel KGaA - VORZUG 22,762	1,972
Linde AG 29,000	1,586
MPC Muenchmeyer Petersen Capital AG 19,393	1,038
Muenchener Rueckversicherungs-Gesellschaft AG 24,979	2,701
ProSiebenSat.1 Media AG Preferred 25,300	497
• ProSiebenSat.1 Media AG Rights 16,600	8
Puma AG 3,480	801
SAP AG 18,900	2,866
• SBS Broadcasting SA 47,622	1,500
• Techem AG 35,724	782
	<b>37,200</b>

<b>Greece 0.8%</b>	
Coca-Cola Hellenic Bottling Co. SA 48,700	1,291
EFG Eurobank Ergasias 3,500	75

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Folli-Follie SA 18,900	566	<b>Ireland 1.2%</b>	
Germanos SA 62,052	1,672	Anglo Irish Bank Corp. PLC 8,400	137
National Bank of Greece SA 7,800	232	Anglo Irish Bank Corp. PLC 47,900	784
	<b>3,836</b>	Bank of Ireland 324,000	3,927
<b>Hong Kong 1.9%</b>		Grafton Group PLC 61,900	464
Anhui Conch Cement Co. Ltd. 1,084,000	1,154	Paddy Power PLC 38,956	446
China Insurance International Holdings Co. Ltd. 720,000	346		<b>5,758</b>
China Mobile Ltd. 117,300	310	<b>Israel 0.5%</b>	
Citic Pacific Ltd. 202,800	497	◆ Check Point Software Technologies Ltd. 9,500	222
CNOOC Ltd. 1,793,000	649	◆ Orbotech Ltd. 49,761	1,051
Convenience Retail Asia Ltd. 176,000	58	◆ Teva Pharmaceutical Industries Ltd. 19,800	1,219
Esprit Holdings Ltd. 216,500	888		<b>2,492</b>
Giordano International Ltd. 1,436,000	824	<b>Italy 2.1%</b>	
Global Bio-Chem Technology Group Co. Ltd. 798,000	583	Banco Popolare di Verona e Novara ScrI 236,200	3,930
Global Bio-Chem Technology Warrants 90,000	—	Credito Emiliano SPA 71,800	515
Hong Kong & China Gas Co. Ltd. 213,600	367	Eni SPA 9,500	193
Li & Fung Ltd. 416,200	648	Merloni Elettrodomestici SPA 29,700	525
• Sinopec Beijing Yanhua Petrochemical Co. Ltd. 3,100,000	904	Pirelli & C. Real Estate SPA 14,700	517
Techtronic Industries Co. Ltd. 677,500	1,815	Saipem SPA 99,015	928
	<b>9,043</b>	San Paolo IMI SPA 135,000	1,575
<b>India 1.4%</b>		• Unicredit Italiano SPA 483,000	2,252
◆ HDFC Bank Ltd. 29,300	850		<b>10,435</b>
Hughes Software Systems Ltd. 68,400	792	<b>Japan 18.5%</b>	
Industrial Development Bank of India Ltd. 754,700	1,006	AEON Co. Ltd. 2,300	101
◆ Infosys Technologies Ltd. 17,350	1,405	Aeon Credit Service Co. Ltd. 12,200	775
Lupin Ltd. 61,100	1,109	Aeon Mall Co. Ltd. 9,400	519
Mahindra & Mahindra Ltd. 68,800	726	All Nippon Airways Co. Ltd. 82,000	249
Wockhardt Ltd. 137,700	992	Arealink Co. Ltd. 109	1,472
	<b>6,880</b>	Arnest One Corp. 12,100	379
<b>Indonesia 0.2%</b>		Askul Corp. 9,400	649
• PT Bank Rakyat Indonesia 2,442,500	480	Canon, Inc. 2,000	105
PT Unilever Indonesia Tbk 1,221,500	511	Cawachi Ltd. 1,000	48
	<b>991</b>	• Cawachi Ltd. W/I 1,000	41
		• Chiyoda Corp. 104,000	628
		Credit Saison Co. Ltd. 26,100	764
		• Cyber Agent Ltd. 174	1,447
		Cybernet Systems Co. Ltd. 453	1,580
		Daiwa Securities Group, Inc. 176,000	1,324

		Value			Value
Security and Number of Shares		(\$ x 1,000)	Security and Number of Shares		(\$ x 1,000)
Diamond City Co. Ltd.	31,400	1,189	Oracle Corp. Japan	10,100	568
East Japan Railway Co.	195	997	Orix Corp.	20,600	2,184
en-Japan, Inc.	151	530	Park24 Co. Ltd.	15,100	510
EPS Co. Ltd	198	924	•Pasona, Inc.	50	648
Fast Retailing Co. Ltd.	20,000	1,559	Phoenix Electric Co. Ltd	16,900	660
First Juken Co. Ltd W/I	18,067	434	Pioneer Corp.	39,000	1,113
First Juken Co. Ltd.	16,567	441	Point , Inc.	64,560	2,159
Fuji Television Network, Inc.	104	269	Promise Co. Ltd.	20,500	1,356
•Fuji Television Network, Inc. W/I	29	76	Sanei-International Co. Ltd.	39,920	2,026
GEO Co. Ltd.	116	426	Sawai Pharmaceutical Co. Ltd.	10,500	399
•GEO Co. Ltd. W/I	206	756	Seven-Eleven Japan Co. Ltd.	3,000	102
Geomatec Co. Ltd.	19,000	792	Sharp Corp.	124,000	2,236
Goldcrest Co. Ltd.	14,500	866	Shinsei Bank Ltd.	143,000	963
Hino Motors Ltd.	214,300	1,272	Showa Shinku Co. Ltd.	42,800	911
Honda Motor Co. Ltd.	58,900	2,364	Sk-Electronics Co. Ltd.	131	1,804
Hoya Corp.	13,000	1,407	SMC Corp.	16,800	1,926
Index Corp.	93	536	Sparx Asset Management Co. Ltd.	126	965
Japan Airlines System Corp.	209,000	623	Sugi Pharmacy Co. Ltd.	11,700	469
Japan Telecom Holdings Co. Ltd.	397	935	Sumitomo Mitsui Financial Group, Inc.	126	952
Kappa Create Co. Ltd.	3,500	426	Sumitomo Trust and Banking Co. Ltd.	462,200	2,781
•Kennedy-Wilson Japan	146	725	Sysmex Corp.	61,000	1,622
Keyence Corp.	9,400	2,257	•Take and Give Needs Co. Ltd.	28	360
Koha Co. Ltd.	6,700	276	Take and Give Needs Co. Ltd. W/I	128	1,670
Komatsu Electronic Metals Co. Ltd.	52,500	695	Takeda Chemical Industries Ltd.	99,000	3,992
Komatsu Ltd.	36,600	209	Tamron Co. Ltd.	29,400	1,492
Matsui Securities Co. Ltd	15,800	521	The Bank of Yokohama Ltd.	174,300	952
Meitec Corp.	79,000	2,785	The Fuji Fire & Marine Insurance Co. Ltd.	9,500	24
Misumi Corp.	18,700	661	The Goodwill Group, Inc.	113	444
Mitsubishi Tokyo Financial Group, Inc.	299	2,661	Tokyo Broadcasting System, Inc.	25,300	504
Nakanishi, Inc.	5,000	313	Toku Corp.	146,100	729
Nidec Corp.	12,700	1,371	Toto Ltd.	89,000	952
Nihon Dempa Kogyo Co. Ltd.	27,500	630	•UFJ Holdings, Inc.	127	786
Nikko Cordial Corp.	364,600	2,075	USS Co. Ltd.	5,630	476
Nintendo Co. Ltd.	6,100	576	Yamato Transport Co. Ltd.	39,400	599
Nippon Broadcasting System, Inc.	2,550	143			
Nitori Co. Ltd.	9,980	645			
Nitto Denko Corp.	28,400	1,578			
NIWS Co. Ltd.	575	1,860			
Nomura Holdings, Inc.	72,300	1,174			
Okinawa Cellular Telephone Co.	190	1,928			
•Olympus Optical Co. Ltd.	30,000	582			

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
♦ Fomento Economico Mexicano SA de CV 44,300	1,937	<b>Singapore 1.9%</b>	
♦ Grupo Aeroportuario del Sureste SA de CV 23,858	466	Accord Customer Care Solutions Ltd. 4,836,000	1,862
♦ ⑨ Grupo Televisa SA de CV 102,400	4,464	Cosco Investments 2,813,520	1,240
Wal-Mart de Mexico SA de CV, Series V 646,200	1,890	DBS Group Holdings Ltd. 117,200	985
	<b>11,478</b>	MFS Technology Ltd. 1,381,000	942
<b>Netherlands 3.8%</b>		Noble Group Ltd. 69,000	132
AKZO Nobel N.V. 104,000	3,790	Osim International Ltd. 423,600	291
• ASM Lithography Holding N.V. 98,500	1,568	Singapore Airlines Ltd. 10,800	69
• ASML Holding N.V. 10,800	168	Singapore Telecommunications Ltd. 659,600	907
⑦ Euronext N.V. 161,800	4,707	Unisteel Technology Ltd. 399,000	296
Fortis N.V. 126,920	2,766	United Overseas Bank Ltd. 238,000	1,916
• Heineken Holding N.V. Class A 65,000	2,397	Venture International 53,000	595
• Koninklijke Ahold N.V. 87,200	675		<b>9,235</b>
Ordina Beheer N.V. 120,478	1,336	<b>South Africa 0.3%</b>	
• Qiagen N.V. 27,700	336	Edgars Consolidated Stores Ltd. 26,000	499
• Versatel Telecom International N.V. 232,102	498	• MTN Group Ltd. 152,500	638
	<b>18,241</b>	Network Healthcare Holdings Ltd. 521,800	371
<b>Norway 0.8%</b>			<b>1,508</b>
Ekornes ASA 63,360	1,275	<b>South Korea 2.1%</b>	
• Tandberg Television ASA 306,261	1,830	Hyundai Motor Co. Ltd. 28,600	1,091
Telenor ASA 140,600	924	• Kookmin Bank 23,700	885
	<b>4,029</b>	• Kumho Electric, Inc. 30,700	1,565
<b>Poland 0.1%</b>		Samsung Electronics Co. Ltd. 660	182
Bank Polska Kasa Opieki Grupa Pekao SA 16,900	<b>526</b>	Samsung Electronics Co. Ltd. Preferred 7,060	3,351
<b>Portugal 0.3%</b>		SK Telecom Co. Ltd. 19,200	3,273
Impresa Sociedade Gestora de Participacoes SA 322,134	<b>1,622</b>		<b>10,347</b>
<b>Russia 0.5%</b>		<b>Spain 1.7%</b>	
♦ Lukoil Holding Co. 8,900	969	Aldeasa SA 37,491	1,083
♦ Mobile Telesystems 2,300	248	Altadis SA 26,004	735
♦ Sibneft 3,200	100	Banco Popular Espanol SA 14,100	778
♦ Uralsvyazinform 163,505	1,194	Grupo Ferrovial SA 19,300	770
	<b>2,511</b>	Inditex SA 18,100	393
		Prisa-Promotora de Informaciones SA 87,800	1,565
		Repsol YPF 71,000	1,495
		Telefonica SA 94,553	1,407
			<b>8,226</b>



Security and Number of Shares	Value (\$ x 1,000)
<b>Sweden 1.1%</b>	
• Ericsson Telefonab LM AB, Class B 618,000	1,675
◆ Erricson Telefonab LM SP 35,900	958
• Gunnebo AB 20,000	484
• Oriflame Cosmetics SA 2,000	62
• Q-Med AB 67,999	1,949
• Transcom WorldWide SA 66,265	260
	<b>5,388</b>

<b>Switzerland 8.9%</b>	
• Actelion Holdings Ltd. 4,900	538
• Clariant AG 133,605	1,695
• Credit Suisse Group 108,300	3,817
• Givaudan AG 7,050	3,507
• Julius Baer Holding AG, Class B 2,640	713
• Logitech International SA 12,850	557
• Lonza Group AG 75,400	3,640
• Micronas Semiconductor Holding AG 7,883	367
① Nestle SA 27,657	6,996
• Novartis AG 94,500	4,213
• PubliGroupe SA 2,806	901
• Roche Holding AG Genusschein 13,400	1,405
• Schweizerische Rueckversicherung 9,300	612
• Serono SA, Class B 3,699	2,217
• SEZ Holding AG 57,250	1,828
• Swatch Group AG 15,700	2,086
• Syngenta AG 31,700	2,537
④ United Bank of Switzerland AG 81,550	5,796
	<b>43,425</b>

<b>Taiwan 2.3%</b>	
• Career Technology (MFG.) Co. Ltd. 807,000	1,482
• Chicony Electronics Co. Ltd. 402,000	793
◆ Chunghwa Telecom Co. Ltd. 55,400	924
• Eva Airways Corp. 927,015	378
• Hon Hai Precision Industry Co. Ltd. 197,000	777
• King Yuan Electronics Co. Ltd. 1,135,000	1,401
• MediaTek, Inc. 45,000	429

Security and Number of Shares	Value (\$ x 1,000)
Min Aik Technology Co. Ltd. 340,000	742
• Novatek Microelectronics Corp. Ltd. 197,000	777
• Optimax Technology Corp. 403,000	1,674
• Optimax Technology Rights 28,665	—
• Powertech Technology, Inc. 682,000	1,314
• Premier Image Technology Corp. 165,000	263
• Quanta Computer, Inc. 171,400	361
	<b>11,315</b>

<b>Thailand 0.7%</b>	
• Advanced Info Service Public Co. Ltd. 37,300	82
• Bangkok Bank Public Co. Ltd. 203,800	499
• Banpu Public Co. Ltd. 282,100	917
• Land and House Public Co. Ltd. 1,330,100	369
• The Siam Industrial Credit Public Co. Ltd. 3,768,200	659
• Tisco Financial Public Co. Ltd. 379,900	280
• Total Access Communication Public Co. Ltd. 183,000	461
	<b>3,267</b>

<b>Turkey 0.3%</b>	
◆ Dogan Yayin Holding A/S 148,952,595	496
• Enka Insaat ve Sanayi A/S 23,617,936	458
• Otokar Otobus Karoseri Sanayi A/S 116,598,138	559
	<b>1,513</b>

<b>United Kingdom 16.8%</b>	
• 3I Group PLC 53,400	571
• Acambis PLC 67,700	382
• Aegis Group PLC 968,000	1,549
• Allied Domecq PLC 44,553	355
• Associated British Ports Holdings PLC 382,500	2,991
• BG Group PLC 439,200	2,537
• BP PLC 66,200	572
⑧ British Sky Broadcasting Group PLC 383,898	4,534
⑩ Cadbury Schweppes PLC 557,800	4,437
• Capital Group PLC 194,600	1,070

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Carnival PLC 26,000	1,165			
• Cattles PLC 81,600	502			
Compass Group PLC 528,300	3,326			
• CSR PLC 219,314	1,015			
② Diageo PLC 474,100	6,360			
• Enodis PLC 1,515,000	2,472			
French Connection Group PLC 198,642	1,562			
Galen Holdings PLC 45,600	645			
⑤ GlaxoSmithKline PLC 252,000	5,215			
HBOS PLC 169,300	2,193			
Imperial Chemical Industries PLC 457,060	1,777			
ITV PLC 1,238,802	2,713			
J. Sainsbury PLC 198,000	978			
Kesa Electricals PLC 130,160	651			
Kingfisher PLC 427,863	2,149			
Man Group PLC 34,900	1,045			
Marks & Spencer Group PLC 450,900	2,209			
McCarthy & Stone PLC 37,600	384			
Michael Page Group PLC 1,097,500	3,372			
• Mothercare PLC 172,808	1,033			
• Orascom Telecommunications 47,500	443			
Pearson PLC 23,700	277			
Premier Farnell PLC 163,200	729			
Reckitt Benkiser PLC 78,497	2,041			
Reed Elsevier PLC 430,000	4,003			
RTL Group SA 7,960	487			
Savills PLC 118,029	996			
Signet Group PLC 1,340,000	2,751			
Smith & Nephew PLC 158,900	1,613			
Standard Chartered PLC 110,000	1,686			
⑥ Tesco PLC 1,135,000	5,007			
Whatman PLC 137,084	492			
• Wolfson Microelectronics PLC 330,185	1,556			
	<b>81,845</b>			
		<b>Short-Term Investments</b>	0.3% of net assets	
		<b>U.S. Government Securities</b>	0.3%	
		▲ U.S. Treasury Bills 0.92%, 06/17/04	1,500	<b>1,498</b>
				<b>Value</b> (\$ x 1,000)
		<b>Security and Number of Shares</b>		
		<b>Other Investments</b>	8.1% of net assets	
		<b>Other Investment Companies</b>	7.0%	
		Provident Institutional Funds— TempCash 9,713,161		9,713
		Provident Institutional Funds— TempFund 24,346,247		24,347
				<b>34,060</b>
		<b>Other</b>	1.1%	
		PNC Bank — Money Market Account 5,061,008		<b>5,061</b>
		<b>End of investments.</b>		

*In addition to the above, the fund held the following at 4/30/04. 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)
05/03/2004	U.S. Dollars	77	Australian Dollars	107	—
05/03/2004	U.S. Dollars	17	European Euro	14	—
05/03/2004	European Euro	99	U.S. Dollars	118	1
05/04/2004	U.S. Dollars	304	Australian Dollars	424	(2)
05/04/2004	U.S. Dollars	37	European Euro	31	—
05/04/2004	British Pounds	30	U.S. Dollars	53	—
05/04/2004	European Euro	100	U.S. Dollars	119	—
05/04/2004	British Pounds	14	U.S. Dollars	25	—
05/04/2004	European Euro	2	U.S. Dollars	2	—
05/04/2004	Thailand Bhat	498	U.S. Dollars	13	—
05/05/2004	U.S. Dollars	16	Australian Dollars	22	—
05/05/2004	U.S. Dollars	18	European Euro	15	—
05/05/2004	British Pounds	231	U.S. Dollars	410	(1)
05/05/2004	European Euro	239	U.S. Dollars	286	—
05/06/2004	Japanese Yen	49,888	U.S. Dollars	455	(3)
05/06/2004	British Pounds	7	U.S. Dollars	12	—
05/06/2004	Japanese Yen	4,411	U.S. Dollars	40	—
05/06/2004	Thailand Bhat	63	U.S. Dollars	16	—
05/07/2004	Japanese Yen	30,242	U.S. Dollars	275	(1)
05/10/2004	Japanese Yen	24,943	U.S. Dollars	226	—
					<b>(6)</b>

## Statement of

**Assets and Liabilities**

As of April 30, 2004, unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$496,712
Foreign currency	280
Receivables:	
Fund shares sold	1,472
Dividends	1,503
Foreign tax reclaims	238
Investments sold	8,336
Unrealized appreciation on foreign currency contracts	1
Prepaid expenses	+ 109
<b>Total assets</b>	<b>508,651</b>

**Liabilities**

Payables:	
Fund shares redeemed	177
Investments bought	22,064
Due to brokers for futures	70
Investment adviser and administrator fees	32
Transfer agency and shareholder service fees	6
Withholding taxes	1
Unrealized depreciation on foreign currency contracts	7
Accrued expenses	+ 126
<b>Total liabilities</b>	<b>22,483</b>

**Net Assets**

<b>Total assets</b>	508,651
<b>Total liabilities</b>	– 22,483
<b>Net assets</b>	<b>\$486,168</b>

**Net Assets by Source**

Capital received from investors	506,464
Distributions in excess of net investment income	(699)
Net realized capital losses	(82,695)
Net unrealized capital gains	63,098

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

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$465,788		35,365		\$13.17
Select Shares	\$20,380		1,547		\$13.18

Unless stated, all numbers x 1,000.

The fund paid \$433,556 for these securities.

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

Purchases	\$293,749
Sales/maturities	\$152,422

The fund paid \$280 for these currencies.

These derive from investments, foreign currency transactions and futures. As of the report date, the fund has thirty-five open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate net contract value of \$9,678 and a net unrealized loss of \$51.

**Federal Tax Data**

<b>Portfolio cost</b>	\$436,404
<b>Net unrealized gains and losses:</b>	
Gains	\$68,226
Losses	+ (7,918)
	<b>\$60,308</b>

**As of October 31, 2003:****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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$3,064
Interest	+	4
<b>Total investment income</b>		<b>3,068</b>

■ An additional \$442 was withheld for foreign taxes.

**Net Realized Gains and Losses**

Net realized gains on investments sold	16,923
Net realized losses on foreign currency transactions	(539)
Net realized gains on futures sold	+ 734
<b>Net realized gains</b>	<b>17,118</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	16,504
Net unrealized losses on foreign currency transactions	(52)
Net unrealized losses on futures contracts	+ (194)
<b>Net unrealized gains</b>	<b>16,258</b>

■ Calculated as 1.40% of average daily net assets.

**Expenses**

Investment adviser and administrator fees	2,761
Transfer agent and shareholder service fees:	
Investor Shares	491
Select Shares	2
Trustees' fees	3
Custodian and portfolio accounting fees	372
Professional fees	22
Registration fees	14
Shareholder reports	52
Other expenses	+ 15
Total expenses	3,732
Expense reduction	- 479
<b>Net expenses</b>	<b>3,253</b>

■ Calculated as a percentage of average daily net assets: for transfer agent services, 0.05% of the fund's assets; for shareholder services, 0.20% and 0.15% of the assets of each respective share class. These fees are paid to Charles Schwab & Co.

■ For the fund's independent trustees only.

■ Includes \$478 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 for Investors Shares and February 28, 2006 for Select Shares, as follows:

**Increase in Net Assets from Operations**

Total investment income	3,068
Net expenses	— 3,253
Net investment loss	<u>(185)</u>
Net realized gains	17,118
Net unrealized gains	+ 16,258
Increase in net assets from operations	<u>\$33,191</u>

Share Class	% of Average Daily Net Assets
Investor Shares	1.65
Select Shares	1.47

■ This limit doesn't include interest, taxes and certain non-routine expenses.

■ These add up to a net gain on investments of \$33,376

See financial notes. 61

## Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	11/1/02–10/31/03
Net investment income or loss	(\$185)	\$740
Net realized gains or losses	17,118	(6,081)
Net unrealized gains	+ 16,258	80,329
<b>Increase in net assets from operations</b>	<b>33,191</b>	<b>74,988</b>

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

Investor Shares	1,007	14
Select Shares	+ —	—
<b>Total dividends from net investment income</b>	<b>\$1,007</b>	<b>\$14</b>

**Transactions in Fund Shares**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	13,318	\$173,530	6,539	\$66,048
Select Shares	+ 1,550	21,012	—	—
<b>Total shares sold</b>	<b>14,868</b>	<b>\$194,542</b>	<b>6,539</b>	<b>\$66,048</b>
<b>Shares Reinvested</b>				
Investor Shares	77	\$938	2	\$13
Select Shares	+ —	—	—	—
<b>Total shares reinvested</b>	<b>77</b>	<b>\$938</b>	<b>2</b>	<b>\$13</b>
<b>Shares Redeemed</b>				
Investor Shares	(3,306)	(\$43,442)	(4,801)	(\$44,770)
Select Shares	+ (3)	(43)	—	—
<b>Total shares redeemed</b>	<b>(3,309)</b>	<b>(\$43,485)</b>	<b>(4,801)</b>	<b>(\$44,770)</b>
<b>Net transactions in fund shares</b>	<b>11,636</b>	<b>\$151,995</b>	<b>1,740</b>	<b>\$21,291</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	25,276	\$301,989	23,536	\$205,724
Total increase	+ 11,636	184,179	1,740	96,265
<b>End of period</b>	<b>36,912</b>	<b>\$486,168</b>	<b>25,276</b>	<b>\$301,989</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions paid for the prior period are:

Ordinary income	\$14
Long-term capital gains	\$—

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

<b>Current period</b>	
Investor Shares	\$52
Select Shares	+ —
<b>Total</b>	<b>\$52</b>
<b>Prior period</b>	
Investor Shares	\$52
Select Shares	+ —
<b>Total</b>	<b>\$52</b>

Dollar amounts are net of the redemption fees.

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

Includes distributions in excess of net investment income in the amount of \$699 at the end of the current period and undistributed net investment income in the amount of \$493 at the end of the prior period.

# Financial Notes unaudited

## Business Structure of the Funds

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

Prior to June 3, 2002, each fund invested in a mix of actively managed mutual funds. The transition to their 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

**Schwab International MarketMaster Fund offers 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 U.S. MarketMaster Fund, Schwab Balanced MarketMaster Fund and Small-Cap MarketMaster Fund each offers one share class.

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

## Fund Operations

Most of the 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.

**The funds intend to meet federal income and excise tax requirements for regulated investment companies.** Accordingly, the funds distribute substantially all of their net investment income and net realized capital gains (if any) to their respective shareholders each year. As long as a fund meets the tax requirements, it is not required to pay federal income tax. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales, foreign currency transactions and paydown gains and losses.

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

## Accounting Policies

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

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

- **Securities traded on an exchange or over-the-counter:** valued at 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.

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

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

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

# 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 4/30/04) 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., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; 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.

## 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	2003 (all trusts).	Vice Chair, 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>1,2</sup> 2/22/55	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.; SVP, 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.

<sup>2</sup> Effective June 8, 2004, Jeffrey Lyons resigned as trustee from each of the trusts.

## 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, 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, Laudus Trust, Laudus Variable Insurance Trust. <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 (corporate 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). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <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); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
<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 investment trust).
<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

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

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

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

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

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

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

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

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 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. 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. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any 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**).

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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.

## Proxy Voting Policies and Procedures

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

## 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, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

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

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

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

**Investment Adviser**

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

**Distributor**

SchwabFunds®  
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# Schwab MarketTrack Portfolios<sup>®</sup>

## **Semiannual Report**

April 30, 2004

Schwab MarketTrack  
All Equity Portfolio<sup>™</sup>

Schwab MarketTrack  
Growth Portfolio<sup>™</sup>

Schwab MarketTrack  
Balanced Portfolio<sup>™</sup>

Schwab MarketTrack  
Conservative Portfolio<sup>™</sup>

*Four portfolios that combine the power of indexing  
with the benefits of asset allocation.*

## 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 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

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### Schwab MarketTrack Conservative Portfolio

Ticker Symbol: **SWCGX**

The portfolio seeks income and more growth potential than an all-bond portfolio.

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# From the Chairman



Charles R. Schwab  
Chairman

When I look at the current economic trends, I see a lot of positive indicators. Corporate profits, revenues, capital spending and the employment numbers have been strong. With the GDP and capital spending also strong, we seem to be in the early stages of what could be a long-term economic recovery. However, even though stock market and economic cycles have historically been in synch, this now seems to be less certain.

The stock market, reflecting the uncertainty around the globe, has become increasingly volatile. Whether it's the war in Iraq or global terrorism, investors are exposed to frightening images over and over again throughout the day. This may play on investors' emotions, potentially contributing to the market's recent volatility.

Given this, and because it can be so difficult to fight your emotions, I believe it's more important than ever to stay diversified. By being diversified across and within all asset classes, you have an "all-weather" portfolio that can offer you some balance in any market climate. There are very obvious reasons why diversification is useful, but what I believe is its understated beauty is that it gives many of you the discipline you need to stick with a well thought out strategy.

I have been a fan of mutual funds throughout my long investing career. I say this because I firmly believe that mutual funds are a cost-effective and convenient way for investors to achieve a diversified portfolio. And as we face increasing uncertainty in the world and in the stock markets, this is perhaps more important than ever.

Overall, despite the likelihood of short-term market volatility, I maintain complete faith in the strength of the U. S. economy. I always have believed and continue to believe that the stock market is the best place for long-term investing, and that with a wise investing plan – and a well diversified portfolio – you will be well-positioned to meet your financial goals.

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 six months ended April 30, 2004



**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 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The stock market's continued recovery during the report period was welcome news to long-term investors, especially those of you who had suffered through declining share prices before then.

For years, investors sold stocks and stock mutual funds when the economy was weak or when geopolitical tensions heightened, despite the fact that stock and fund prices often were relatively cheap during those dark hours. Over the past year, however, I've spoken with many individual investors who benefited from sticking with their long-term asset-allocation plans. As a result, they were able to participate in the past year's stock market gains. They learned how difficult it is to successfully "time the market" and determine when to "be in cash." Many have given up this chase altogether and have benefited both financially and emotionally.

Given the ongoing geopolitical situation, however, it's quite understandable that many investors are nervous, and some are again acting more on their emotions than on sound investment principles. When you invest in SchwabFunds®, you can be assured that our portfolio managers understand your concerns and are diligent in their approach to the investment process. Key to this is their knowledge of and adherence to each fund's objective and their vigilant focus on remaining true to it. In short, each of our portfolio manager's responsibility is to remain consistent in implementing their investment strategies, despite the market's fluctuations.

There's one more thing I want to address in this letter and that is, as of July 19, 2004, following a distinguished ten-year career at Schwab, Geri Hom, senior portfolio manager, has decided to retire. Jeff Mortimer, senior vice-president and chief investment officer, equities of Charles Schwab Investment Management, Inc., assumes Geri's responsibilities for overall management of the funds.

I expect these changes to be seamless to our shareholders, as SchwabFunds® has been and will continue to be managed by teams of seasoned professionals, who remain committed to their investing styles. We thank you for your trust in us as we help you reach your long- or short-term financial goals.

Sincerely,

*Randall W. Merk*



**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 senior 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, which had improved during the second half of 2003, picked up steam at the end of the year and continued to show signs of recovery through the current report period of November 1, 2003 through April 30, 2004. The securities market reflected the positive news through first-quarter 2004. During that time, the market started to bounce around a little, as evidenced by the volatility in the S&P 500® Index in February and March. Toward the end of the report period, in late April, the market fell precipitously and many of the funds' 2004 gains were lost. Nonetheless, its earlier performance was strong enough to push the broader market up 6.27% for the report period, as measured by the S&P 500® Index.

While the economy officially emerged from recession in 2001, the recovery didn't fully materialize until 2003. And it wasn't until late in 2003 when investors started buying companies with good solid fundamentals. During this time, both the manufacturing and services sectors exhibited strong growth. Capital spending showed signs of life amid rising corporate profits.

The economy continued to expand in 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise, despite a mid-quarter pause in the upward trend in consumer confidence, and higher commodity prices were holding. Mortgage refinancing activity, while still significant, started to show signs of waning as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid growth.

On the currency front, the dollar rebounded from its lows, due to two reasons. First, the U. S. economy grew more than most other countries' economies did. The second reason is the expectation that interest rates will rise, which has served to stimulate inflows of foreign capital.

The Federal Reserve (Fed) left interest rates unchanged during the period. Inflation began to accelerate, alleviating Fed fears of possible deflation. Consequent expectations that the Fed would soon begin to raise interest rates weighed on markets toward the end of the period. Nevertheless, economic fundamentals remained sound. With delayed job growth underway, the economy was improving on all fronts. Strong

*With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq.*

personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq. Business profits exhibited another strong quarterly gain and investment in equipment and inventories remained healthy. In sum, it appeared that the economy, indeed, was back on track.

## The Funds

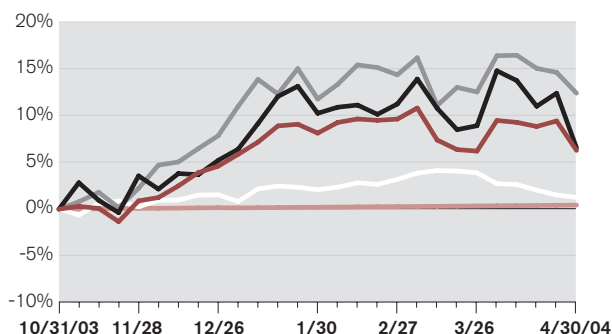
The equities market started off strong at the beginning of the period that ran from November 1, 2003 through April 30, 2004. Toward the middle of first-quarter 2004, however, the market, as evidenced by the S&P 500® Index, became fairly volatile and bounced around until the end of April, when it dropped precipitously, giving up some of its earlier gains. Nonetheless, performance of all of the Market Track portfolios was positive over the report period, closely tracking their benchmark.

The S&P 500® Index closed at 1107.30, up 6.27% for the period. First-quarter earnings came in very strong. As of the end of April, 410 of the 500 companies in the index had reported earnings, which were an average 8.4% higher than analysts' estimates.

### 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.

- 6.27% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.54% **Russell 2000® Index:** measures U.S. small-cap stocks
- 12.39% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.25% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 0.43% **Three-Month U.S. Treasury Bills (T-bills):** measures short-term U.S. Treasury obligations



These figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and you cannot invest in them directly. Remember that past performance is not an indication of future results. Data source: Charles Schwab & Co., Inc.



## Performance at a Glance

Total return for the six months ended 4/30/04

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

**Schwab MarketTrack  
All Equity Portfolio** ..... 7.04%  
Benchmark. .... 7.30%  
*Performance Details* ..... page 6

**Schwab MarketTrack  
Growth Portfolio** ..... 5.70%  
Benchmark. .... 6.09%  
*Performance Details* ..... page 8

**Schwab MarketTrack  
Balanced Portfolio** ..... 4.46%  
Benchmark. .... 4.66%  
*Performance Details* ..... page 10

**Schwab MarketTrack  
Conservative Portfolio** ..... 3.29%  
Benchmark. .... 3.49%  
*Performance Details* ..... page 12

In terms of performance, the top industry, as measured by the S&P 500® Index was energy, up 22.44% for the period, due in part to the soaring price of a barrel of oil. Coming in a close second was telecommunications services, which was up 12.38%, followed by the consumer staples industry, which grew 10.42%. The worst performing industry was information technology, which was down 3.96%.

Although bonds didn't fare nearly as well as equities, performance was still positive, up 1.25%, as measured by the Lehman Brothers Aggregate Index. This differential is not unusual, given that we appeared to be in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which leads to higher interest rates and ultimately brings down prices for bonds.

**The Schwab Market Track All Equity Portfolio** was the top performer of the four funds, largely due to its allocation to the equity groups that saw the biggest returns. Performance for the period was up 7.04%, closely tracking its benchmark. The fund's 30% allocation to international stocks, along with its 25% allocation to small-cap stocks, which led the market for most of the report period, were key to strong performance.

**The Schwab Market Track Growth Portfolio** also did well. It was up 5.70%, closely tracking its benchmark. Fund performance was helped by exposure to the strong performing international sector and small-cap stocks. The difference in the fund's performance compared to the All Equity Portfolio was due to its fixed-income allocation.

**The Schwab Market Track Balanced Portfolio** and the **Schwab Market Track Conservative Portfolio**, with even greater exposure to fixed income, came in third and fourth, respectively. Nonetheless, they both were up for the report period. The balanced fund, with 35% allocated to bonds, was up 4.46%, while the conservative portfolio, with 55% of the fund in fixed-income, was up 3.29%.

All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Expenses may be partially absorbed by CSIM and Schwab. Without these reductions, the portfolios' total returns would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on portfolio distributions or on the redemption of portfolio shares. Small company stocks are subject to greater volatility than other asset categories. Foreign securities can involve risks such as political and economic instability and currency risk. Nothing in this report represents a recommendation of a security by the investment adviser. Manager views and portfolio holdings may have changed since the report date.

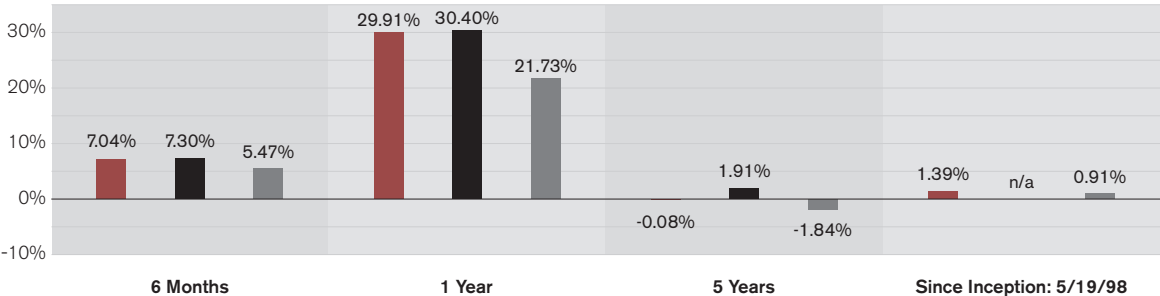
# Schwab MarketTrack All Equity Portfolio

Performance as of 4/30/04

## 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

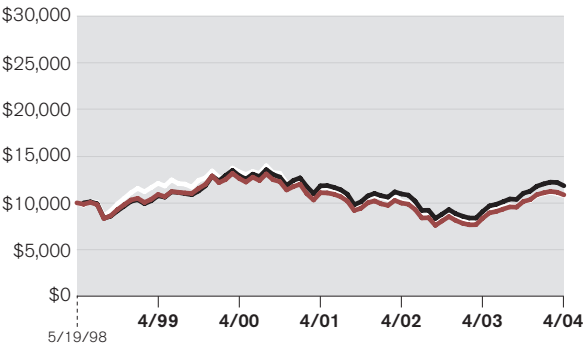


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## Performance of a Hypothetical \$10,000 Investment<sup>2</sup>

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

- \$10,854 Portfolio
- \$11,828 All Equity Composite Index
- \$10,787 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. Results for the report period are not annualized.

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

<sup>2</sup> The All Equity Composite Index is composed of Morningstar category averages and is calculated using the following portion allocations: 45% large-cap stocks, 25% small-cap stocks and 30% foreign stocks. Source: Morningstar, Inc.

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

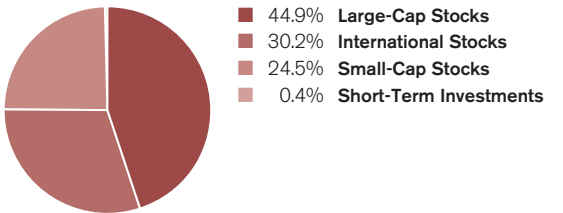
Number of Holdings	5
Weighted Average Market Cap (\$ x 1,000,000)	\$56,260
Price/Earnings Ratio (P/E)	28.2
Price/Book Ratio (P/B)	2.5
Portfolio Turnover Rate <sup>2</sup>	5%

Top Holdings<sup>3</sup>

Security	% of Net Assets
① Schwab S&P 500 Fund Select Shares	44.9%
② Schwab International Index Fund Select Shares	30.2%
③ Schwab Small-Cap Index Fund Select Shares	24.5%
Total	99.6%

Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

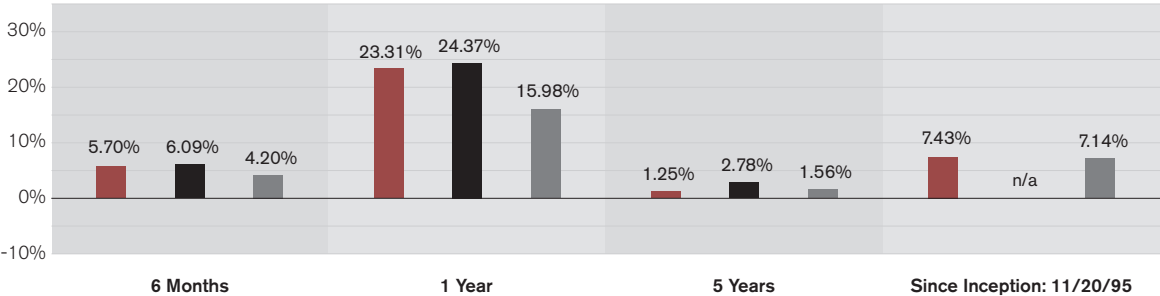
# Schwab MarketTrack Growth Portfolio

Performance as of 4/30/04

## 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

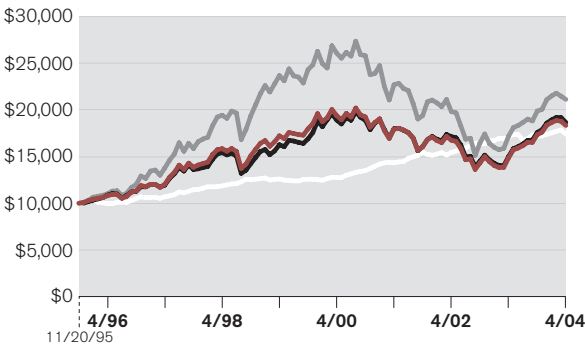


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

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

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

- \$18,327 Portfolio
- \$18,660 Growth Composite Index
- \$21,126 S&P 500® Index
- \$17,385 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. Results for the report period are not annualized.

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

<sup>2</sup> The Growth Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 40% large-cap stocks, 20% small-cap stocks, 20% foreign stocks, 15% bonds and 5% cash. Source: Morningstar, Inc.

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

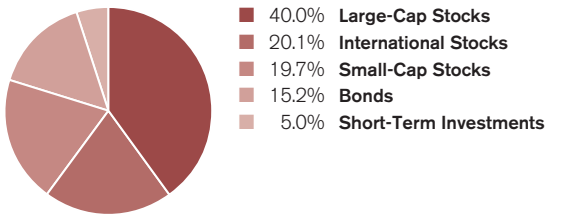
Number of Holdings	505
Weighted Average Market Cap (\$ x 1,000,000)	\$58,094
Price/Earnings Ratio (P/E)	28.1
Price/Book Ratio (P/B)	2.6
Portfolio Turnover Rate <sup>2</sup>	5%

Top Holdings<sup>3</sup>

Security	% of Net Assets
1 Schwab S&P 500 Fund Select Shares	23.9%
2 Schwab International Index Fund Select Shares	20.1%
3 Schwab Small-Cap Index Fund Select Shares	19.7%
4 Schwab Total Bond Market Fund	15.2%
5 General Electric Co.	0.5%
6 Microsoft Corp.	0.4%
7 Exxon Mobil Corp.	0.4%
8 Pfizer, Inc.	0.4%
9 Citigroup, Inc.	0.4%
10 Wal-Mart Stores, Inc.	0.4%
Total	81.4%

Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

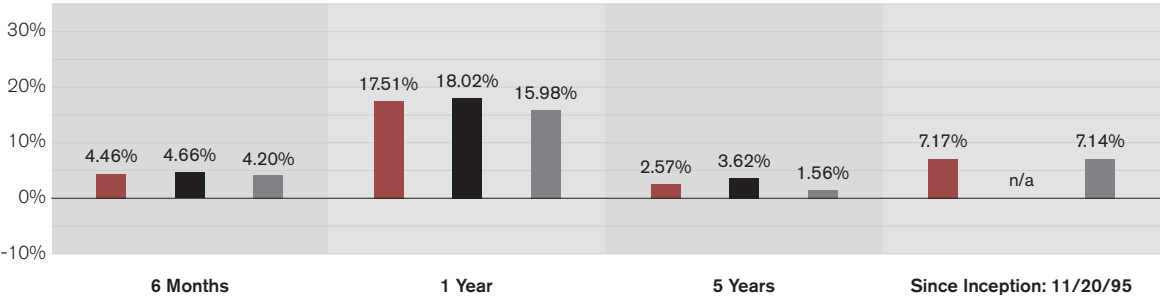
# Schwab MarketTrack Balanced Portfolio

## Performance as of 4/30/04

### 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**

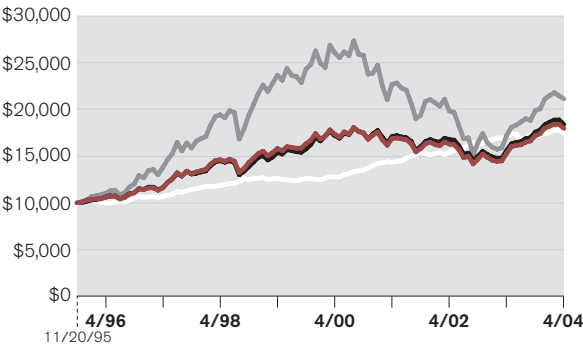


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

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

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

- \$17,960 Portfolio
- \$18,389 Balanced Composite Index
- \$21,126 S&P 500® Index
- \$17,385 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. Results for the report period are not annualized.

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

<sup>2</sup> The Balanced Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 30% large-cap stocks, 15% small-caps stocks, 15% foreign stocks, 35% bonds and 5% cash. Source: Morningstar, Inc.

Fund Facts as of 4/30/04

Top Holdings<sup>1</sup>

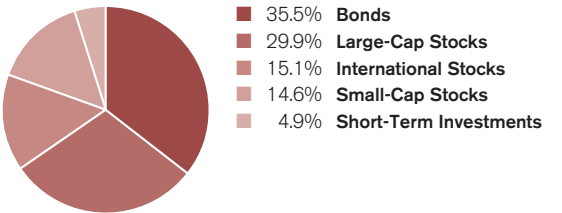
Security	% of Net Assets
1 Schwab Total Bond Market Fund	35.4%
2 Schwab S&P 500 Fund Select Shares	17.3%
3 Schwab International Index Fund Select Shares	15.1%
4 Schwab Small-Cap Index Fund Select Shares	14.6%
5 General Electric Co.	0.4%
6 Microsoft Corp.	0.3%
7 Exxon Mobil Corp.	0.3%
8 Pfizer, Inc.	0.3%
9 Citigroup, Inc.	0.3%
10 Wal-Mart Stores, Inc.	0.3%
Total	84.3%

Statistics

Number of Holdings	505
Portfolio Turnover Rate <sup>2</sup>	7%

Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.

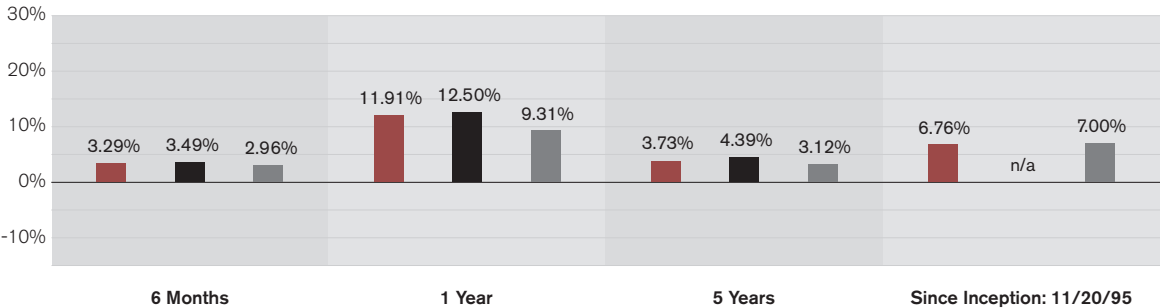
# Schwab MarketTrack Conservative Portfolio

Performance as of 4/30/04

## 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**

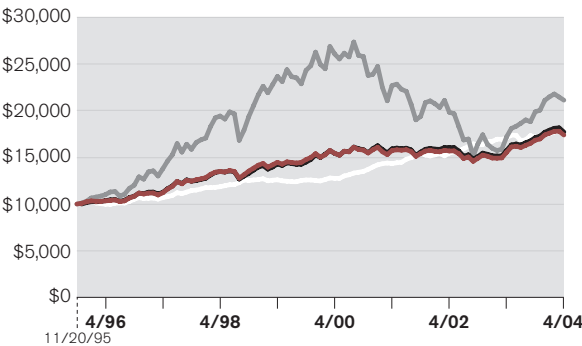


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

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

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

- \$17,390 **Portfolio**
- \$17,714 **Conservative Composite Index**
- \$21,126 **S&P 500® Index**
- \$17,385 **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. Results for the report period are not annualized.

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

<sup>2</sup> The Conservative Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 20% large-cap stocks, 10% small-cap stocks, 10% foreign stocks, 55% bonds and 5% cash. Source: Morningstar, Inc.



Fund Facts as of 4/30/04

Top Holdings<sup>1</sup>

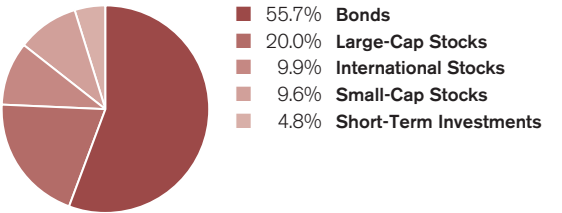
Security	% of Net Assets
1 Schwab Total Bond Market Fund	55.6%
2 Schwab S&P 500 Fund Select Shares	14.5%
3 Schwab International Index Fund Select Shares	9.9%
4 Schwab Small-Cap Index Fund Select Shares	9.6%
5 General Electric Co.	0.2%
6 Microsoft Corp.	0.1%
7 Exxon Mobil Corp.	0.1%
8 Pfizer, Inc.	0.1%
9 Citigroup, Inc.	0.1%
10 Wal-Mart Stores, Inc.	0.1%
Total	90.3%

Statistics

Number of Holdings	505
Portfolio Turnover Rate <sup>2</sup>	7%

Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.

# Schwab MarketTrack All Equity Portfolio

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	9.43	7.60	9.06	12.06	11.48	9.28
Income or loss from investment operations:						
Net investment income	0.11	0.09	0.05	0.22	0.04	0.03
Net realized and unrealized gains or losses	0.55	1.85	(1.32)	(2.99)	0.69	2.22
Total income or loss from investment operations	0.66	1.94	(1.27)	(2.77)	0.73	2.25
Less distributions:						
Dividends from net investment income	(0.09)	(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	(0.09)	(0.11)	(0.19)	(0.23)	(0.15)	(0.05)
Net asset value at end of period	10.00	9.43	7.60	9.06	12.06	11.48
Total return (%)	7.04 <sup>1</sup>	25.77	(14.40)	(23.27)	6.37	24.34
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses <sup>2</sup>	0.50 <sup>3</sup>	0.50	0.50	0.50	0.57 <sup>4</sup>	0.54
Gross operating expenses <sup>2</sup>	0.75 <sup>3</sup>	0.76	0.77	0.77	0.84	0.97
Net investment income	1.07 <sup>1</sup>	1.10	0.58	1.93	0.05	0.13
Portfolio turnover rate	5 <sup>1</sup>	10	15	5	3	6
Net assets, end of period (\$ x 1,000,000)	456	427	353	405	441	203

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

Holdings by Category		Cost (\$x1,000)	Value (\$x1,000)
99.6%	<b>Other Investment Companies</b>	478,451	453,921
0.4%	<b>Short-Term Investment</b>	1,532	1,532
0.0%	<b>U.S. Treasury Obligation</b>	110	110
100.0%	<b>Total Investments</b>	<b>480,093</b>	<b>455,563</b>
0.0%	<b>Other Assets and Liabilities, Net</b>		23
100.0%	<b>Total Net Assets</b>		<b>455,586</b>

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

**Short-Term Investment**  
 0.4% of net assets

Bank of America, London Time Deposit 0.50%, 05/03/04	1,532	<b>1,532</b>
------------------------------------------------------------	-------	--------------

**U.S. Treasury Obligation**  
 0.0% of net assets

▲ U.S. Treasury Bill, 0.91%, 06/17/04	110	<b>110</b>
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**End of investments.**

Security and Number of Shares	Value (\$ x 1,000)
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**Other Investment Companies**  
 99.6% of net assets

■② Schwab International Index Fund, Select Shares 9,861,453	137,764
▲① Schwab S&P 500 Fund, Select Shares 11,904,834	204,526
■③ Schwab Small-Cap Index Fund, Select Shares 5,915,803	111,631
	<b>453,921</b>

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$455,563
Receivables:	
Fund shares sold	288
Prepaid expenses	+ 21
<b>Total assets</b>	<b>455,872</b>

**Liabilities**

Payables:	
Fund shares redeemed	158
Investments bought	50
Due to brokers for futures	12
Investment adviser and administrator fees	5
Transfer agent and shareholder service fees	6
Accrued expenses	+ 55
<b>Total liabilities</b>	<b>286</b>

**Net Assets**

<b>Total assets</b>	455,872
<b>Total liabilities</b>	- 286
<b>Net assets</b>	<b>\$455,586</b>

**Net Assets by Source**

Capital received from investors	514,957
Distributions in excess of net investment income	(776)
Net realized capital losses	(34,046)
Net unrealized capital losses	(24,549)

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$455,586		45,570		\$10.00

Unless stated, all numbers x 1,000.

The fund paid \$480,093 for these securities.

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

Purchases	\$26,772
Sales/maturities	\$23,815

Percent of fund shares of other Schwab funds owned at the end of the report period:

**Schwab Equity Index Funds**

S&P 500 Fund	2.5%
Small-Cap Index Fund	6.7%
International Index Fund	11.3%

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 June 18, 2004, with an aggregate contract value of \$1,659 and net unrealized losses of \$19.

**Federal Tax Data**

<b>Portfolio Cost</b>	\$488,475
<b>Net unrealized gains and losses:</b>	
Gains	\$12,716
Losses	+ (45,628)
	<b>(\$32,912)</b>

**As of December 31, 2003:****Undistributed earnings:**

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

**Unused capital losses:**

Expires 12/31 of:	Loss amount:
2011	\$11,058
2012	+ 13,010
	<b>\$24,068</b>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$6,042
Interest	+ 4
<b>Total investment income</b>	<b>6,046</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(1,479)
Net realized gains on futures contracts	+ 160
<b>Net realized losses</b>	<b>(1,319)</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	26,609
Net unrealized losses on futures contracts	+ (72)
<b>Net unrealized gains</b>	<b>26,537</b>

**Expenses**

Investment adviser and administrator fees	1,007
Transfer agent and shareholder service fees	572
Trustees' fees	4
Custodian fees	18
Portfolio accounting fees	31
Professional fees	16
Registration fees	9
Shareholder reports	56
Other expenses	+ 3
Total expenses	1,716
Expense reduction	- 572
<b>Net expenses</b>	<b>1,144</b>

**Increase in Net Assets from Operations**

Total investment income	6,046
Net expenses	— 1,144
Net investment income	<u>4,902</u>
Net realized losses	(1,319)
Net unrealized gains	+ 26,537
Increase in net assets from operations	<u>\$30,120</u>

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 28, 2005, 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 \$25,218.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	11/1/02–10/31/03
Net investment income	\$4,902	\$4,133
Net realized losses	(1,319)	(10,097)
Net unrealized gains	+ 26,537	94,425
<b>Increase in net assets from operations</b>	<b>30,120</b>	<b>88,461</b>

**Distributions Paid**

Dividends from net investment income	4,156	3,978
Distributions from net realized gains	+ —	837
<b>Total distributions paid</b>	<b>\$4,156</b>	<b>\$4,815</b>

**Transactions in Fund Shares**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,541	\$45,912	7,189	\$58,084
Shares reinvested	409	4,002	618	4,696
Shares redeemed	+ (4,710)	(47,553)	(8,992)	(72,607)
<b>Net transactions in fund shares</b>	<b>240</b>	<b>\$2,361</b>	<b>(1,185)</b>	<b>(\$9,827)</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	45,330	\$427,261	46,515	\$353,442
Total increase or decrease	+ 240	28,325	(1,185)	73,819
<b>End of period</b>	<b>45,570</b>	<b>\$455,586</b>	<b>45,330</b>	<b>\$427,261</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/03 are:

Ordinary Income	\$4,156
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 distributions in excess of net investment income in the amount of \$776 and \$1,522 at the end of the current period and the prior period, respectively.

# Schwab MarketTrack Growth Portfolio

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	14.36	12.05	13.88	17.22	16.37	13.96
Income or loss from investment operations:						
Net investment income	0.19	0.18	0.19	0.41	0.22	0.18
Net realized and unrealized gains or losses	0.63	2.33	(1.62)	(3.22)	0.94	2.48
Total income or loss from investment operations	0.82	2.51	(1.43)	(2.81)	1.16	2.66
Less distributions:						
Dividends from net investment income	(0.21)	(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	(0.21)	(0.20)	(0.40)	(0.53)	(0.31)	(0.25)
Net asset value at end of period	14.97	14.36	12.05	13.88	17.22	16.37
Total return (%)	5.70 <sup>1</sup>	21.18	(10.78)	(16.71)	7.08	19.24
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses <sup>2</sup>	0.50 <sup>3</sup>	0.50	0.50	0.50	0.57 <sup>4</sup>	0.58
Gross operating expenses <sup>2</sup>	0.73 <sup>3</sup>	0.74	0.75	0.74	0.82	0.91
Net investment income	1.19 <sup>1</sup>	1.48	1.35	2.58	1.32	1.21
Portfolio turnover rate	5 <sup>1</sup>	9	21	10	12	7
Net assets, end of period (\$ x 1,000,000)	617	578	510	511	566	428

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>78.9% Other Investment Companies</b>	465,025	487,056
<b>16.1% Common Stock</b>	64,443	99,350
<b>5.0% Short-Term Investments</b>	30,887	30,887
<b>100.0% Total Investments</b>	<b>560,355</b>	<b>617,293</b>
<b>0.0% Other Assets and Liabilities, Net</b>		(115)
<b>100.0% Total Net Assets</b>		<b>617,178</b>

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

**Common Stock** 16.1% of net assets**Aerospace / Defense 0.3%**

The Boeing Co.	8,078	345
Crane Co.	300	9
General Dynamics Corp.	2,000	187
Goodrich Corp.	1,100	32
Lockheed Martin Corp.	4,300	205
Northrop Grumman Corp.	1,796	178
Raytheon Co.	3,900	126
Rockwell Automation, Inc.	1,900	62
Rockwell Collins, Inc.	1,900	61
Textron, Inc.	1,500	83
United Technologies Corp.	5,000	432
		<b>1,720</b>

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

**Air Transportation 0.2%**

Delta Air Lines, Inc.	1,300	8
FedEx Corp.	2,920	210
Sabre Holdings Corp.	1,283	30
Southwest Airlines Co.	7,480	107
United Parcel Service, Inc., Class B	10,818	759
		<b>1,114</b>

**Alcoholic Beverages 0.1%**

Adolph Coors Co., Class B	400	26
Anheuser-Busch Cos., Inc.	7,800	400
Brown-Forman Corp., Class B	1,204	56
		<b>482</b>

**Apparel 0.1%**

Jones Apparel Group, Inc.	1,200	44
Liz Claiborne, Inc.	1,200	42
Nike, Inc., Class B	2,500	180
Reebok International Ltd.	500	18
VF Corp.	1,200	56
		<b>340</b>

**Automotive Products / Motor Vehicles 0.2%**

Cooper Tire & Rubber Co.	700	15
Cummins, Inc.	400	24
Dana Corp.	1,578	32
Danaher Corp.	1,400	129
Delphi Corp.	5,743	59
Eaton Corp.	1,400	83
Ford Motor Co.	18,103	278
General Motors Corp.	5,425	257
Genuine Parts Co.	1,800	64
Goodyear Tire & Rubber Co.	1,600	14
Harley-Davidson, Inc.	3,000	169
• Navistar International Corp.	700	32
Visteon Corp.	1,558	17
		<b>1,173</b>

**Banks 1.2%**

AmSouth Bancorp.	3,300	73
Bank of America Corp.	19,562	1,575
The Bank of New York Co., Inc.	7,300	213



Security and Number of Shares	Value (\$ x 1,000)
Bank One Corp. 10,875	537
BB&T Corp. 5,300	183
Comerica, Inc. 1,700	88
Fifth Third Bancorp 5,369	288
First Horizon National Corp. 1,200	53
Huntington Bancshares, Inc. 2,262	48
J.P. Morgan Chase & Co. 19,960	750
KeyCorp, Inc. 4,400	131
M&T Bank Corp. 1,198	102
Marshall & Ilsley Corp. 2,056	76
Mellon Financial Corp. 4,100	121
National City Corp. 6,100	211
North Fork Bancorp., Inc. 1,600	59
Northern Trust Corp. 2,200	93
PNC Financial Services Group, Inc. 2,800	149
Regions Financial Corp. 2,100	73
SouthTrust Corp. 3,400	106
State Street Corp. 3,300	161
SunTrust Banks, Inc. 2,800	190
Synovus Financial Corp. 2,750	66
U.S. Bancorp 18,662	478
Union Planters Corp. 1,950	54
Wachovia Corp. 12,884	589
Wells Fargo & Co. 16,415	927
Zions Bancorp. 900	51
	<b>7,445</b>

**Business Machines & Software 1.4%**

Adobe Systems, Inc. 2,400	99
• Apple Computer, Inc. 3,200	82
Autodesk, Inc. 1,200	40
• BMC Software, Inc. 2,400	41
• Cisco Systems, Inc. 66,500	1,388
• Compuware Corp. 3,600	28
• Converse Technology, Inc. 1,400	23
• Dell, Inc. 24,600	854
• EMC Corp. 23,186	259
• Gateway, Inc. 3,100	15
Hewlett-Packard Co. 29,903	589
International Business Machines Corp. 16,500	1,455
• Lexmark International, Inc., Class A 1,300	118
• Microsoft Corp. 104,200	2,706

Security and Number of Shares	Value (\$ x 1,000)
• NCR Corp. 1,000	45
• Network Appliance, Inc. 3,400	63
• Novell, Inc. 3,200	31
• Oracle Corp. 50,648	568
Pitney Bowes, Inc. 2,300	101
• Siebel Systems, Inc. 4,300	44
• Sun Microsystems, Inc. 30,800	120
• Unisys Corp. 3,100	40
• Xerox Corp. 7,800	105
	<b>8,814</b>

**Business Services 0.7%**

• Affiliated Computer Services, Inc., Class A 671	33
• Allied Waste Industries, Inc. 3,100	39
• Apollo Group, Inc., Class A 1,700	154
Automatic Data Processing, Inc. 5,700	250
• Cendant Corp. 9,532	226
• Cintas Corp. 1,638	74
• Citrix Systems, Inc. 1,800	34
Computer Associates International, Inc. 5,625	151
• Computer Sciences Corp. 1,680	69
• Convergys Corp. 1,354	20
Deluxe Corp. 700	29
• eBay, Inc. 6,268	500
Electronic Data Systems Corp. 4,600	84
Equifax, Inc. 1,200	29
First Data Corp. 8,688	394
• Fiserv, Inc. 1,800	66
H&R Block, Inc. 1,700	77
IMS Health, Inc. 2,300	58
• Interpublic Group of Cos., Inc. 3,700	58
• Intuit, Inc. 1,972	84
• Mercury Interactive Corp. 800	34
• Monster Worldwide, Inc. 954	24
Omnicom Group, Inc. 1,800	143
• Parametric Technology Corp. 2,700	12
Paychex, Inc. 3,600	134
• PeopleSoft, Inc. 3,600	61
• Robert Half International, Inc. 1,700	46
• Sungard Data Systems, Inc. 2,725	71
• Symantec Corp. 2,800	126

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Tyco International Ltd. 19,303	530	• Pactiv Corp. 1,500	35
• Veritas Software Corp. 4,200	112	• Sealed Air Corp. 882	43
Waste Management, Inc. 5,517	157		<b>131</b>
• Yahoo!, Inc. 6,300	318		
	<b>4,197</b>		
<b>Chemicals 0.2%</b>		<b>Electronics 0.8%</b>	
Air Products & Chemicals, Inc. 2,300	115	• ADC Telecommunications, Inc. 6,000	15
Dow Chemical Co. 8,994	357	• Advanced Micro Devices, Inc. 2,840	40
E.I. du Pont de Nemours & Co. 9,592	412	• Agilent Technologies, Inc. 4,437	120
Eastman Chemical Co. 800	34	• Altera Corp. 3,680	74
Ecolab, Inc. 2,800	83	American Power Conversion Corp. 1,725	32
Great Lakes Chemical Corp. 600	15	Analog Devices, Inc. 3,400	145
• Hercules, Inc. 900	10	• Andrew Corp. 1,550	26
• Monsanto Co. 2,493	86	• Applied Materials, Inc. 16,200	295
PPG Industries, Inc. 1,500	89	• Applied Micro Circuits Corp. 2,862	13
Praxair, Inc. 3,200	117	• Broadcom Corp., Class A 2,900	109
Rohm & Haas Co. 2,205	86	• CIENA Corp. 3,200	13
Sigma-Aldrich Corp. 600	34	Intel Corp. 62,800	1,616
	<b>1,438</b>	ITT Industries, Inc. 900	71
		• Jabil Circuit, Inc. 1,998	53
<b>Construction 0.1%</b>		• JDS Uniphase Corp. 12,589	38
Centex Corp. 1,200	57	• KLA-Tencor Corp. 1,800	75
Fluor Corp. 800	30	Linear Technology Corp. 3,000	107
KB Home 400	28	• LSI Logic Corp. 3,000	22
Masco Corp. 4,700	132	• Lucent Technologies, Inc. 40,092	135
Pulte Homes, Inc. 1,400	69	Maxim Integrated Products, Inc. 3,100	143
The Sherwin-Williams Co. 1,200	46	• Micron Technology, Inc. 5,400	74
The Stanley Works 600	25	Molex, Inc. 1,875	56
Vulcan Materials Co. 800	37	Motorola, Inc. 22,631	413
	<b>424</b>	• National Semiconductor Corp. 1,700	69
		• Novellus Systems, Inc. 1,325	38
<b>Consumer Durables 0.0%</b>		• Nvidia Corp. 1,400	29
Black & Decker Corp. 900	52	PerkinElmer, Inc. 1,000	19
Leggett & Platt, Inc. 2,000	45	• PMC — Sierra, Inc. 1,600	19
Maytag Corp. 900	25	• Power-One, Inc. 400	3
Newell Rubbermaid, Inc. 2,745	65	• QLogic Corp. 869	23
Whirlpool Corp. 800	53	Qualcomm, Inc. 7,600	475
	<b>240</b>	• Sanmina-SCI Corp. 5,000	50
		Scientific-Atlanta, Inc. 1,600	52
<b>Containers 0.0%</b>		• Solectron Corp. 7,900	39
Ball Corp. 400	26	Symbol Technologies, Inc. 1,908	23
Bemis Co. 1,000	27	Tektronix, Inc. 900	27
		• Tellabs, Inc. 4,000	35

Security and Number of Shares	Value (\$ x 1,000)
• Teradyne, Inc. 1,700	35
• Texas Instruments, Inc. 16,800	422
• Thermo Electron Corp. 1,300	38
• Thomas & Betts Corp. 481	12
• Waters Corp. 1,300	56
• Xilinx, Inc. 3,200	108
	<b>5,257</b>

#### Energy: Raw Materials 0.2%

Anadarko Petroleum Corp. 2,418	130
Apache Corp. 3,308	138
Baker Hughes, Inc. 2,960	109
• BJ Services Co. 1,500	67
Burlington Resources, Inc. 1,905	128
Devon Energy Corp. 2,300	141
EOG Resources, Inc. 1,128	56
Halliburton Co. 4,158	124
• Noble Corp. 1,300	48
Occidental Petroleum Corp. 3,600	170
• Rowan Cos., Inc. 600	13
Schlumberger Ltd. 5,700	334
Valero Energy Corp. 1,200	76
	<b>1,534</b>

#### Food & Agriculture 0.6%

Archer-Daniels-Midland Co. 6,532	115
Campbell Soup Co. 4,200	116
The Coca-Cola Co. 23,800	1,204
Coca-Cola Enterprises, Inc. 4,000	108
ConAgra Foods, Inc. 4,900	141
General Mills, Inc. 3,576	174
H.J. Heinz Co. 3,400	130
Hershey Foods Corp. 1,200	107
Kellogg Co. 3,900	167
McCormick & Co., Inc. 1,400	48
The Pepsi Bottling Group, Inc. 2,832	83
PepsiCo, Inc. 16,460	897
Sara Lee Corp. 7,600	175
Supervalu, Inc. 1,400	43
Sysco Corp. 6,200	237
Wm. Wrigley Jr. Co. 2,200	136
	<b>3,881</b>

Security and Number of Shares	Value (\$ x 1,000)
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#### Gold 0.0%

Newmont Mining Corp. 4,201	<b>157</b>
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#### Healthcare / Drugs & Medicine 2.2%

Abbott Laboratories 15,300	673
Allergan, Inc. 1,300	114
AmerisourceBergen Corp. 1,000	58
• Amgen, Inc. 12,488	703
• Anthem, Inc. 1,351	120
Applied Biosystems Group – Applera Corp. 2,000	37
Bausch & Lomb, Inc. 600	38
Baxter International, Inc. 5,600	177
Becton Dickinson & Co. 2,600	131
• Biogen Idec, Inc. 3,125	184
Biomet, Inc. 2,475	98
• Boston Scientific Corp. 8,148	336
Bristol-Myers Squibb Co. 19,000	477
C.R. Bard, Inc. 400	42
Cardinal Health, Inc. 4,100	300
• Caremark Rx, Inc. 3,570	121
• Chiron Corp. 1,800	84
Eli Lilly & Co. 10,900	805
• Express Scripts, Inc. 800	62
• Forest Laboratories, Inc. 3,400	219
• Genzyme Corp. 2,100	91
Guidant Corp. 3,000	189
HCA, Inc. 5,000	203
Health Management Associates, Inc., Class A 2,400	56
• Humana, Inc. 1,400	23
Johnson & Johnson 28,554	1,543
• King Pharmaceuticals, Inc. 2,133	37
Manor Care, Inc. 1,100	36
McKesson Corp. 2,654	87
• Medco Health Solutions, Inc. 2,641	93
• Medimmune, Inc. 2,400	58
Medtronic, Inc. 11,800	595
Merck & Co., Inc. 21,600	1,015
Mylan Laboratories, Inc. 2,600	60
⑧ Pfizer, Inc. 73,476	2,627
• Quest Diagnostics 1,101	93

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Schering-Plough Corp. 14,100	236	• Principal Financial Group, Inc. 3,065	108
• St. Jude Medical, Inc. 1,750	133	The Progressive Corp. 2,100	184
Stryker Corp. 1,892	187	Prudential Financial, Inc. 5,200	229
• Tenet Healthcare Corp. 4,650	55	Safeco Corp. 1,100	48
UnitedHealth Group, Inc. 6,000	369	St. Paul Cos., Inc. 6,454	262
• Watson Pharmaceuticals, Inc. 1,000	36	Torchmark Corp. 1,100	57
• WellPoint Health Networks, Inc. 1,400	156	UnumProvident Corp. 2,349	37
Wyeth 13,100	499	XL Capital Ltd., Class A 1,300	99
• Zimmer Holdings, Inc. 2,300	184		<b>5,088</b>
	<b>13,440</b>		
<b>Household Products 0.4%</b>		<b>Media 0.6%</b>	
Alberto-Culver Co., Class B 900	42	Clear Channel Communications, Inc. 6,017	250
Avon Products, Inc. 2,400	201	• Comcast Corp., Class A 21,843	657
Clorox Co. 2,200	114	Dow Jones & Co., Inc. 800	37
Colgate-Palmolive Co. 5,300	307	Gannett Co., Inc. 2,700	234
The Gillette Co. 9,700	397	Knight-Ridder, Inc. 900	70
International Flavors & Fragrances, Inc. 1,100	40	The McGraw-Hill Cos., Inc. 1,900	150
Procter & Gamble Co. 12,500	1,322	Meredith Corp. 500	25
	<b>2,423</b>	New York Times Co., Class A 1,400	64
		R.R. Donnelley & Sons Co. 2,100	62
<b>Insurance 0.8%</b>		• Time Warner, Inc. 44,150	743
ACE Ltd. 2,500	110	Tribune Co. 3,100	148
Aetna, Inc. 1,424	118	• Univision Communications, Inc., Class A 3,104	105
AFLAC, Inc. 5,200	220	Viacom, Inc., Class B 16,981	656
The Allstate Corp. 7,000	321	The Walt Disney Co. 19,619	452
AMBAC Financial Group, Inc. 1,015	70		<b>3,653</b>
American International Group, Inc. 25,251	1,809	<b>Miscellaneous 0.1%</b>	
AON Corp. 2,625	68	3M Co. 7,600	<b>657</b>
Chubb Corp. 1,700	117	<b>Miscellaneous Finance 1.2%</b>	
CIGNA Corp. 1,400	90	American Express Co. 12,400	607
Cincinnati Financial Corp. 1,890	78	The Bear Stearns Cos., Inc. 882	71
Hartford Financial Services Group, Inc. 2,700	165	Capital One Financial Corp. 2,100	138
Jefferson-Pilot Corp. 1,412	70	■ The Charles Schwab Corp. 13,042	134
Lincoln National Corp. 1,900	85	Charter One Financial, Inc. 2,315	77
Loews Corp. 1,900	110	⑨ Citigroup, Inc. 49,792	2,395
Marsh & McLennan Cos., Inc. 5,200	235	Countrywide Financial Corp. 2,649	157
MBIA, Inc. 1,350	80	• E*TRADE Group, Inc. 3,500	40
Metlife, Inc. 7,310	252	Fannie Mae 9,400	646
MGIC Investment Corp. 900	66	Federated Investors, Inc., Class B 1,100	32

Security and Number of Shares	Value (\$ x 1,000)
Franklin Resources, Inc. 2,500	137
Freddie Mac 6,600	385
Golden West Financial Corp. 1,400	147
Goldman Sachs Group, Inc. 4,579	443
Janus Capital Group, Inc. 2,200	33
Lehman Brothers Holdings, Inc. 2,600	191
MBNA Corp. 12,550	306
Merrill Lynch & Co., Inc. 9,400	510
Moody's Corp. 1,500	97
Morgan Stanley 10,600	545
• Provident Financial Corp. 2,900	35
SLM Corp. 4,500	172
T. Rowe Price Group, Inc. 1,200	62
Washington Mutual, Inc. 8,882	350
	<b>7,710</b>

**Non-Durables & Entertainment 0.2%**

Darden Restaurants, Inc. 1,800	41
• Electronic Arts, Inc. 2,866	145
Fortune Brands, Inc. 1,400	107
Hasbro, Inc. 1,650	31
International Game Technology 3,400	128
Mattel, Inc. 4,150	71
McDonald's Corp. 12,400	338
• Starbucks Corp. 3,560	138
Wendy's International, Inc. 1,000	39
• Yum! Brands, Inc. 3,120	121
	<b>1,159</b>

**Non-Ferrous Metals 0.1%**

Alcoa, Inc. 8,472	260
Engelhard Corp. 1,300	38
Freeport-McMoran Copper & Gold, Inc., Class B 1,700	52
• Phelps Dodge Corp. 810	53
	<b>403</b>

**Oil: Domestic 0.2%**

Amerada Hess Corp. 1,000	71
Ashland, Inc. 800	38
ConocoPhillips 6,546	467
Kerr-McGee Corp. 869	43

Security and Number of Shares	Value (\$ x 1,000)
Marathon Oil Corp. 3,100	104
• Nabors Industries Ltd. 1,400	62
Sunoco, Inc. 900	57
• Transocean, Inc. 2,945	82
Unocal Corp. 2,400	86
	<b>1,010</b>

**Oil: International 0.6%**

ChevronTexaco Corp. 10,327	945
⑦ Exxon Mobil Corp. 63,158	2,687
	<b>3,632</b>

**Optical & Photo 0.0%**

• Corning, Inc. 12,300	136
Eastman Kodak Co. 3,100	80
	<b>216</b>

**Paper & Forest Products 0.1%**

Boise Cascade Corp. 700	24
Georgia-Pacific Corp. 2,228	78
International Paper Co. 4,846	195
Kimberly-Clark Corp. 4,960	325
• Louisiana-Pacific Corp. 600	14
MeadWestvaco Corp. 1,970	52
Temple-Inland, Inc. 600	37
Weyerhaeuser Co. 2,300	136
	<b>861</b>

**Producer Goods & Manufacturing 0.8%**

• American Standard Cos., Inc. 700	74
Avery Dennison Corp. 1,200	77
Caterpillar, Inc. 3,300	257
Cooper Industries Ltd., Class A 900	49
Deere & Co. 2,300	156
Dover Corp. 2,000	80
Emerson Electric Co. 4,000	241
⑤ General Electric Co. 98,400	2,947
Honeywell International, Inc. 8,437	292
Illinois Tool Works, Inc. 3,000	259
Ingersoll-Rand Co., Class A 1,650	106
Johnson Controls, Inc. 1,800	99
• Millipore Corp. 400	21
Pall Corp. 1,000	24

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
Parker Hannifin Corp. 1,150	64
Snap-On, Inc. 600	20
W.W. Grainger, Inc. 900	47
	<b>4,813</b>

**Railroad & Shipping 0.1%**

Burlington Northern Santa Fe Corp. 3,800	124
CSX Corp. 2,200	68
Norfolk Southern Corp. 3,600	86
Union Pacific Corp. 2,500	147
	<b>425</b>

**Real Property 0.1%**

Apartment Investment & Management Co., Class A 900	25
Equity Office Properties Trust 3,900	98
Equity Residential 2,600	72
Plum Creek Timber Co., Inc. 1,700	50
ProLogis 1,700	50
Simon Property Group, Inc. 1,700	82
	<b>377</b>

**Retail 1.1%**

Albertson's, Inc. 3,538	83
• Autonation, Inc. 3,000	51
• AutoZone, Inc. 800	70
• Bed, Bath & Beyond, Inc. 2,800	104
Best Buy Co., Inc. 3,150	171
• Big Lots, Inc. 1,100	15
Circuit City Stores, Inc. 2,000	23
• Costco Wholesale Corp. 4,400	165
CVS Corp. 3,900	151
Dillards, Inc., Class A 500	8
Dollar General Corp. 3,303	62
Family Dollar Stores, Inc. 1,700	55
Federated Department Stores, Inc. 1,700	83
The Gap, Inc. 8,300	183
Home Depot, Inc. 21,900	771
J.C. Penney Co., Inc. Holding Co. 2,500	85
• Kohl's Corp. 3,200	134
• Kroger Co. 7,200	126
Limited Brands 4,994	103
Lowe's Cos., Inc. 7,600	396
The May Department Stores Co. 2,800	86

Security and Number of Shares	Value (\$ x 1,000)
Nordstrom, Inc. 1,300	46
• Office Depot, Inc. 3,300	58
RadioShack Corp. 1,900	58
• Safeway, Inc. 4,200	96
Sears, Roebuck & Co. 2,100	84
• Staples, Inc. 4,750	122
Target Corp. 8,800	382
Tiffany & Co. 1,400	55
TJX Cos., Inc. 5,200	128
• Toys 'R' Us, Inc. 2,600	40
⑩ Wal-Mart Stores, Inc. 41,700	2,377
Walgreen Co. 9,900	341
Winn-Dixie Stores, Inc. 1,500	11
	<b>6,723</b>

**Steel 0.0%**

Allegheny Technologies, Inc. 735	8
Nucor Corp. 900	53
United States Steel Corp. 900	26
Worthington Industries, Inc. 900	16
	<b>103</b>

**Telephone 0.6%**

Alltel Corp. 3,100	156
AT&T Corp. 7,358	126
• AT&T Wireless Services, Inc. 26,561	367
• Avaya, Inc. 4,132	56
BellSouth Corp. 17,800	459
CenturyTel, Inc. 1,350	39
• Citizens Communications Co. 2,576	34
• Nextel Communications, Inc., Class A 10,600	253
• Qwest Communications International, Inc. 15,773	63
SBC Communications, Inc. 32,336	805
Sprint Corp. (FON Group) 13,000	233
Verizon Communications, Inc. 26,758	1,010
	<b>3,601</b>

**Tobacco 0.2%**

Altria Group, Inc. 19,800	1,096
R.J. Reynolds Tobacco Holdings, Inc. 900	58
UST, Inc. 1,600	60
	<b>1,214</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Travel & Recreation 0.1%**

Brunswick Corp. 900	37
Carnival Corp. 6,100	260
Harrah's Entertainment, Inc. 1,200	64
Hilton Hotels Corp. 3,600	63
Marriott International, Inc., Class A 2,200	104
Starwood Hotels & Resorts Worldwide, Inc. 1,900	75
	<b>603</b>

**Trucking & Freight 0.0%**

Paccar, Inc. 1,575	89
Ryder Systems, Inc. 400	15
	<b>104</b>

**Utilities: Electric & Gas 0.5%**

• The AES Corp. 6,000	52
• Allegheny Energy, Inc. 1,070	15
Ameren Corp. 1,800	79
American Electric Power Co., Inc. 3,860	117
• Calpine Corp. 2,700	12
Centerpoint Energy, Inc. 2,949	32
Cinergy Corp. 1,600	61
• CMS Energy Corp. 1,000	8
Consolidated Edison, Inc. 2,100	87
Constellation Energy Group, Inc. 1,700	65
Dominion Resources, Inc. 3,078	196
DTE Energy Co. 1,400	55
Duke Energy Corp. 8,852	186
• Dynegy, Inc., Class A 3,100	12
Edison International 3,200	75
El Paso Corp. 5,006	35
Entergy Corp. 2,400	131
Exelon Corp. 3,112	208
FirstEnergy Corp. 3,195	125
FPL Group, Inc. 1,900	121
KeySpan Corp. 1,300	47
Kinder Morgan, Inc. 1,107	67
Nicor, Inc. 500	17
NiSource, Inc. 2,646	53
Peoples Energy Corp. 200	8
• PG&E Corp. 4,000	110

Security and Number of Shares	Value (\$ x 1,000)
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Pinnacle West Capital Corp. 800	31
PPL Corp. 1,800	77
Progress Energy, Inc. 2,475	106
Public Service Enterprise Group, Inc. 2,300	99
Sempra Energy 2,103	67
The Southern Co. 7,200	207
TECO Energy, Inc. 1,300	17
TXU Corp. 2,767	94
Williams Cos., Inc. 5,000	52
Xcel Energy, Inc. 3,850	64
	<b>2,788</b>

**Other Investment Companies**

78.9% of net assets

■ 2 Schwab International Index Fund, Select Shares 8,896,011	124,277
■ 1 Schwab S&P 500 Fund, Select Shares 8,593,881	147,643
■ 3 Schwab Small-Cap Index Fund, Select Shares 6,429,321	121,321
■ 4 Schwab Total Bond Market Fund 9,428,618	93,815
	<b>487,056</b>

**Short-Term Investments**

5.0% of net assets

■ Schwab Value Advantage Money Fund, Investor Shares 30,348,590	30,349
-----------------------------------------------------------------	--------

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	
Bank of America, London Time Deposit 0.50%, 05/03/04	538	538
		<b>30,887</b>

**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$617,293
Receivables:	
Fund shares sold	164
Dividends	128
Investments sold	337
Prepaid expenses	+ 12
<b>Total assets</b>	<b>617,934</b>

**Liabilities**

Payables:	
Fund shares redeemed	604
Investments bought	77
Investment adviser and administrator fees	7
Transfer agent and shareholder service fees	9
Accrued expenses	+ 59
<b>Total liabilities</b>	<b>756</b>

**Net Assets**

<b>Total assets</b>	617,934
<b>Total liabilities</b>	- 756
<b>Net assets</b>	<b>\$617,178</b>

**Net Assets by Source**

Capital received from investors	583,119
Net investment income not yet distributed	569
Net realized capital losses	(23,448)
Net unrealized capital gains	56,938

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$617,178		41,230		\$14.97

Unless stated, all numbers x 1,000.

The fund paid \$560,355 for these securities.

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

Purchases	\$42,417
Sales/maturities	\$30,340

The fund's total security transactions with other SchwabFunds® during the period were \$37.

Percent of fund shares of other Schwab funds owned at the end of the report period:

**Schwab Equity Index Funds**

S&P 500 Fund	1.8%
Small-Cap Index Fund	7.3%
International Index Fund	10.2%

**Schwab Bond Funds**

Total Bond Market Fund	8.9%
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**Schwab Money Funds**

Value Advantage	
Money Fund	0.1%

**Federal Tax Data**

<b>Portfolio Cost</b>	\$566,756
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**Net unrealized gains and losses:**

Gains	\$79,247
Losses	+ (28,710)
	<b>\$50,537</b>

**As of October 31, 2003:****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, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$8,850
Interest	+ 3
<b>Total investment income</b>	<b>8,853</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(1,069)
Net realized gains received from underlying funds	+ 1,577
<b>Net realized gains</b>	<b>508</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>24,679</b>
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**Expenses**

Investment adviser and administrator fees	1,320
Transfer agent and shareholder service fees	767
Trustees' fees	4
Custodian fees	20
Portfolio accounting fees	41
Professional fees	18
Registration fees	11
Shareholder reports	45
Other expenses	+ 5
Total expenses	2,231
Expense reduction	- 698
<b>Net expenses</b>	<b>1,533</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	8,853
<b>Net expenses</b>	- 1,533
<b>Net investment income</b>	<b>7,320</b>
<b>Net realized gains</b>	508
<b>Net unrealized gains</b>	+ 24,679
<b>Increase in net assets from operations</b>	<b>\$32,507</b>

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 28, 2005, 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 \$25,187.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	11/1/02–10/31/03
Net investment income	\$7,320	\$7,781
Net realized gains or losses	508	(13,734)
Net unrealized gains	+ 24,679	107,668
<b>Increase in net assets from operations</b>	<b>32,507</b>	<b>101,715</b>

**Distributions Paid**

Dividends from net investment income	<b>\$8,251</b>	<b>\$8,524</b>
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**Transactions in Fund Shares**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,392	\$66,500	5,664	\$72,375
Shares reinvested	547	8,044	694	8,339
Shares redeemed	+ (3,927)	(59,335)	(8,438)	(105,988)
<b>Net transactions in fund shares</b>	<b>1,012</b>	<b>\$15,209</b>	<b>(2,080)</b>	<b>(\$25,274)</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	40,218	\$577,713	42,298	\$509,796
Total increase or decrease	+ 1,012	39,465	(2,080)	67,917
<b>End of period</b>	<b>41,230</b>	<b>\$617,178</b>	<b>40,218</b>	<b>\$577,713</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$8,524
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 \$569 and \$1,500 at the end of the current period and prior period, respectively.

# Schwab MarketTrack Balanced Portfolio

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	13.78	12.05	13.47	15.53	14.85	13.39
Income or loss from investment operations:						
Net investment income	0.23	0.25	0.32	0.45	0.36	0.29
Net realized and unrealized gains or losses	0.38	1.77	(1.22)	(1.92)	0.69	1.57
Total income or loss from investment operations	0.61	2.02	(0.90)	(1.47)	1.05	1.86
Less distributions:						
Dividends from net investment income	(0.29)	(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)	(0.29)	(0.52)	(0.59)	(0.37)	(0.40)
Net asset value at end of period	14.10	13.78	12.05	13.47	15.53	14.85
Total return (%)	4.46 <sup>1</sup>	17.12	(7.08)	(9.72)	7.11	14.18
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses <sup>2</sup>	0.50 <sup>3</sup>	0.50	0.50	0.50	0.57 <sup>4</sup>	0.58
Gross operating expenses <sup>2</sup>	0.73 <sup>3</sup>	0.74	0.74	0.74	0.82	0.91
Net investment income	1.59 <sup>1</sup>	1.98	2.35	3.31	2.46	2.25
Portfolio turnover rate	7 <sup>1</sup>	17	31	21	18	7
Net assets, end of period (\$ x 1,000,000)	528	516	462	497	510	403

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>82.4% Other Investment Companies</b>	413,963	435,013
<b>12.6% Common Stock</b>	41,306	66,720
<b>4.9% Short-Term Investments</b>	25,970	25,970
<b>99.9% Total Investments</b>	<b>481,239</b>	<b>527,703</b>
<b>0.1% Other Assets and Liabilities, Net</b>		616
<b>100.0% Total Net Assets</b>		<b>528,319</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Common Stock** 12.6% of net assets**Aerospace / Defense 0.2%**

The Boeing Co.	5,484	234
Crane Co.	200	6
General Dynamics Corp.	1,300	122
Goodrich Corp.	700	20
Lockheed Martin Corp.	2,900	138
Northrop Grumman Corp.	1,128	112
Raytheon Co.	2,600	84
Rockwell Automation, Inc.	1,200	39
Rockwell Collins, Inc.	1,200	39
Textron, Inc.	1,000	55
United Technologies Corp.	3,300	285
		<b>1,134</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Air Transportation 0.1%**

Delta Air Lines, Inc.	900	6
FedEx Corp.	1,960	141
Sabre Holdings Corp.	922	22
Southwest Airlines Co.	5,137	73
United Parcel Service, Inc., Class B	7,385	518
		<b>760</b>

**Alcoholic Beverages 0.1%**

Adolph Coors Co., Class B	200	13
Anheuser-Busch Cos., Inc.	5,400	277
Brown-Forman Corp., Class B	804	37
		<b>327</b>

**Apparel 0.0%**

Jones Apparel Group, Inc.	800	29
Liz Claiborne, Inc.	800	28
Nike, Inc., Class B	1,700	122
Reebok International Ltd.	300	11
VF Corp.	800	37
		<b>227</b>

**Automotive Products / Motor Vehicles 0.1%**

Cooper Tire & Rubber Co.	400	9
Cummins, Inc.	300	18
Dana Corp.	1,085	22
Danaher Corp.	1,000	92
Delphi Corp.	3,884	40
Eaton Corp.	1,000	59
Ford Motor Co.	12,185	187
General Motors Corp.	3,650	173
Genuine Parts Co.	1,150	41
Goodyear Tire & Rubber Co.	1,000	9
Harley-Davidson, Inc.	2,000	113
• Navistar International Corp.	400	18
Visteon Corp.	1,047	11
		<b>792</b>

**Banks 0.9%**

AmSouth Bancorp.	2,600	57
Bank of America Corp.	13,143	1,058
The Bank of New York Co., Inc.	4,900	143

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Bank One Corp. 7,157	353	•NCR Corp. 600	27
BB&T Corp. 3,600	124	•Network Appliance, Inc. 2,000	37
Comerica, Inc. 1,100	57	•Novell, Inc. 2,200	21
Fifth Third Bancorp 3,658	196	•Oracle Corp. 34,000	381
First Horizon National Corp. 800	35	•Pitney Bowes, Inc. 1,600	70
Huntington Bancshares, Inc. 1,597	34	•Siebel Systems, Inc. 3,000	31
J.P. Morgan Chase & Co. 13,266	499	•Sun Microsystems, Inc. 20,800	81
KeyCorp, Inc. 2,600	77	•Unisys Corp. 2,100	27
M&T Bank Corp. 800	68	•Xerox Corp. 5,200	70
Marshall & Ilsley Corp. 1,344	50		
Mellon Financial Corp. 2,800	83		<b>5,897</b>
National City Corp. 4,100	142		
North Fork Bancorp., Inc. 1,100	41	<b>Business Services 0.5%</b>	
Northern Trust Corp. 1,400	59	•Affiliated Computer Services, Inc., Class A 465	23
PNC Financial Services Group, Inc. 1,900	101	•Allied Waste Industries, Inc. 2,100	26
Regions Financial Corp. 1,400	49	•Apollo Group, Inc., Class A 1,100	100
SouthTrust Corp. 2,200	68	•Automatic Data Processing, Inc. 3,900	171
State Street Corp. 2,200	107	•Cendant Corp. 6,415	152
SunTrust Banks, Inc. 1,900	129	•Cintas Corp. 1,102	50
Synovus Financial Corp. 1,900	45	•Citrix Systems, Inc. 1,200	23
U.S. Bancorp 12,554	322	•Computer Associates International, Inc. 3,825	103
Union Planters Corp. 1,350	38	•Computer Sciences Corp. 1,090	45
Wachovia Corp. 8,536	391	•Convergys Corp. 869	13
Wells Fargo & Co. 10,835	612	•Deluxe Corp. 500	21
Zions Bancorp. 600	34	•eBay, Inc. 4,208	336
	<b>4,972</b>	•Electronic Data Systems Corp. 3,100	57
		•Equifax, Inc. 900	22
<b>Business Machines &amp; Software 1.1%</b>		•First Data Corp. 5,704	259
•Adobe Systems, Inc. 1,600	66	•Fiserv, Inc. 1,200	44
•Apple Computer, Inc. 2,200	57	•H&R Block, Inc. 1,200	54
•Autodesk, Inc. 800	27	•IMS Health, Inc. 1,500	38
•BMC Software, Inc. 1,600	28	•Interpublic Group of Cos., Inc. 2,500	39
•Cisco Systems, Inc. 44,600	931	•Intuit, Inc. 1,327	56
•Compuware Corp. 2,400	18	•Mercury Interactive Corp. 500	21
•Comverse Technology, Inc. 1,000	16	•Monster Worldwide, Inc. 666	17
•Dell, Inc. 16,500	573	•Omnicom Group, Inc. 1,200	95
•EMC Corp. 15,562	174	•Parametric Technology Corp. 1,800	8
•Gateway, Inc. 2,100	10	•Paychex, Inc. 2,475	92
•Hewlett-Packard Co. 19,724	388	•PeopleSoft, Inc. 2,400	40
•International Business Machines Corp. 11,100	979	•Robert Half International, Inc. 1,200	33
•Lexmark International, Inc., Class A 800	72	•Sungard Data Systems, Inc. 1,832	48
•Microsoft Corp. 69,800	1,813	•Symantec Corp. 1,998	90

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Tyco International Ltd. 12,949	355	• Pactiv Corp. 1,000	23
• Veritas Software Corp. 2,600	69	• Sealed Air Corp. 621	31
Waste Management, Inc. 3,712	105		<hr/>
• Yahoo!, Inc. 4,200	212		<b>96</b>
	<hr/>		
	<b>2,817</b>		
<b>Chemicals 0.2%</b>		<b>Electronics 0.7%</b>	
Air Products & Chemicals, Inc. 1,500	75	• ADC Telecommunications, Inc. 5,000	12
Dow Chemical Co. 6,049	240	• Advanced Micro Devices, Inc. 2,040	29
E.I. du Pont de Nemours & Co. 6,484	278	• Agilent Technologies, Inc. 2,917	79
Eastman Chemical Co. 600	26	• Altera Corp. 2,546	51
Ecolab, Inc. 2,000	60	American Power Conversion Corp. 1,175	22
Great Lakes Chemical Corp. 400	10	Analog Devices, Inc. 2,300	98
• Hercules, Inc. 700	8	• Andrew Corp. 1,025	17
• Monsanto Co. 1,727	60	• Applied Materials, Inc. 10,900	199
PPG Industries, Inc. 1,200	71	• Applied Micro Circuits Corp. 1,928	8
Praxair, Inc. 2,000	73	• Broadcom Corp., Class A 2,000	75
Rohm & Haas Co. 1,421	55	• CIENA Corp. 2,100	9
Sigma-Aldrich Corp. 500	28	Intel Corp. 42,300	1,088
	<hr/>	ITT Industries, Inc. 600	48
	<b>984</b>	• Jabil Circuit, Inc. 1,341	35
		• JDS Uniphase Corp. 8,464	26
<b>Construction 0.1%</b>		• KLA-Tencor Corp. 1,200	50
Centex Corp. 800	38	Linear Technology Corp. 2,000	71
Fluor Corp. 500	19	• LSI Logic Corp. 2,000	15
KB Home 300	21	• Lucent Technologies, Inc. 26,905	91
Masco Corp. 3,000	84	Maxim Integrated Products, Inc. 2,100	97
Pulte Homes, Inc. 800	39	• Micron Technology, Inc. 3,600	49
The Sherwin-Williams Co. 1,100	42	Molex, Inc. 1,250	37
The Stanley Works 600	26	Motorola, Inc. 14,770	270
Vulcan Materials Co. 700	32	• National Semiconductor Corp. 1,100	45
	<hr/>	• Novellus Systems, Inc. 900	26
	<b>301</b>	• Nvidia Corp. 900	18
<b>Consumer Durables 0.0%</b>		PerkinElmer, Inc. 600	12
Black & Decker Corp. 600	35	• PMC – Sierra, Inc. 1,100	13
Leggett & Platt, Inc. 1,300	29	• Power-One, Inc. 240	2
Maytag Corp. 600	17	• QLogic Corp. 585	16
Newell Rubbermaid, Inc. 1,872	44	Qualcomm, Inc. 5,100	319
Whirlpool Corp. 500	33	• Sanmina-SCI Corp. 3,400	34
	<hr/>	Scientific-Atlanta, Inc. 1,000	32
	<b>158</b>	• Solectron Corp. 5,300	26
<b>Containers 0.0%</b>		Symbol Technologies, Inc. 1,284	15
Ball Corp. 400	26	Tektronix, Inc. 500	15
Bemis Co. 600	16	• Tellabs, Inc. 2,700	24
		• Teradyne, Inc. 1,100	22

Security and Number of Shares	Value (\$ x 1,000)
Texas Instruments, Inc. 11,300	284
• Thermo Electron Corp. 900	26
• Thomas & Betts Corp. 381	9
• Waters Corp. 900	39
• Xilinx, Inc. 2,100	71
	<b>3,524</b>

### Energy: Raw Materials 0.2%

Anadarko Petroleum Corp. 1,510	81
Apache Corp. 2,048	86
Baker Hughes, Inc. 2,250	83
• BJ Services Co. 1,000	45
Burlington Resources, Inc. 1,410	95
Devon Energy Corp. 1,500	92
EOG Resources, Inc. 759	37
Halliburton Co. 2,974	89
• Noble Corp. 900	33
Occidental Petroleum Corp. 2,400	113
• Rowan Cos., Inc. 600	13
Schlumberger Ltd. 3,900	228
Valero Energy Corp. 800	51
	<b>1,046</b>

### Food & Agriculture 0.5%

Archer-Daniels-Midland Co. 4,446	78
Campbell Soup Co. 2,800	77
The Coca-Cola Co. 15,800	799
Coca-Cola Enterprises, Inc. 2,700	73
ConAgra Foods, Inc. 3,300	95
General Mills, Inc. 2,392	117
H.J. Heinz Co. 2,300	88
Hershey Foods Corp. 800	71
Kellogg Co. 2,700	116
McCormick & Co., Inc. 900	31
The Pepsi Bottling Group, Inc. 1,826	53
PepsiCo, Inc. 11,070	603
Sara Lee Corp. 5,100	118
Supervalu, Inc. 900	28
Sysco Corp. 4,400	168
Wm. Wrigley Jr. Co. 1,600	99
	<b>2,614</b>

Security and Number of Shares	Value (\$ x 1,000)
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### Gold 0.0%

Newmont Mining Corp. 2,754	<b>103</b>
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### Healthcare / Drugs & Medicine 1.7%

Abbott Laboratories 10,200	449
Allergan, Inc. 900	79
AmerisourceBergen Corp. 700	41
• Amgen, Inc. 8,340	469
• Anthem, Inc. 926	82
Applied Biosystems Group – Applera Corp. 1,400	26
Bausch & Lomb, Inc. 400	25
Baxter International, Inc. 3,800	120
Becton Dickinson & Co. 1,800	91
• Biogen Idec, Inc. 2,150	127
Biomet, Inc. 1,575	62
• Boston Scientific Corp. 5,248	216
Bristol-Myers Squibb Co. 12,800	321
C.R. Bard, Inc. 300	32
Cardinal Health, Inc. 2,775	203
• Caremark Rx, Inc. 2,408	82
• Chiron Corp. 1,200	56
Eli Lilly & Co. 7,400	546
• Express Scripts, Inc. 500	39
• Forest Laboratories, Inc. 2,400	155
• Genzyme Corp. 1,400	61
Guidant Corp. 2,000	126
HCA, Inc. 3,400	138
Health Management Associates, Inc., Class A 1,600	37
• Humana, Inc. 800	13
Johnson & Johnson 19,272	1,041
• King Pharmaceuticals, Inc. 1,388	24
Manor Care, Inc. 500	16
McKesson Corp. 1,773	58
• Medco Health Solutions, Inc. 1,784	63
• Medimmune, Inc. 1,400	34
Medtronic, Inc. 7,800	394
Merck & Co., Inc. 14,500	682
Mylan Laboratories, Inc. 1,700	39
8 Pfizer, Inc. 49,386	1,766
• Quest Diagnostics 735	62

Household Products 0.3%

Insurance 0.7%

Security and Number of Shares	Value (\$ x 1,000)
Safeco Corp. 800	35
St. Paul Cos., Inc. 4,241	172
Torchmark Corp. 800	42
UnumProvident Corp. 1,657	26
XL Capital Ltd., Class A 800	61
	<b>3,469</b>

**Media 0.5%**

Clear Channel Communications, Inc.	4,080	169
• Comcast Corp., Class A	14,661	441
Dow Jones & Co., Inc.	600	28
Gannett Co., Inc.	1,700	147
Knight-Ridder, Inc.	600	47
The McGraw-Hill Cos., Inc.	1,200	95
Meredith Corp.	300	15
New York Times Co., Class A	1,100	51
R.R. Donnelley & Sons Co.	1,400	41
• Time Warner, Inc.	29,650	499
Tribune Co.	2,100	101
• Univision Communications, Inc., Class A	2,048	69
Viacom, Inc., Class B	11,418	441
The Walt Disney Co.	13,217	304
		<b>2,448</b>

**Miscellaneous 0.1%**

3M Co. 5,000 432

**Miscellaneous Finance 1.0%**

American Express Co.	8,300	406
The Bear Stearns Cos., Inc.	602	48
Capital One Financial Corp.	1,500	98
■ The Charles Schwab Corp.	8,783	90
Charter One Financial, Inc.	1,620	54
9 Citigroup, Inc.	33,476	1,610
Countrywide Financial Corp.	1,749	104
• E*TRADE Group, Inc.	2,400	27
Fannie Mae	6,300	433
Federated Investors, Inc., Class B	700	21
Franklin Resources, Inc.	1,700	93
Freddie Mac	4,500	263
Golden West Financial Corp.	1,000	105
Goldman Sachs Group, Inc.	3,079	298



Security and Number of Shares	Value (\$ x 1,000)
Janus Capital Group, Inc. 1,400	21
Lehman Brothers Holdings, Inc. 1,800	132
MBNA Corp. 8,268	202
Merrill Lynch & Co., Inc. 6,300	342
Moody's Corp. 1,000	65
Morgan Stanley 7,010	360
• Providian Financial Corp. 1,900	23
SLM Corp. 3,000	115
T. Rowe Price Group, Inc. 800	41
Washington Mutual, Inc. 5,974	235
	<b>5,186</b>
<b>Non-Durables &amp; Entertainment 0.1%</b>	
Darden Restaurants, Inc. 1,350	31
• Electronic Arts, Inc. 1,792	91
Fortune Brands, Inc. 1,000	76
Hasbro, Inc. 1,275	24
International Game Technology 2,100	79
Mattel, Inc. 2,825	48
McDonald's Corp. 8,100	220
• Starbucks Corp. 2,440	95
Wendy's International, Inc. 800	31
• Yum! Brands, Inc. 2,060	80
	<b>775</b>
<b>Non-Ferrous Metals 0.1%</b>	
Alcoa, Inc. 5,648	174
Engelhard Corp. 800	23
Freeport-McMoran Copper & Gold, Inc., Class B 1,100	34
• Phelps Dodge Corp. 540	35
	<b>266</b>
<b>Oil: Domestic 0.1%</b>	
Amerada Hess Corp. 600	43
Ashland, Inc. 500	24
ConocoPhillips 4,324	308
Kerr-McGee Corp. 621	30
Marathon Oil Corp. 2,100	71
• Nabors Industries Ltd. 1,000	44
Sunoco, Inc. 600	38
• Transocean, Inc. 2,016	56
Unocal Corp. 1,600	58
	<b>672</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Oil: International 0.5%</b>	
ChevronTexaco Corp. 6,895	631
⑦ Exxon Mobil Corp. 42,420	1,805
	<b>2,436</b>
<b>Optical &amp; Photo 0.0%</b>	
• Corning, Inc. 8,300	91
Eastman Kodak Co. 2,000	52
	<b>143</b>
<b>Paper &amp; Forest Products 0.1%</b>	
Boise Cascade Corp. 600	20
Georgia-Pacific Corp. 1,496	52
International Paper Co. 3,166	128
Kimberly-Clark Corp. 3,380	221
• Louisiana-Pacific Corp. 700	17
MeadWestvaco Corp. 1,279	33
Temple-Inland, Inc. 400	25
Weyerhaeuser Co. 1,400	83
	<b>579</b>
<b>Producer Goods &amp; Manufacturing 0.6%</b>	
• American Standard Cos., Inc. 500	53
Avery Dennison Corp. 700	45
Caterpillar, Inc. 2,300	179
Cooper Industries Ltd., Class A 600	33
Deere & Co. 1,500	102
Dover Corp. 1,400	56
Emerson Electric Co. 2,800	169
⑤ General Electric Co. 66,100	1,980
Honeywell International, Inc. 5,700	197
Illinois Tool Works, Inc. 2,000	172
Ingersoll-Rand Co., Class A 1,100	71
Johnson Controls, Inc. 1,200	66
• Millipore Corp. 200	10
Pall Corp. 800	19
Parker Hannifin Corp. 700	39
Snap-On, Inc. 350	12
W.W. Grainger, Inc. 600	31
	<b>3,234</b>

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Railroad &amp; Shipping 0.1%</b>	
Burlington Northern Santa Fe Corp. 2,500	82
CSX Corp. 1,500	46
Norfolk Southern Corp. 2,500	60
Union Pacific Corp. 1,700	100
	<b>288</b>

**Real Property 0.0%**

Apartment Investment & Management Co., Class A 600	17
Equity Office Properties Trust 2,600	65
Equity Residential 1,700	47
Plum Creek Timber Co., Inc. 1,200	36
ProLogis 1,200	35
Simon Property Group, Inc. 1,100	53
	<b>253</b>

**Retail 0.9%**

Albertson's, Inc. 2,671	62
• Autonation, Inc. 2,000	34
• AutoZone, Inc. 500	44
• Bed, Bath & Beyond, Inc. 1,800	67
Best Buy Co., Inc. 2,100	114
• Big Lots, Inc. 700	10
Circuit City Stores, Inc. 1,400	16
• Costco Wholesale Corp. 3,000	112
CVS Corp. 2,600	100
Dillards, Inc., Class A 700	12
Dollar General Corp. 2,202	41
Family Dollar Stores, Inc. 1,100	35
Federated Department Stores, Inc. 1,100	54
The Gap, Inc. 5,662	125
Home Depot, Inc. 14,700	517
J.C. Penney Co., Inc. Holding Co. 1,700	58
• Kohl's Corp. 2,200	92
• Kroger Co. 5,300	93
Limited Brands, Inc. 3,388	70
Lowe's Cos., Inc. 5,000	260
The May Department Stores Co. 2,100	65
Nordstrom, Inc. 900	32
• Office Depot, Inc. 2,500	44
RadioShack Corp. 1,300	40

Security and Number of Shares	Value (\$ x 1,000)
• Safeway, Inc. 2,800	64
Sears, Roebuck & Co. 1,600	64
• Staples, Inc. 3,050	79
Target Corp. 5,800	252
Tiffany & Co. 950	37
TJX Cos., Inc. 3,600	88
• Toys 'R' Us, Inc. 1,200	18
⑩ Wal-Mart Stores, Inc. 28,000	1,596
Walgreen Co. 6,600	228
Winn-Dixie Stores, Inc. 1,200	9
	<b>4,532</b>

**Steel 0.0%**

Allegheny Technologies, Inc. 492	5
Nucor Corp. 600	36
United States Steel Corp. 700	20
Worthington Industries, Inc. 300	5
	<b>66</b>

**Telephone 0.5%**

Alltel Corp. 2,100	106
AT&T Corp. 4,941	85
• AT&T Wireless Services, Inc. 17,825	246
• Avaya, Inc. 2,775	38
BellSouth Corp. 11,900	307
CenturyTel, Inc. 900	26
• Citizens Communications Co. 1,732	23
• Nextel Communications, Inc., Class A 7,200	172
• Qwest Communications International, Inc. 10,622	43
SBC Communications, Inc. 21,788	542
Sprint Corp. (FON Group) 8,750	156
Verizon Communications, Inc. 17,836	673
	<b>2,417</b>

**Tobacco 0.2%**

Altria Group, Inc. 13,200	731
R.J. Reynolds Tobacco Holdings, Inc. 600	39
UST, Inc. 1,100	41
	<b>811</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Travel & Recreation 0.1%**

Brunswick Corp. 600	24
Carnival Corp. 4,100	175
Harrah's Entertainment, Inc. 700	37
Hilton Hotels Corp. 2,500	44
Marriott International, Inc., Class A 1,500	71
Starwood Hotels & Resorts Worldwide, Inc. 1,200	48
	<b>399</b>

**Trucking & Freight 0.0%**

Paccar, Inc. 1,050	59
Ryder Systems, Inc. 400	15
	<b>74</b>

**Utilities: Electric & Gas 0.3%**

• The AES Corp. 3,200	28
• Allegheny Energy, Inc. 720	10
Ameren Corp. 1,200	53
American Electric Power Co., Inc. 2,580	79
• Calpine Corp. 1,800	8
Centerpoint Energy, Inc. 1,924	21
Cinergy Corp. 1,000	38
• CMS Energy Corp. 700	6
Consolidated Edison, Inc. 1,500	62
Constellation Energy Group, Inc. 1,000	39
Dominion Resources, Inc. 2,167	139
DTE Energy Co. 1,000	39
Duke Energy Corp. 5,952	125
• Dynegy, Inc., Class A 2,100	8
Edison International 2,200	52
El Paso Corp. 3,222	23
Entergy Corp. 1,500	82
Exelon Corp. 2,162	145
FirstEnergy Corp. 2,030	79
FPL Group, Inc. 1,300	83
KeySpan Corp. 900	33
Kinder Morgan, Inc. 745	45
Nicor, Inc. 300	10
NiSource, Inc. 1,651	33
Peoples Energy Corp. 200	8
• PG&E Corp. 2,700	74

Security and Number of Shares	Value (\$ x 1,000)
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Pinnacle West Capital Corp. 600	23
PPL Corp. 1,000	43
Progress Energy, Inc. 1,593	68
Public Service Enterprise Group, Inc. 1,500	64
Sempra Energy 1,360	43
The Southern Co. 4,500	129
TECO Energy, Inc. 900	11
TXU Corp. 2,122	72
Williams Cos., Inc. 3,000	31
Xcel Energy, Inc. 2,585	43
	<b>1,849</b>

**Other Investment Companies**

82.4% of net assets

■ 3 Schwab International Index Fund, Select Shares 5,705,881	79,711
■ 2 Schwab S&P 500 Fund, Select Shares 5,316,923	91,345
■ 4 Schwab Small-Cap Index Fund, Select Shares 4,074,034	76,877
■ 1 Schwab Total Bond Market Fund 18,802,000	187,080
	<b>435,013</b>

**Short-Term Investments**

4.9% of net assets

■ Schwab Value Advantage Money Fund, Investor Shares 25,017,469	25,017
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Security Rate, Maturity Date	Face Amount (\$ x 1,000)	
Bank of America, London Time Deposit 0.50%, 05/03/04	953	953
		<b>25,970</b>

**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$527,703
Receivables:	
Fund shares sold	135
Dividends	98
Investments sold	547
Prepaid expenses	+ 16
<b>Total assets</b>	<b>528,499</b>

**Liabilities**

Payables:	
Fund shares redeemed	67
Investments bought	51
Investment adviser and administrator fees	6
Transfer agent and shareholder service fees	7
Accrued expenses	+ 49
<b>Total liabilities</b>	<b>180</b>

**Net Assets**

<b>Total assets</b>	528,499
<b>Total liabilities</b>	- 180
<b>Net assets</b>	<b>\$528,319</b>

**Net Assets by Source**

Capital received from investors	499,362
Net investment income not yet distributed	1,546
Net realized capital losses	(19,053)
Net unrealized capital gains	46,464

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$528,319		37,464		\$14.10

Unless stated, all numbers x 1,000.

The fund paid \$481,239 for these securities.

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

Purchases	\$34,356
Sales/maturities	\$36,356

The fund's total security transactions with other Schwab Funds® during the period were \$16.

Percent of fund shares of other Schwab funds owned at the end of the report period:

**Schwab Equity Index Funds**

S&P 500 Fund	1.1%
Small-Cap Index Fund	4.6%
International Index Fund	6.5%

**Schwab Bond Funds**

Total Bond Market Fund	17.8%
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**Schwab Money Funds**

Value Advantage	
Money Fund	0.1%

**Federal Tax Data**

<b>Portfolio Cost</b>	\$489,494
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**Net unrealized gains and losses:**

Gains	\$54,332
Losses	+ (16,123)
	<b>\$38,209</b>

**As of October 31, 2003:****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, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$9,799
Interest	+ 4
<b>Total investment income</b>	<b>9,803</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(446)
Net realized gains received from underlying funds	+ 3,264
<b>Net realized gains</b>	<b>2,818</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>11,603</b>
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**Expenses**

Investment adviser and administrator fees	1,158
Transfer agent and shareholder service fees	663
Trustees' fees	4
Custodian fees	21
Portfolio accounting fees	36
Professional fees	17
Registration fees	16
Shareholder reports	25
Other expenses	+ 5
Total expenses	1,945
Expense reduction	- 620
<b>Net expenses</b>	<b>1,325</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	9,803
<b>Net expenses</b>	- 1,325
<b>Net investment income</b>	<b>8,478</b>
<b>Net realized gains</b>	2,818
<b>Net unrealized gains</b>	+ 11,603
<b>Increase in net assets from operations</b>	<b>\$22,899</b>

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 28, 2005, 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 \$14,421.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	11/1/02–10/31/03
Net investment income	\$8,478	\$9,483
Net realized gains or losses	2,818	(9,182)
Net unrealized gains	+ 11,603	75,317
<b>Increase in net assets from operations</b>	<b>22,899</b>	<b>75,618</b>

**Distributions Paid**

Dividends from net investment income	<b>\$10,771</b>	<b>\$11,180</b>
--------------------------------------	-----------------	-----------------

**Transactions in Fund Shares**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	4,211	\$60,108	6,802	\$85,681
Shares reinvested	746	10,391	904	10,796
Shares redeemed	+ (4,971)	(70,675)	(8,594)	(107,008)
<b>Net transactions in fund shares</b>	<b>(14)</b>	<b>(\$176)</b>	<b>(888)</b>	<b>(\$10,531)</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	37,478	\$516,367	38,366	\$462,460
Total increase or decrease	+ (14)	11,952	(888)	53,907
<b>End of period</b>	<b>37,464</b>	<b>\$528,319</b>	<b>37,478</b>	<b>\$516,367</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$11,180
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 \$1,546 and \$3,839 at the end of the current period and prior period, respectively.

# Schwab MarketTrack Conservative Portfolio

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	12.53	11.37	12.22	13.12	12.73	12.11
Income or loss from investment operations:						
Net investment income	0.26	0.29	0.40	0.49	0.47	0.41
Net realized and unrealized gains or losses	0.15	1.16	(0.78)	(0.80)	0.41	0.68
Total income or loss from investment operations	0.41	1.45	(0.38)	(0.31)	0.88	1.09
Less distributions:						
Dividends from net investment income	(0.26)	(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	(0.26)	(0.29)	(0.47)	(0.59)	(0.49)	(0.47)
Net asset value at end of period	12.68	12.53	11.37	12.22	13.12	12.73
Total return (%)	3.29 <sup>1</sup>	12.98	(3.29)	(2.39)	6.92	9.13
<b>Ratios/Supplemental Data (%)</b>						
Ratios to average net assets:						
Net operating expenses <sup>2</sup>	0.50 <sup>3</sup>	0.50	0.50	0.50	0.57 <sup>4</sup>	0.57
Gross operating expenses <sup>2</sup>	0.75 <sup>3</sup>	0.75	0.76	0.77	0.84	0.92
Net investment income	1.99 <sup>1</sup>	2.44	3.17	3.85	3.58	3.28
Portfolio turnover rate	7 <sup>1</sup>	17	32	15	16	8
Net assets, end of period (\$ x 1,000,000)	292	289	263	211	194	167

\* Unaudited.

<sup>1</sup> Not annualized.

<sup>2</sup> The expenses incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.56% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>89.7%</b>	<b>Other Investment Companies</b>	247,689	261,752
<b>5.3%</b>	<b>Common Stock</b>	11,808	15,645
<b>4.8%</b>	<b>Short-Term Investments</b>	13,948	13,948
<b>99.8%</b>	<b>Total Investments</b>	<b>273,445</b>	<b>291,345</b>
<b>0.2%</b>	<b>Other Assets and Liabilities, Net</b>		541
<b>100.0%</b>	<b>Total Net Assets</b>		<b>291,886</b>

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

**Common Stock** 5.3% of net assets**Aerospace / Defense 0.1%**

The Boeing Co.	1,246	53
Crane Co.	150	5
General Dynamics Corp.	300	28
Goodrich Corp.	200	6
Lockheed Martin Corp.	700	33
Northrop Grumman Corp.	257	25
Raytheon Co.	600	19
Rockwell Automation, Inc.	300	10
Rockwell Collins, Inc.	300	10
Textron, Inc.	200	11
United Technologies Corp.	800	69
		<b>269</b>

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

**Air Transportation 0.1%**

Delta Air Lines, Inc.	200	1
FedEx Corp.	460	33
Sabre Holdings Corp.	244	6
Southwest Airlines Co.	1,218	18
United Parcel Service, Inc., Class B	1,712	120
		<b>178</b>

**Alcoholic Beverages 0.0%**

Adolph Coors Co., Class B	50	3
Anheuser-Busch Cos., Inc.	1,200	62
Brown-Forman Corp., Class B	150	7
		<b>72</b>

**Apparel 0.0%**

Jones Apparel Group, Inc.	200	7
Liz Claiborne, Inc.	200	7
Nike, Inc., Class B	400	29
Reebok International Ltd.	100	4
VF Corp.	200	9
		<b>56</b>

**Automotive Products / Motor Vehicles 0.1%**

Cooper Tire & Rubber Co.	100	2
Cummins, Inc.	100	6
Dana Corp.	292	6
Danaher Corp.	250	23
Delphi Corp.	868	9
Eaton Corp.	200	12
Ford Motor Co.	2,921	45
General Motors Corp.	825	39
Genuine Parts Co.	250	9
Goodyear Tire & Rubber Co.	300	3
Harley-Davidson, Inc.	500	28
• Navistar International Corp.	100	4
Visteon Corp.	248	3
		<b>189</b>

**Banks 0.4%**

AmSouth Bancorp.	600	13
Bank of America Corp.	3,081	248
The Bank of New York Co., Inc.	1,200	35
Bank One Corp.	1,696	84



Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
BB&T Corp. 850	29	• NCR Corp. 200	9
Comerica, Inc. 300	15	• Network Appliance, Inc. 500	9
Fifth Third Bancorp 867	47	• Novell, Inc. 500	5
First Horizon National Corp. 200	9	• Oracle Corp. 7,900	89
Huntington Bancshares, Inc. 423	9	• Pitney Bowes, Inc. 400	17
J.P. Morgan Chase & Co. 3,114	117	• Siebel Systems, Inc. 600	6
KeyCorp, Inc. 700	21	• Sun Microsystems, Inc. 5,000	19
M&T Bank Corp. 199	17	• Unisys Corp. 500	6
Marshall & Ilsley Corp. 322	12	• Xerox Corp. 1,200	16
Mellon Financial Corp. 700	21		<b>1,393</b>
National City Corp. 950	33		
North Fork Bancorp., Inc. 200	7	<b>Business Services 0.2%</b>	
Northern Trust Corp. 300	13	• Affiliated Computer Services, Inc., Class A 103	5
PNC Financial Services Group, Inc. 400	21	• Allied Waste Industries, Inc. 500	6
Regions Financial Corp. 300	10	• Apollo Group, Inc., Class A 250	23
SouthTrust Corp. 500	16	• Automatic Data Processing, Inc. 900	39
State Street Corp. 500	24	• Cendant Corp. 1,459	35
SunTrust Banks, Inc. 400	27	• Cintas Corp. 260	12
Synovus Financial Corp. 400	10	• Citrix Systems, Inc. 300	6
U.S. Bancorp 2,922	75	• Computer Associates International, Inc. 850	23
Union Planters Corp. 300	8	• Computer Sciences Corp. 258	11
Wachovia Corp. 2,000	91	• Convergys Corp. 174	2
Wells Fargo & Co. 2,560	145	• Deluxe Corp. 100	4
Zions Bancorp. 100	6	• eBay, Inc. 1,004	80
	<b>1,163</b>	• Electronic Data Systems Corp. 700	13
<b>Business Machines &amp; Software 0.5%</b>		• Equifax, Inc. 200	5
Adobe Systems, Inc. 400	17	• First Data Corp. 1,392	63
• Apple Computer, Inc. 600	15	• Fiserv, Inc. 300	11
Autodesk, Inc. 200	7	• H&R Block, Inc. 300	13
• BMC Software, Inc. 400	7	• IMS Health, Inc. 350	9
• Cisco Systems, Inc. 10,450	218	• Interpublic Group of Cos., Inc. 600	9
• Compuware Corp. 600	5	• Intuit, Inc. 313	13
• Comverse Technology, Inc. 300	5	• Mercury Interactive Corp. 100	4
• Dell, Inc. 3,850	134	• Monster Worldwide, Inc. 191	5
• EMC Corp. 3,650	41	• Omnicom Group, Inc. 300	24
• Gateway, Inc. 500	2	• Parametric Technology Corp. 500	2
Hewlett-Packard Co. 4,703	93	• Paychex, Inc. 525	20
International Business Machines Corp. 2,600	229	• PeopleSoft, Inc. 600	10
• Lexmark International, Inc., Class A 200	18	• Robert Half International, Inc. 300	8
• Microsoft Corp. 16,400	426	• Sungard Data Systems, Inc. 433	11
		• Symantec Corp. 502	23

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Tyco International Ltd. 3,013	83	• Pactiv Corp. 300	7
• Veritas Software Corp. 600	16	• Sealed Air Corp. 153	7
Waste Management, Inc. 907	26		<b>26</b>
• Yahoo!, Inc. 1,000	50		
	<b>664</b>		
<b>Chemicals 0.1%</b>		<b>Electronics 0.3%</b>	
Air Products & Chemicals, Inc. 300	15	• ADC Telecommunications, Inc. 1,000	2
Dow Chemical Co. 1,372	54	• Advanced Micro Devices, Inc. 560	8
E.I. du Pont de Nemours & Co. 1,525	66	• Agilent Technologies, Inc. 710	19
Eastman Chemical Co. 100	4	• Altera Corp. 510	10
Ecolab, Inc. 400	12	American Power Conversion Corp. 225	4
Great Lakes Chemical Corp. 100	3	Analog Devices, Inc. 600	26
• Hercules, Inc. 200	2	• Andrew Corp. 100	2
• Monsanto Co. 332	12	• Applied Materials, Inc. 2,600	47
PPG Industries, Inc. 250	15	• Applied Micro Circuits Corp. 455	2
Praxair, Inc. 500	18	• Broadcom Corp., Class A 492	19
Rohm & Haas Co. 373	14	• CIENA Corp. 500	2
Sigma-Aldrich Corp. 100	6	Intel Corp. 9,800	252
	<b>221</b>	ITT Industries, Inc. 150	12
		• Jabil Circuit, Inc. 322	8
<b>Construction 0.0%</b>		• JDS Uniphase Corp. 2,010	6
Centex Corp. 200	9	• KLA-Tencor Corp. 300	13
Fluor Corp. 100	4	Linear Technology Corp. 500	18
KB Home 100	7	• LSI Logic Corp. 500	4
Masco Corp. 700	20	• Lucent Technologies, Inc. 7,019	24
Pulte Homes, Inc. 200	10	Maxim Integrated Products, Inc. 500	23
The Sherwin-Williams Co. 200	8	• Micron Technology, Inc. 900	12
The Stanley Works 100	4	Molex, Inc. 250	7
Vulcan Materials Co. 200	9	Motorola, Inc. 3,666	67
	<b>71</b>	• National Semiconductor Corp. 300	12
		• Novellus Systems, Inc. 250	7
<b>Consumer Durables 0.0%</b>		• Nvidia Corp. 200	4
Black & Decker Corp. 100	6	PerkinElmer, Inc. 200	4
Leggett & Platt, Inc. 300	7	• PMC – Sierra, Inc. 300	4
Maytag Corp. 100	3	• Power-One, Inc. 57	—
Newell Rubbermaid, Inc. 436	10	• QLogic Corp. 138	4
Whirlpool Corp. 100	6	Qualcomm, Inc. 1,200	75
	<b>32</b>	• Sanmina-SCI Corp. 800	8
		Scientific-Atlanta, Inc. 200	6
<b>Containers 0.0%</b>		• Solectron Corp. 1,000	5
Ball Corp. 100	7	Symbol Technologies, Inc. 303	4
Bemis Co. 200	5	Tektronix, Inc. 200	6
		• Tellabs, Inc. 600	5

Security and Number of Shares	Value (\$ x 1,000)
• Teradyne, Inc. 300	6
• Texas Instruments, Inc. 2,700	68
• Thermo Electron Corp. 200	6
• Thomas & Betts Corp. 100	2
• Waters Corp. 200	9
• Xilinx, Inc. 500	17
	<b>839</b>

#### Energy: Raw Materials 0.1%

Anadarko Petroleum Corp. 367	20
Apache Corp. 462	19
Baker Hughes, Inc. 470	17
• BJ Services Co. 200	9
Burlington Resources, Inc. 300	20
Devon Energy Corp. 350	21
EOG Resources, Inc. 180	9
Halliburton Co. 714	21
• Noble Corp. 200	8
Occidental Petroleum Corp. 600	28
• Rowan Cos., Inc. 100	2
Schlumberger Ltd. 900	53
Valero Energy Corp. 200	13
	<b>240</b>

#### Food & Agriculture 0.2%

Archer-Daniels-Midland Co. 1,014	18
Campbell Soup Co. 700	19
The Coca-Cola Co. 3,700	187
Coca-Cola Enterprises, Inc. 700	19
ConAgra Foods, Inc. 800	23
General Mills, Inc. 582	28
H.J. Heinz Co. 600	23
Hershey Foods Corp. 200	18
Kellogg Co. 600	26
McCormick & Co., Inc. 200	7
The Pepsi Bottling Group, Inc. 350	10
PepsiCo, Inc. 2,560	139
Sara Lee Corp. 1,200	28
Supervalu, Inc. 200	6
Sysco Corp. 1,000	38
Wm. Wrigley Jr. Co. 300	19
	<b>608</b>

Security and Number of Shares	Value (\$ x 1,000)
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#### Gold 0.0%

Newmont Mining Corp. 643	<b>24</b>
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#### Healthcare / Drugs & Medicine 0.7%

Abbott Laboratories 2,400	106
Allergan, Inc. 200	18
AmerisourceBergen Corp. 200	12
• Amgen, Inc. 1,952	110
• Anthem, Inc. 200	18
Applied Biosystems Group – Applera Corp. 300	6
Bausch & Lomb, Inc. 100	6
Baxter International, Inc. 900	28
Becton Dickinson & Co. 400	20
• Biogen Idec, Inc. 480	28
Biomet, Inc. 450	18
• Boston Scientific Corp. 1,268	52
Bristol-Myers Squibb Co. 3,000	75
C.R. Bard, Inc. 100	11
Cardinal Health, Inc. 650	48
• Caremark Rx, Inc. 581	20
• Chiron Corp. 300	14
Eli Lilly & Co. 1,725	127
• Express Scripts, Inc. 100	8
• Forest Laboratories, Inc. 550	35
• Genzyme Corp. 325	14
Guidant Corp. 500	32
HCA, Inc. 800	32
Health Management Associates, Inc., Class A 400	9
• Humana, Inc. 200	3
Johnson & Johnson 4,492	243
• King Pharmaceuticals, Inc. 366	6
Manor Care, Inc. 100	3
McKesson Corp. 422	14
• Medco Health Solutions, Inc. 422	15
• Medimmune, Inc. 400	10
Medtronic, Inc. 1,800	91
Merck & Co., Inc. 3,400	160
Mylan Laboratories, Inc. 400	9
⑧ Pfizer, Inc. 11,557	413
• Quest Diagnostics 139	12
Schering-Plough Corp. 2,300	38

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• St. Jude Medical, Inc. 250	19	Safeco Corp. 200	9
Stryker Corp. 301	30	St. Paul Cos., Inc. 1,006	41
• Tenet Healthcare Corp. 750	9	Torchmark Corp. 200	10
UnitedHealth Group, Inc. 950	58	UnumProvident Corp. 346	5
• Watson Pharmaceuticals, Inc. 200	7	XL Capital Ltd., Class A 200	15
• WellPoint Health Networks, Inc. 250	28		<b>809</b>
Wyeth 2,000	76		
• Zimmer Holdings, Inc. 350	28		
	<b>2,119</b>		
<b>Household Products 0.1%</b>		<b>Media 0.2%</b>	
Alberto-Culver Co., Class B 150	7	Clear Channel Communications, Inc. 967	40
Avon Products, Inc. 350	30	• Comcast Corp., Class A 3,463	104
Clorox Co. 300	16	Dow Jones & Co., Inc. 100	5
Colgate-Palmolive Co. 800	46	Gannett Co., Inc. 400	35
The Gillette Co. 1,500	61	Knight-Ridder, Inc. 100	8
International Flavors & Fragrances, Inc. 200	7	The McGraw-Hill Cos., Inc. 300	24
Procter & Gamble Co. 1,950	206	Meredith Corp. 100	5
	<b>373</b>	New York Times Co., Class A 200	9
		R.R. Donnelley & Sons Co. 300	9
		• Time Warner, Inc. 6,850	115
		Tribune Co. 500	24
		• Univision Communications, Inc., Class A 519	17
		Viacom, Inc., Class B 2,660	103
		The Walt Disney Co. 3,077	71
			<b>569</b>
<b>Insurance 0.3%</b>		<b>Miscellaneous 0.0%</b>	
ACE Ltd. 400	18	3M Co. 1,200	<b>104</b>
Aetna, Inc. 222	18		
AFLAC, Inc. 800	34	<b>Miscellaneous Finance 0.4%</b>	
The Allstate Corp. 1,100	51	American Express Co. 2,000	98
AMBAC Financial Group, Inc. 162	11	The Bear Stearns Cos., Inc. 145	12
American International Group, Inc. 3,979	285	Capital One Financial Corp. 350	23
AON Corp. 475	12	■ The Charles Schwab Corp. 2,125	22
Chubb Corp. 300	21	Charter One Financial, Inc. 346	12
CIGNA Corp. 200	13	⑨ Citigroup, Inc. 7,782	374
Cincinnati Financial Corp. 315	13	Countrywide Financial Corp. 399	24
Hartford Financial Services Group, Inc. 425	26	• E*TRADE Group, Inc. 600	7
Jefferson-Pilot Corp. 225	11	Fannie Mae 1,475	101
Lincoln National Corp. 300	14	Federated Investors, Inc., Class B 200	6
Loews Corp. 300	17	Franklin Resources, Inc. 400	22
Marsh & McLennan Cos., Inc. 800	36	Freddie Mac 1,000	58
MBIA, Inc. 200	12	Golden West Financial Corp. 250	26
Metlife, Inc. 1,178	41	Goldman Sachs Group, Inc. 728	70
MGIC Investment Corp. 150	11		
• Principal Financial Group, Inc. 550	19		
The Progressive Corp. 350	31		
Prudential Financial, Inc. 800	35		

Security and Number of Shares	Value (\$ x 1,000)
Janus Capital Group, Inc. 400	6
Lehman Brothers Holdings, Inc. 400	29
MBNA Corp. 1,957	48
Merrill Lynch & Co., Inc. 1,500	81
Moody's Corp. 200	13
Morgan Stanley 1,630	84
•Providian Financial Corp. 400	5
SLM Corp. 650	25
T. Rowe Price Group, Inc. 200	10
Washington Mutual, Inc. 1,331	52
	<b>1,208</b>
<b>Non-Durables &amp; Entertainment 0.1%</b>	
Darden Restaurants, Inc. 300	7
•Electronic Arts, Inc. 424	21
Fortune Brands, Inc. 200	15
Hasbro, Inc. 325	6
International Game Technology 556	21
Mattel, Inc. 650	11
McDonald's Corp. 2,000	54
•Starbucks Corp. 560	22
Wendy's International, Inc. 200	8
•Yum! Brands, Inc. 480	19
	<b>184</b>
<b>Non-Ferrous Metals 0.0%</b>	
Alcoa, Inc. 1,312	40
Engelhard Corp. 200	6
Freeport-McMoran Copper & Gold, Inc., Class B 300	9
•Phelps Dodge Corp. 135	9
	<b>64</b>
<b>Oil: Domestic 0.1%</b>	
Amerada Hess Corp. 100	7
Ashland, Inc. 100	5
ConocoPhillips 1,027	73
Kerr-McGee Corp. 136	7
Marathon Oil Corp. 500	17
•Nabors Industries Ltd. 200	9
Sunoco, Inc. 100	6
•Transocean, Inc. 474	13
Unocal Corp. 400	14
	<b>151</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Oil: International 0.2%</b>	
ChevronTexaco Corp. 1,643	150
⑦ Exxon Mobil Corp. 9,918	422
	<b>572</b>
<b>Optical &amp; Photo 0.0%</b>	
•Corning, Inc. 1,900	21
Eastman Kodak Co. 500	13
	<b>34</b>
<b>Paper &amp; Forest Products 0.0%</b>	
Boise Cascade Corp. 100	3
Georgia-Pacific Corp. 379	13
International Paper Co. 739	30
Kimberly-Clark Corp. 756	50
•Louisiana-Pacific Corp. 100	2
MeadWestvaco Corp. 294	8
Temple-Inland, Inc. 100	6
Weyerhaeuser Co. 350	21
	<b>133</b>
<b>Producer Goods &amp; Manufacturing 0.3%</b>	
•American Standard Cos., Inc. 100	11
Avery Dennison Corp. 200	13
Caterpillar, Inc. 550	43
Cooper Industries Ltd., Class A 150	8
Deere & Co. 400	27
Dover Corp. 300	12
Emerson Electric Co. 650	39
⑤ General Electric Co. 15,550	466
Honeywell International, Inc. 1,275	44
Illinois Tool Works, Inc. 450	39
Ingersoll-Rand Co., Class A 250	16
Johnson Controls, Inc. 300	17
•Millipore Corp. 100	5
Pall Corp. 200	5
Parker Hannifin Corp. 150	8
Snap-On, Inc. 100	3
W.W. Grainger, Inc. 100	5
	<b>761</b>

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Railroad &amp; Shipping 0.0%</b>	
Burlington Northern Santa Fe Corp. 600	20
CSX Corp. 300	9
Norfolk Southern Corp. 600	14
Union Pacific Corp. 400	24
	<b>67</b>

**Real Property 0.0%**

Apartment Investment & Management Co., Class A 100	3
Equity Office Properties Trust 600	15
Equity Residential 400	11
Plum Creek Timber Co., Inc. 300	9
ProLogis 300	9
Simon Property Group, Inc. 300	14
	<b>61</b>

**Retail 0.4%**

Albertson's, Inc. 652	15
• Autonation, Inc. 500	9
• AutoZone, Inc. 150	13
• Bed, Bath & Beyond, Inc. 400	15
Best Buy Co., Inc. 450	24
• Big Lots, Inc. 200	3
Circuit City Stores, Inc. 300	4
• Costco Wholesale Corp. 700	26
CVS Corp. 600	23
Dillards, Inc., Class A 200	3
Dollar General Corp. 515	10
Family Dollar Stores, Inc. 300	10
Federated Department Stores, Inc. 300	15
The Gap, Inc. 1,362	30
Home Depot, Inc. 3,450	121
J.C. Penney Co., Inc. Holding Co. 400	14
• Kohl's Corp. 500	21
• Kroger Co. 1,200	21
Limited Brands, Inc. 818	17
Lowe's Cos., Inc. 1,200	62
The May Department Stores Co. 500	15
Nordstrom, Inc. 200	7
• Office Depot, Inc. 600	11
RadioShack Corp. 300	9

Security and Number of Shares	Value (\$ x 1,000)
• Safeway, Inc. 650	15
Sears, Roebuck & Co. 300	12
• Staples, Inc. 750	19
Target Corp. 1,400	61
Tiffany & Co. 250	10
TJX Cos., Inc. 800	20
• Toys 'R' Us, Inc. 300	5
⑩ Wal-Mart Stores, Inc. 6,550	373
Walgreen Co. 1,600	55
Winn-Dixie Stores, Inc. 300	2
	<b>1,070</b>

**Steel 0.0%**

Allegheny Technologies, Inc. 146	1
Nucor Corp. 100	6
United States Steel Corp. 100	3
Worthington Industries, Inc. 100	2
	<b>12</b>

**Telephone 0.2%**

Alltel Corp. 500	25
AT&T Corp. 1,181	20
• AT&T Wireless Services, Inc. 4,265	59
• Avaya, Inc. 618	9
BellSouth Corp. 2,750	71
CenturyTel, Inc. 250	7
• Citizens Communications Co. 410	5
• Nextel Communications, Inc., Class A 1,700	41
• Qwest Communications International, Inc. 2,524	10
SBC Communications, Inc. 5,025	125
Sprint Corp. (FON Group) 2,000	36
Verizon Communications, Inc. 4,188	158
	<b>566</b>

**Tobacco 0.1%**

Altria Group, Inc. 3,100	172
R.J. Reynolds Tobacco Holdings, Inc. 100	6
UST, Inc. 300	11
	<b>189</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Travel & Recreation 0.0%**

Brunswick Corp. 100	4
Carnival Corp. 1,000	43
Harrah's Entertainment, Inc. 200	11
Hilton Hotels Corp. 600	10
Marriott International, Inc., Class A 400	19
Starwood Hotels & Resorts Worldwide, Inc. 300	12
	<b>99</b>

**Trucking & Freight 0.0%**

Paccar, Inc. 300	17
Ryder Systems, Inc. 100	4
	<b>21</b>

**Utilities: Electric & Gas 0.1%**

• The AES Corp. 800	7
• Allegheny Energy, Inc. 170	2
Ameren Corp. 300	13
American Electric Power Co., Inc. 580	18
• 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	8
Dominion Resources, Inc. 515	33
DTE Energy Co. 200	8
Duke Energy Corp. 1,408	30
• Dynegy, Inc., Class A 500	2
Edison International 500	12
El Paso Corp. 769	5
Entergy Corp. 350	19
Exelon Corp. 512	34
FirstEnergy Corp. 533	21
FPL Group, Inc. 300	19
KeySpan Corp. 200	7
Kinder Morgan, Inc. 176	11
Nicor, Inc. 100	3
NiSource, Inc. 376	8
Peoples Energy Corp. 100	4
• PG&E Corp. 600	16
Pinnacle West Capital Corp. 100	4

Security and Number of Shares	Value (\$ x 1,000)
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PPL Corp. 300	13
Progress Energy, Inc. 354	15
Public Service Enterprise Group, Inc. 400	17
Sempra Energy 297	9
The Southern Co. 1,100	32
TECO Energy, Inc. 200	3
TXU Corp. 400	14
Williams Cos., Inc. 700	7
Xcel Energy, Inc. 510	8
	<b>434</b>

**Other Investment Companies**

89.7% of net assets

■ 3 Schwab International Index Fund, Select Shares 2,072,080	28,947
■ 2 Schwab S&P 500 Fund, Select Shares 2,466,894	42,381
■ 4 Schwab Small-Cap Index Fund, Select Shares 1,485,394	28,030
■ 1 Schwab Total Bond Market Fund 16,321,017	162,394
	<b>261,752</b>

**Short-Term Investments**

4.8% of net assets

■ Schwab Value Advantage Money Fund, Investor Shares 13,528,848	13,529
-----------------------------------------------------------------	--------

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	
Bank of America, London Time Deposit 0.50%, 05/03/04	419	419
		<b>13,948</b>

**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$291,345
Receivables:	
Fund shares sold	177
Dividends	36
Investments sold	573
Prepaid expenses	+ 10
<b>Total assets</b>	<b>292,141</b>

**Liabilities**

Payables:	
Fund shares redeemed	199
Investments bought	13
Investment adviser and administrator fees	3
Transfer agent and shareholder service fees	4
Accrued expenses	+ 36
<b>Total liabilities</b>	<b>255</b>

**Net Assets**

<b>Total assets</b>	292,141
<b>Total liabilities</b>	- 255
<b>Net assets</b>	<b>\$291,886</b>

**Net Assets by Source**

Capital received from investors	276,833
Net investment income not yet distributed	425
Net realized capital losses	(3,272)
Net unrealized capital gains	17,900

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$291,886		23,013		\$12.68

Unless stated, all numbers x 1,000.

The fund paid \$273,445 for these securities.

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

Purchases	\$20,079
Sales/maturities	\$18,995

The fund's total security transactions with other SchwabFunds® during the period were \$12.

Percent of fund shares of other Schwab funds owned at the end of the report period:

**Schwab Equity Index Funds**

S&P 500 Fund	0.5%
Small-Cap Index Fund	1.7%
International Index Fund	2.4%

**Schwab Bond Funds**

Total Bond Market Fund	15.5%
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**Schwab Money Funds**

Value Advantage	
Money Fund	Less than 0.1%

**Federal Tax Data**

<b>Portfolio Cost</b>	\$274,763
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**Net unrealized gains and losses:**

Gains	\$20,235
Losses	+ (3,653)
	<b>\$16,582</b>

**As of October 31, 2003:****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, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$6,676
Interest	+ 3
<b>Total investment income</b>	<b>6,679</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	358
Net realized gains received from underlying funds	+ 2,869
<b>Net realized gains</b>	<b>3,227</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>530</b>
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**Expenses**

Investment adviser and administrator fees	655
Transfer agent and shareholder service fees	372
Trustees' fees	3
Custodian fees	15
Portfolio accounting fees	20
Professional fees	17
Registration fees	10
Shareholder reports	12
Other expenses	+ 4
Total expenses	1,108
Expense reduction	- 364
<b>Net expenses</b>	<b>744</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	6,679
<b>Net expenses</b>	- 744
<b>Net investment income</b>	<b>5,935</b>
<b>Net realized gains</b>	3,227
<b>Net unrealized gains</b>	+ 530
<b>Increase in net assets from operations</b>	<b>\$9,692</b>

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 28, 2005, 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 \$3,757.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	11/1/02–10/31/03
Net investment income	\$5,935	\$6,662
Net realized gains or losses	3,227	(2,662)
Net unrealized gains	+ 530	29,372
<b>Increase in net assets from operations</b>	<b>9,692</b>	<b>33,372</b>

**Distributions Paid**

Dividends from net investment income	<b>\$6,013</b>	<b>\$6,687</b>
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**Transactions in Fund Shares**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,499	\$32,035	4,632	\$54,499
Shares reinvested	451	5,715	548	6,370
Shares redeemed	+ (2,968)	(38,145)	(5,315)	(62,339)
<b>Net transactions in fund shares</b>	<b>(18)</b>	<b>(\$395)</b>	<b>(135)</b>	<b>(\$1,470)</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		11/1/02–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	23,031	\$288,602	23,166	\$263,387
Total increase or decrease	+ (18)	3,284	(135)	25,215
<b>End of period</b>	<b>23,013</b>	<b>\$291,886</b>	<b>23,031</b>	<b>\$288,602</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$6,687
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 \$425 and \$503 at the end of the current period and prior period, respectively.

# Financial Notes unaudited

## Business Structure of the Funds

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

**The funds offer one share class.** Shares are bought and sold at net asset value (NAV), which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

## Fund Operations

Most of the funds' investments are described in the fund-by-fund sections earlier in this report. However, there are certain other 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 4/30/04 (\$ × 1,000)	Average Borrowing* (\$ × 1,000)	Weighted average Interest Rate* (%)
<b>MarketTrack Growth Portfolio</b>	—	77	1.47
<b>MarketTrack Balanced Portfolio</b>	—	159	1.52
<b>MarketTrack Conservative Portfolio</b>	—	98	1.55

\*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.

- **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.

# 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 4/30/04) 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., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; 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.

## 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	2003 (all trusts).	Vice Chair, 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>1,2</sup> 2/22/55	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.; SVP, 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.

<sup>2</sup> Effective June 8, 2004, Jeffrey Lyons resigned as trustee from each of the trusts.



## 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, 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, Laudus Trust, Laudus Variable Insurance Trust. <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 (corporate 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). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <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); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
<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 investment trust).
<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

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

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

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

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

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

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

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

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# 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. 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. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any 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.

## Proxy Voting Policies and Procedures

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

## 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, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

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

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

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

**Investment Adviser**

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

**Distributor**

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

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# Institutional Select® Funds

## Semiannual Report

April 30, 2004

Institutional Select®  
S&P 500 Fund

Institutional Select®  
Large-Cap Value Index Fund

Institutional Select®  
Small-Cap Value Index Fund

*Three funds designed to capture the performance  
of specific segments of the U.S. stock market.*

In This Report

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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.	
Performance at a Glance . . . . .	5
Institutional Select S&P 500 Fund	
Ticker Symbol: <b>ISLCX</b>	
The fund seeks high total return by tracking the performance of the S&P 500® Index. <sup>1</sup>	
Performance and Fund Facts . . . . .	6
Financial Statements . . . . .	12
Institutional Select Large-Cap Value Index Fund	
Ticker Symbol: <b>ISLVX</b>	
The fund seeks high total return by tracking the performance of the S&P 500/Barra Value Index. <sup>1</sup>	
Performance and Fund Facts . . . . .	8
Financial Statements . . . . .	25
Institutional Select Small-Cap Value Index Fund	
Ticker Symbol: <b>ISSVX</b>	
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).

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# From the Chairman



Charles R. Schwab  
Chairman

When I look at the current economic trends, I see a lot of positive indicators. Corporate profits, revenues, capital spending and the employment numbers have been strong. With the GDP and capital spending also strong, we seem to be in the early stages of what could be a long-term economic recovery. However, even though stock market and economic cycles have historically been in synch, this now seems to be less certain.

The stock market, reflecting the uncertainty around the globe, has become increasingly volatile. Whether it's the war in Iraq or global terrorism, investors are exposed to frightening images over and over again throughout the day. This may play on investors' emotions, potentially contributing to the market's recent volatility.

Given this, and because it can be so difficult to fight your emotions, I believe it's more important than ever to stay diversified. By being diversified across and within all asset classes, you have an "all-weather" portfolio that can offer you some balance in any market climate. There are very obvious reasons why diversification is useful, but what I believe is its understated beauty is that it gives many of you the discipline you need to stick with a well thought out strategy.

I have been a fan of mutual funds throughout my long investing career. I say this because I firmly believe that mutual funds are a cost-effective and convenient way for investors to achieve a diversified portfolio. And as we face increasing uncertainty in the world and in the stock markets, this is perhaps more important than ever.

Overall, despite the likelihood of short-term market volatility, I maintain complete faith in the strength of the U. S. economy. I always have believed and continue to believe that the stock market is the best place for long-term investing, and that with a wise investing plan – and a well diversified portfolio – you will be well-positioned to meet your financial goals.

Sincerely,

A handwritten signature in black ink that reads "Charles Schwab". The signature is written in a cursive, flowing style with a large, prominent "C" and "S".

# Management's Discussion

for the six months ended April 30, 2004



**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 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The stock market's continued recovery during the report period was welcome news to long-term investors, especially those of you who had suffered through declining share prices before then.

For years, investors sold stocks and stock mutual funds when the economy was weak or when geopolitical tensions heightened, despite the fact that stock and fund prices often were relatively cheap during those dark hours. Over the past year, however, I've spoken with many individual investors who benefited from sticking with their long-term asset-allocation plans. As a result, they were able to participate in the past year's stock market gains. They learned how difficult it is to successfully "time the market" and determine when to "be in cash." Many have given up this chase altogether and have benefited both financially and emotionally.

Given the ongoing geopolitical situation, however, it's quite understandable that many investors are nervous, and some are again acting more on their emotions than on sound investment principles. When you invest in SchwabFunds®, you can be assured that our portfolio managers understand your concerns and are diligent in their approach to the investment process. Key to this is their knowledge of and adherence to each fund's objective and their vigilant focus on remaining true to it. In short, each of our portfolio manager's responsibility is to remain consistent in implementing their investment strategies, despite the market's fluctuations.

There's one more thing I want to address in this letter and that is, as of July 19, 2004, following a distinguished ten-year career at Schwab, Geri Hom, senior portfolio manager, has decided to retire. Jeff Mortimer, senior vice-president and chief investment officer, equities of Charles Schwab Investment Management, Inc., assumes Geri's responsibilities for overall management of the funds.

I expect these changes to be seamless to our shareholders, as SchwabFunds® has been and will continue to be managed by teams of seasoned professionals, who remain committed to their investing styles. We thank you for your trust in us as we help you reach your long- or short-term financial goals.

Sincerely,

*Randall W. Merk*





**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, which had improved during the second half of 2003, picked up steam at the end of the year and continued to show signs of recovery through the current report period of November 1, 2003 through April 30, 2004. The securities market reflected the positive news through first-quarter 2004. During that time, the market started to bounce around a little, as evidenced by the volatility in the S&P 500® Index in February and March. Toward the end of the report period, in late April, the market fell precipitously and many of the funds' 2004 gains were lost. Nonetheless, its earlier performance was strong enough to push the broader market up 6.27% for the report period, as measured by the S&P 500® Index.

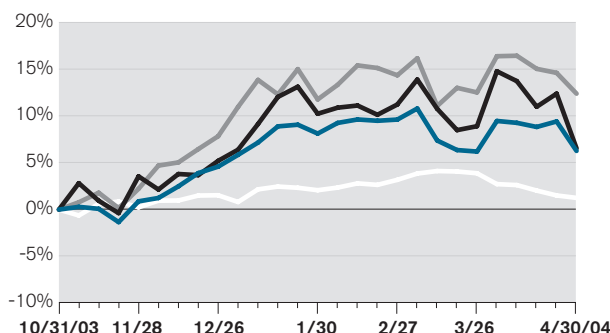
While the economy officially emerged from recession in 2001, the recovery didn't fully materialize until 2003. And it wasn't until late in 2003 when investors started buying companies with good solid fundamentals. During this time, both the manufacturing and services sectors exhibited strong growth. Capital spending showed signs of life amid rising corporate profits.

The economy continued to expand in 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise,

### 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.

- 6.27% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.54% **Russell 2000® Index:** measures U.S. small-cap stocks
- 12.39% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.25% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and you cannot invest in them directly. Remember that past performance is not an indication of future results. Data source: Charles Schwab & Co., Inc.

*With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq.*

despite a mid-quarter pause in the upward trend in consumer confidence, and higher commodity prices were holding. Mortgage refinancing activity, while still significant, started to show signs of waning as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid growth.

On the currency front, the dollar rebounded from its lows, due to two reasons. First, the U. S. economy grew more than most other countries' economies did. The second reason is the expectation that interest rates will rise, which has served to stimulate inflows of foreign capital.

The Federal Reserve (Fed) left interest rates unchanged during the period. Inflation began to accelerate, alleviating Fed fears of possible deflation. Consequent expectations that the Fed would soon begin to raise interest rates weighed on markets toward the end of the period. Nevertheless, economic fundamentals remained sound. With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq. Business profits exhibited another strong quarterly gain and investment in equipment and inventories remained healthy. In sum, it appeared that the economy, indeed, was back on track.

## The Funds

The equities market started off strong at the beginning of the period that ran from November 1, 2003 through April 30, 2004. Toward the middle of first-quarter 2004, however, the market, as evidenced by the S&P 500® Index, became fairly volatile and bounced around until the end of April, giving up some of its earlier gains. Nonetheless, performance of all of the Institutional Select Funds was positive over the report period, closely tracking their benchmarks.

The S&P 500® Index closed at 1107.30, up 6.27% for the period. First-quarter earnings came in very strong. As of the end of April, 410 of the 500 companies in the index had reported earnings, which were an average 8.4% higher than analysts' estimates.

In terms of performance, the top industry, as measured by the S&P 500® Index was energy, up 22.44% for the period, due in part to the soaring price of a barrel of oil. Coming in second was telecommunications

## Performance at a Glance

Total return for the six months ended 4/30/04

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

**Institutional Select  
S&P 500 Fund** ..... 6.18%  
Benchmark. .... 6.27%  
*Performance Details* ..... page 6

**Institutional Select Large-Cap  
Value Index Fund** ..... 7.89%  
Benchmark. .... 7.98%  
*Performance Details* ..... page 8

**Institutional Select Small-Cap  
Value Index Fund** ..... 9.84%  
Benchmark. .... 9.95%  
*Performance Details* ..... page 10

services, which was up 12.38%, followed by the consumer-staples industry, which grew 10.42%. The worst performing industry over the period was information technology, which was down 3.96%.

**The Institutional Select S&P 500 Fund** was up 6.18% for the period, closely tracking the S&P 500® Index. While small cap led the way up until April, “bigger became better,” as small-cap stocks lost their lead and were replaced by large-cap stocks. The best performing sector was energy, which was up 22.44% for the period. The worst performing sector was information technology, down 3.96%.

**The Institutional Select Large-Cap Value Index Fund** benefited from the market favoring value over growth. In fact, only one sector posted negative returns, and that was information technology. Within this sector, Hewlett-Packard was among the worst performer. The best performing sector was energy.

**The Institutional Select Small-Cap Value Index Fund** was the best performer of the three Institutional Select Funds, benefiting from the market having favored both small-cap and value stocks. The sectors that were strongest were energy and materials. The weakest sectors were information technology and telecommunications.

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

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

Small company stocks are subject to greater volatility than other asset categories.

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

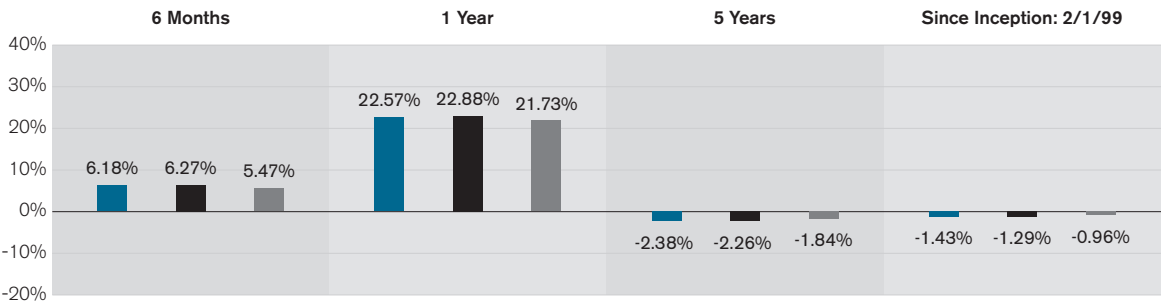
# Institutional Select S&P 500 Fund

Performance as of 4/30/04

## 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**



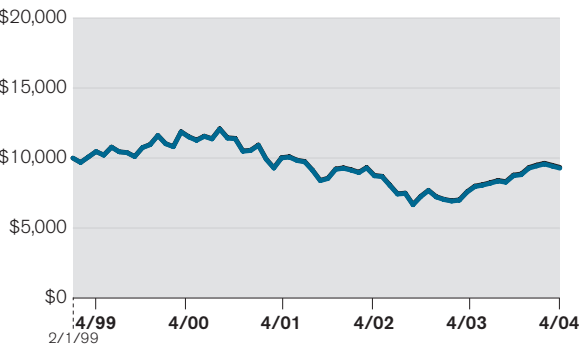
Total Returns After Tax	6 Months	1 Year	5 Years	Since Inception
Pre-Liquidation (still own shares)	5.96%	22.32%	-2.80%	-1.84%
Post-Liquidation (shares were sold)	4.30%	15.00%	-2.24%	-1.44%

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

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

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

- \$9,272 Fund
- \$9,340 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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 and do not reflect the impact of state and local taxes or the alternative minimum tax. Actual returns depend on an investor's situation and may differ from those shown. After-tax returns may not be relevant to investors who hold their fund shares through tax-deferred arrangements. Pre-liquidation after-tax returns reflect the tax effects of purchases and sales of securities within the fund portfolios and assume investors continue to hold fund shares at the end of the measurement periods. Post-liquidation figures assume investors sold fund shares at the end of the measurement periods and reflect both the effects of taxable distributions and any taxable gains or losses realized upon the sale of shares. Source for category information: Morningstar, Inc.

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

## Fund Facts as of 4/30/04

### Style Assessment<sup>1</sup>



### Statistics

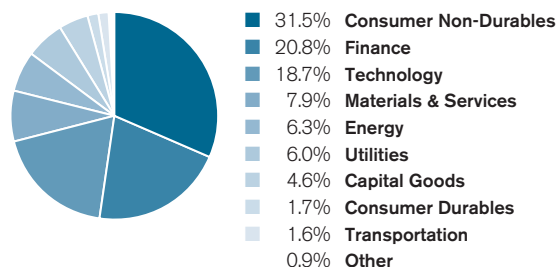
<b>Number of Holdings</b>	501
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$89,441
<b>Price/Earnings Ratio</b> (P/E)	20.3
<b>Price/Book Ratio</b> (P/B)	3.1
<b>Portfolio Turnover Rate</b> <sup>2</sup>	2%

### Top Holdings<sup>3</sup>

Security	% of Net Assets
① General Electric Co.	2.9%
② Microsoft Corp.	2.7%
③ Exxon Mobil Corp.	2.7%
④ Pfizer, Inc.	2.6%
⑤ Citigroup, Inc.	2.4%
⑥ Wal-Mart Stores, Inc.	2.4%
⑦ American International Group, Inc.	1.8%
⑧ Intel Corp.	1.6%
⑨ Bank of America Corp.	1.6%
⑩ Johnson & Johnson	1.5%
<b>Total</b>	<b>22.2%</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.



Portfolio holdings may have changed since 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 4/30/04, 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.

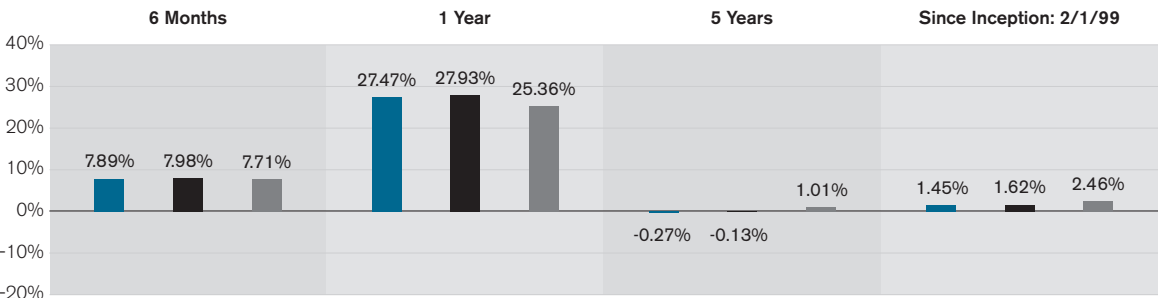
# Institutional Select Large-Cap Value Index Fund

Performance as of 4/30/04

## 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**



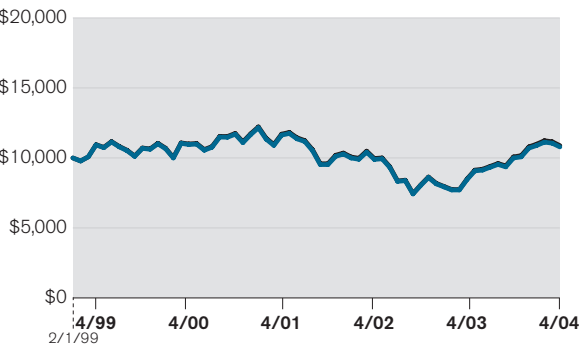
Total Returns After Tax	6 Months		1 Year		5 Years		Since Inception	
Pre-Liquidation (still own shares)	7.63%	5.25%	27.16%	22.75%	-1.32%	-0.42%	0.43%	n/a
Post-Liquidation (shares were sold)	5.46%	3.63%	18.25%	15.13%	-0.82%	0.10%	0.66%	n/a

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

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

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

- \$10,785 Fund
- \$10,881 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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 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 4/30/04

### Style Assessment<sup>1</sup>



### Statistics

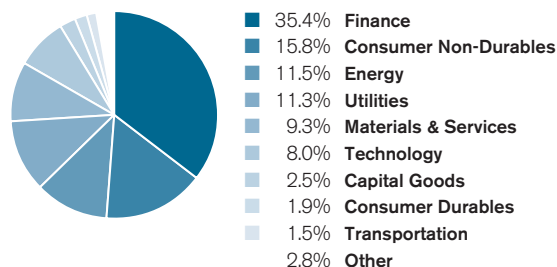
<b>Number of Holdings</b>	342
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$65,725
<b>Price/Earnings Ratio</b> (P/E)	17.3
<b>Price/Book Ratio</b> (P/B)	2.1
<b>Portfolio Turnover Rate</b> <sup>2</sup>	6%

### Top Holdings<sup>3</sup>

Security	% of Net Assets
<b>1 Exxon Mobil Corp.</b>	5.2%
<b>2 Citigroup, Inc.</b>	4.6%
<b>3 American International Group, Inc.</b>	3.5%
<b>4 Bank of America Corp.</b>	3.1%
<b>5 Verizon Communications, Inc.</b>	1.9%
<b>6 ChevronTexaco Corp.</b>	1.8%
<b>7 Wells Fargo &amp; Co.</b>	1.8%
<b>8 SBC Communications, Inc.</b>	1.5%
<b>9 Home Depot, Inc.</b>	1.5%
<b>10 J.P. Morgan Chase &amp; Co.</b>	1.4%
<b>Total</b>	<b>26.3%</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 holdings may have changed since 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 4/30/04, 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.

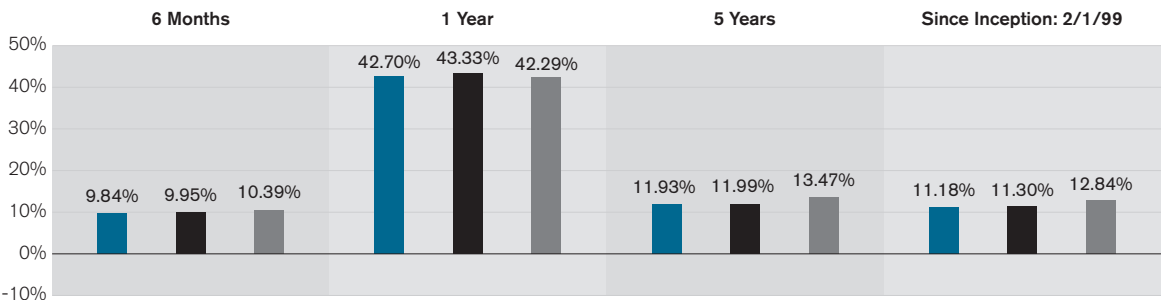
# Institutional Select Small-Cap Value Index Fund

Performance as of 4/30/04

## 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**



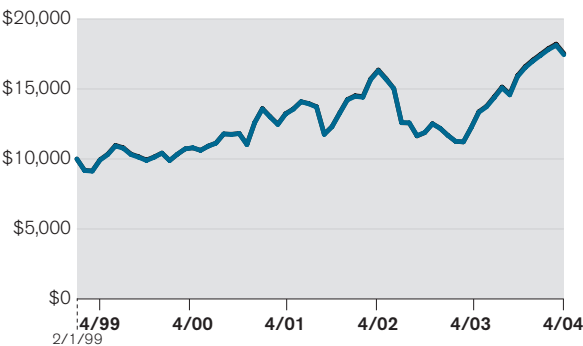
Total Returns After Tax	6 Months	1 Year	5 Years	Since Inception
Pre-Liquidation (still own shares)	9.71% 8.03%	42.53% 39.60%	10.11% 12.18%	9.45% n/a
Post-Liquidation (shares were sold)	6.57% 5.81%	27.98% 26.59%	9.21% 11.00%	8.61% n/a

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

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

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

- \$17,439 Fund
- \$17,536 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. Results for the report period are not annualized.

<sup>1</sup> The pre-tax total return and the graph do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. After-tax returns are calculated using the highest historical individual federal marginal income tax rates in effect as of 4/30/04 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 4/30/04

### Style Assessment<sup>1</sup>



### Statistics

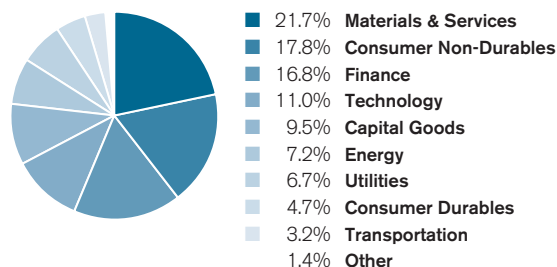
<b>Number of Holdings</b>	372
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$876
<b>Price/Earnings Ratio</b> (P/E)	26.0
<b>Price/Book Ratio</b> (P/B)	1.6
<b>Portfolio Turnover Rate</b> <sup>2</sup>	19%

### Top Holdings<sup>3</sup>

Security	% of Net Assets
① Tom Brown, Inc.	0.9%
② MDC Holdings, Inc.	0.9%
③ The Timken Co.	0.8%
④ Pediatrix Medical Group, Inc.	0.7%
⑤ Massey Energy Co.	0.7%
⑥ Standard-Pacific Corp.	0.7%
⑦ Whitney Holding Corp.	0.7%
⑧ Hughes Supply, Inc.	0.7%
⑨ Fremont General Corp.	0.7%
⑩ Corn Products International, Inc.	0.7%
<b>Total</b>	<b>7.5%</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 holdings may have changed since 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 4/30/04, 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.

# Institutional Select S&P 500 Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	8.30	7.00	8.36	11.26	10.74	10.00
Income or loss from investment operations:						
Net investment income	0.06	0.12	0.12	0.12	0.11	0.07
Net realized and unrealized gains or losses	0.45	1.30	(1.37)	(2.91)	0.52	0.67
Total income or loss from investment operations	0.51	1.42	(1.25)	(2.79)	0.63	0.74
Less distributions:						
Dividends from net investment income	(0.12)	(0.12)	(0.11)	(0.11)	(0.09)	—
Distributions from net realized gains	—	—	—	—	(0.02)	—
Total distributions	(0.12)	(0.12)	(0.11)	(0.11)	(0.11)	—
Net asset value at end of period	8.69	8.30	7.00	8.36	11.26	10.74
Total return (%)	6.18 <sup>2</sup>	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 <sup>3</sup>	0.15	0.15	0.15	0.16 <sup>4</sup>	0.13 <sup>3</sup>
Gross operating expenses	0.35 <sup>3</sup>	0.36	0.37	0.37	0.38	0.55 <sup>3</sup>
Net investment income	1.51 <sup>3</sup>	1.65	1.38	1.14	1.06	1.37 <sup>3</sup>
Portfolio turnover rate	2 <sup>2</sup>	4	12	13	6	1 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	306	272	203	261	382	238

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.15% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>99.2% Common Stock</b>	316,716	303,614
<b>0.8% Short-Term Investment</b>	2,600	2,600
<b>0.1% U.S. Treasury Obligation</b>	250	250
<b>100.1% Total Investments</b>	<b>319,566</b>	<b>306,464</b>
<b>10.9% Collateral Invested for Securities on Loan</b>	33,489	33,489
<b>(11.0)% Other Assets and Liabilities, Net</b>		(33,837)
<b>100.0% Total Net Assets</b>		<b>306,116</b>

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

**Common Stock** 99.2% of net assets**Aerospace / Defense 1.7%**

The Boeing Co.	24,900	1,063
Crane Co.	1,700	52
General Dynamics Corp.	5,800	543
Goodrich Corp.	3,400	98
Lockheed Martin Corp.	13,300	635
Northrop Grumman Corp.	5,614	557
Raytheon Co.	12,300	397
Rockwell Automation, Inc.	5,400	177
Rockwell Collins, Inc.	5,300	171
Textron, Inc.	4,100	226
United Technologies Corp.	15,200	1,311
		<b>5,230</b>

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

**Air Transportation 1.1%**

Delta Air Lines, Inc.	3,200	20
FedEx Corp.	8,900	640
Sabre Holdings Corp.	4,118	97
Southwest Airlines Co.	23,250	332
United Parcel Service, Inc., Class B	33,324	2,338
		<b>3,427</b>

**Alcoholic Beverages 0.5%**

Adolph Coors Co., Class B	1,200	79
Anheuser-Busch Cos., Inc.	24,100	1,235
Brown-Forman Corp., Class B	3,608	169
		<b>1,483</b>

**Apparel 0.3%**

Jones Apparel Group, Inc.	3,800	139
Liz Claiborne, Inc.	3,300	116
Nike, Inc., Class B	7,700	554
Reebok International Ltd.	1,700	62
VF Corp.	3,200	148
		<b>1,019</b>

**Automotive Products / Motor Vehicles 1.2%**

Cooper Tire & Rubber Co.	2,100	45
Cummins, Inc.	1,400	84
Dana Corp.	4,300	87
Danaher Corp.	4,600	425
Delphi Corp.	16,449	168
Eaton Corp.	4,600	273
Ford Motor Co.	54,011	829
General Motors Corp.	16,475	781
Genuine Parts Co.	5,200	186
Goodyear Tire & Rubber Co.	4,700	41
Harley-Davidson, Inc.	9,000	507
• Navistar International Corp.	2,100	95
Visteon Corp.	3,669	40
		<b>3,561</b>

**Banks 7.4%**

AmSouth Bancorp.	10,200	225
⑨ Bank of America Corp.	60,332	4,856
The Bank of New York Co., Inc.	22,850	666

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Bank One Corp. 33,000	1,629	▲2 Microsoft Corp. 318,350	8,268
BB&T Corp. 16,000	552	• NCR Corp. 2,800	125
Comerica, Inc. 5,100	263	• Network Appliance, Inc. 10,000	186
Fifth Third Bancorp. 16,769	900	• Novell, Inc. 10,900	105
First Horizon National Corp. 3,600	158	• Oracle Corp. 154,100	1,729
Huntington Bancshares, Inc. 6,583	141	• Pitney Bowes, Inc. 6,800	298
J.P. Morgan Chase & Co. 60,640	2,280	• Siebel Systems, Inc. 14,600	150
KeyCorp, Inc. 12,400	368	• Sun Microsystems, Inc. 96,200	375
M&T Bank Corp. 3,599	306	• Unisys Corp. 9,600	125
Marshall & Ilsley Corp. 6,628	244	• Xerox Corp. 23,400	314
Mellon Financial Corp. 12,600	373		
National City Corp. 17,800	617		<b>26,874</b>
North Fork Bancorp., Inc. 4,400	163		
Northern Trust Corp. 6,400	271	<b>Business Services 4.2%</b>	
PNC Financial Services Group, Inc. 8,100	430	• Affiliated Computer Services, Inc., Class A 4,014	195
Regions Financial Corp. 6,600	229	• Allied Waste Industries, Inc. 9,200	116
SouthTrust Corp. 9,700	301	• Apollo Group, Inc., Class A 5,200	473
State Street Corp. 9,900	483	• Automatic Data Processing, Inc. 17,400	762
SunTrust Banks, Inc. 8,400	572	• Cendant Corp. 29,570	700
Synovus Financial Corp. 8,800	210	• Cintas Corp. 5,020	226
U.S. Bancorp. 56,607	1,451	• Citrix Systems, Inc. 4,700	90
Union Planters Corp. 5,450	152	• Computer Associates International, Inc. 17,100	458
Wachovia Corp. 38,700	1,771	• Computer Sciences Corp. 5,500	225
Wells Fargo & Co. 49,913	2,818	• Convergys Corp. 4,025	58
Zions Bancorp. 2,600	147	• Deluxe Corp. 1,600	66
	<b>22,576</b>	• eBay, Inc. 19,082	1,523
<b>Business Machines &amp; Software 8.8%</b>		• Electronic Data Systems Corp. 14,200	260
Adobe Systems, Inc. 7,100	294	• Equifax, Inc. 4,100	100
• Apple Computer, Inc. 10,900	280	• First Data Corp. 26,181	1,188
Autodesk, Inc. 3,200	107	• Fiserv, Inc. 5,750	210
• BMC Software, Inc. 6,500	112	• H&R Block, Inc. 5,200	235
• Cisco Systems, Inc. 202,550	4,227	• IMS Health, Inc. 7,000	177
• Compuware Corp. 11,300	86	• Interpublic Group of Cos., Inc. 12,000	188
• Converse Technology, Inc. 5,600	92	• Intuit, Inc. 5,783	246
• Dell, Inc. 75,500	2,621	• Mercury Interactive Corp. 2,700	115
• EMC Corp. 71,324	796	• Monster Worldwide, Inc. 3,261	83
• Gateway, Inc. 10,700	52	• Omnicom Group, Inc. 5,600	445
Hewlett-Packard Co. 89,901	1,771	• Parametric Technology Corp. 7,100	33
International Business Machines Corp. 50,100	4,417	• Paychex, Inc. 11,125	415
• Lexmark International, Inc., Class A 3,800	344	• PeopleSoft, Inc. 10,800	182
		• Robert Half International, Inc. 4,950	135
		• Sungard Data Systems, Inc. 8,413	219

Security and Number of Shares	Value (\$ x 1,000)
• Symantec Corp. 9,100	410
Tyco International Ltd. 58,976	1,619
• Veritas Software Corp. 12,450	332
Waste Management, Inc. 17,000	483
• Yahoo!, Inc. 19,700	994
	<b>12,961</b>

**Chemicals 1.4%**

Air Products & Chemicals, Inc. 6,700	334
Dow Chemical Co. 27,360	1,086
E.I. du Pont de Nemours & Co. 29,482	1,266
Eastman Chemical Co. 2,200	94
Ecolab, Inc. 7,600	226
Great Lakes Chemical Corp. 1,400	35
• Hercules, Inc. 3,300	37
• Monsanto Co. 7,717	267
PPG Industries, Inc. 5,000	297
Praxair, Inc. 9,500	347
Rohm & Haas Co. 6,563	254
Sigma-Aldrich Corp. 2,100	119
	<b>4,362</b>

**Construction 0.4%**

Centex Corp. 3,600	173
Fluor Corp. 2,400	91
KB Home 1,500	103
Masco Corp. 13,200	370
Pulte Homes, Inc. 3,800	187
The Sherwin-Williams Co. 4,200	160
The Stanley Works 2,400	102
Vulcan Materials Co. 3,000	139
	<b>1,325</b>

**Consumer Durables 0.2%**

Black & Decker Corp. 2,300	133
Leggett & Platt, Inc. 5,500	124
Maytag Corp. 2,350	66
Newell Rubbermaid, Inc. 7,967	188
Whirlpool Corp. 2,000	131
	<b>642</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Containers 0.1%</b>	
Ball Corp. 1,800	119
Bemis Co. 3,200	86
• Pactiv Corp. 4,500	103
• Sealed Air Corp. 2,600	128
	<b>436</b>

**Electronics 5.3%**

• ADC Telecommunications, Inc. 22,500	56
• Advanced Micro Devices, Inc. 10,000	142
• Agilent Technologies, Inc. 13,984	378
• Altera Corp. 11,020	220
American Power Conversion Corp. 5,750	107
Analog Devices, Inc. 11,000	469
• Andrew Corp. 4,600	78
• Applied Materials, Inc. 49,550	903
• Applied Micro Circuits Corp. 9,121	40
• Broadcom Corp., Class A 9,000	340
• CIENA Corp. 13,100	54
⑧ Intel Corp. 191,100	4,917
ITT Industries, Inc. 2,800	222
• Jabil Circuit, Inc. 5,764	152
• JDS Uniphase Corp. 42,128	128
• KLA-Tencor Corp. 5,800	242
Linear Technology Corp. 9,200	328
• LSI Logic Corp. 10,800	80
• Lucent Technologies, Inc. 124,645	420
Maxim Integrated Products, Inc. 9,700	446
• Micron Technology, Inc. 17,700	241
Molex, Inc. 5,500	164
Motorola, Inc. 69,026	1,260
• National Semiconductor Corp. 5,300	216
• Novellus Systems, Inc. 4,450	129
• Nvidia Corp. 4,700	97
PerkinElmer, Inc. 3,600	69
• PMC — Sierra, Inc. 4,900	60
• Power-One, Inc. 2,300	20
• QLogic Corp. 2,813	76
Qualcomm, Inc. 23,700	1,480
• Sanmina-SCI Corp. 15,000	150

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Scientific-Atlanta, Inc. 4,500	146	Sara Lee Corp. 23,200	535
• Solectron Corp. 24,600	121	Supervalu, Inc. 4,000	123
Symbol Technologies, Inc. 6,736	81	Sysco Corp. 18,900	723
Tektronix, Inc. 2,400	71	Wm. Wrigley Jr. Co. 6,600	407
• Tellabs, Inc. 11,900	104		<b>11,825</b>
• Teradyne, Inc. 5,600	114		
Texas Instruments, Inc. 50,900	1,278	<b>Gold 0.2%</b>	
• Thermo Electron Corp. 4,900	143	Newmont Mining Corp. 12,800	<b>479</b>
• Thomas & Betts Corp. 1,700	41		
• Waters Corp. 3,600	155	<b>Healthcare / Drugs &amp; Medicine 13.4%</b>	
• Xilinx, Inc. 10,200	343	Abbott Laboratories 46,000	2,025
	<b>16,281</b>	Allergan, Inc. 4,000	352
		AmerisourceBergen Corp. 3,300	191
<b>Energy: Raw Materials 1.6%</b>		• Amgen, Inc. 38,000	2,138
Anadarko Petroleum Corp. 7,521	403	• Anthem, Inc. 4,028	357
Apache Corp. 9,464	396	Applied Biosystems Group – Applera Corp. 6,000	111
Baker Hughes, Inc. 9,900	363	Bausch & Lomb, Inc. 1,500	94
• BJ Services Co. 4,600	205	Baxter International, Inc. 17,900	567
Burlington Resources, Inc. 5,900	397	Becton Dickinson & Co. 7,400	374
Devon Energy Corp. 6,800	416	• Biogen Idec, Inc. 9,730	574
EOG Resources, Inc. 3,322	164	Biomet, Inc. 7,500	296
Halliburton Co. 12,900	384	• Boston Scientific Corp. 24,200	997
• Noble Corp. 4,000	149	Bristol-Myers Squibb Co. 57,300	1,438
Occidental Petroleum Corp. 11,400	538	C.R. Bard, Inc. 1,600	170
• Rowan Cos., Inc. 3,000	67	Cardinal Health, Inc. 12,900	945
Schlumberger Ltd. 17,300	1,012	• Caremark Rx, Inc. 13,126	444
Valero Energy Corp. 3,700	236	• Chiron Corp. 5,600	260
	<b>4,730</b>	Eli Lilly & Co. 33,100	2,443
		• Express Scripts, Inc. 2,400	186
<b>Food &amp; Agriculture 3.9%</b>		• Forest Laboratories, Inc. 10,800	696
Archer-Daniels-Midland Co. 19,048	335	• Genzyme Corp. 6,700	292
Campbell Soup Co. 12,100	334	Guidant Corp. 9,200	580
The Coca-Cola Co. 72,100	3,646	HCA, Inc. 14,500	589
Coca-Cola Enterprises, Inc. 13,500	365	Health Management Associates, Inc., Class A 7,100	164
ConAgra Foods, Inc. 15,800	456	• Humana, Inc. 4,600	75
General Mills, Inc. 11,100	541	⑩ Johnson & Johnson 87,468	4,726
H.J. Heinz Co. 10,300	393	• King Pharmaceuticals, Inc. 6,933	120
Hershey Foods Corp. 3,800	338	Manor Care, Inc. 2,600	84
Kellogg Co. 12,100	519	McKesson Corp. 8,500	279
McCormick & Co., Inc. 3,999	137	• Medco Health Solutions, Inc. 7,889	279
The Pepsi Bottling Group, Inc. 7,580	222		
PepsiCo, Inc. 50,480	2,751		

Security and Number of Shares	Value (\$ x 1,000)
• Medimmune, Inc. 7,200	175
Medtronic, Inc. 35,700	1,802
Merck & Co., Inc. 65,600	3,083
Mylan Laboratories, Inc. 7,900	181
▲ 4 Pfizer, Inc. 224,847	8,041
• Quest Diagnostics 3,137	265
Schering-Plough Corp. 43,300	724
• St. Jude Medical, Inc. 5,100	389
Stryker Corp. 6,020	596
• Tenet Healthcare Corp. 13,500	159
UnitedHealth Group, Inc. 18,500	1,137
• Watson Pharmaceuticals, Inc. 3,100	110
• WellPoint Health Networks, Inc. 4,700	525
Wyeth 39,300	1,496
• Zimmer Holdings, Inc. 7,200	575
	<b>41,104</b>

**Household Products 2.4%**

Alberto-Culver Co., Class B 2,750	130
Avon Products, Inc. 7,000	588
Clorox Co. 6,300	326
Colgate-Palmolive Co. 15,700	909
The Gillette Co. 29,700	1,215
International Flavors & Fragrances, Inc. 2,700	98
Procter & Gamble Co. 38,100	4,029
	<b>7,295</b>

**Insurance 5.1%**

ACE Ltd. 8,300	364
Aetna, Inc. 4,500	372
AFLAC, Inc. 15,100	638
The Allstate Corp. 20,700	950
AMBAC Financial Group, Inc. 3,133	216
7 American International Group, Inc. 77,000	5,517
AON Corp. 9,200	240
Chubb Corp. 5,500	380
CIGNA Corp. 4,200	271
Cincinnati Financial Corp. 4,935	202
Hartford Financial Services Group, Inc. 8,600	525
Jefferson-Pilot Corp. 4,100	203
Lincoln National Corp. 5,300	238

Security and Number of Shares	Value (\$ x 1,000)
Loews Corp. 5,400	313
Marsh & McLennan Cos., Inc. 15,600	704
MBIA, Inc. 4,200	247
Metlife, Inc. 22,457	775
MGIC Investment Corp. 2,900	213
• Principal Financial Group, Inc. 9,384	331
The Progressive Corp. 6,500	569
Prudential Financial, Inc. 15,900	699
Safeco Corp. 4,000	175
St. Paul Cos., Inc. 19,511	794
Torchmark Corp. 3,300	172
UnumProvident Corp. 8,560	133
XL Capital Ltd., Class A 4,100	313
	<b>15,554</b>

**Media 3.6%**

Clear Channel Communications, Inc. 18,095	751
• Comcast Corp., Class A 66,338	1,997
Dow Jones & Co., Inc. 2,400	111
Gannett Co., Inc. 8,100	702
Knight-Ridder, Inc. 2,400	186
The McGraw-Hill Cos., Inc. 5,700	449
Meredith Corp. 1,600	81
New York Times Co., Class A 4,400	202
R.R. Donnelley & Sons Co. 6,350	187
• Time Warner, Inc. 134,200	2,257
Tribune Co. 9,700	464
• Univision Communications, Inc., Class A 9,394	318
Viacom, Inc., Class B 51,645	1,996
The Walt Disney Co. 60,400	1,391
	<b>11,092</b>

**Miscellaneous 0.7%**

3M Co. 23,200	<b>2,006</b>
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**Miscellaneous Finance 7.7%**

American Express Co. 37,900	1,855
The Bear Stearns Cos., Inc. 3,046	244
Capital One Financial Corp. 6,900	452
■ The Charles Schwab Corp. 39,738	409
Charter One Financial, Inc. 6,579	220

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
▲ <b>⑤</b> Citigroup, Inc. 151,950	7,307	<b>Oil: Domestic 1.0%</b>	
Countrywide Financial Corp. 8,249	489	Amerada Hess Corp. 2,600	185
• E*TRADE Group, Inc. 10,600	121	Ashland, Inc. 2,100	101
Fannie Mae 28,700	1,972	ConocoPhillips 20,249	1,444
Federated Investors, Inc., Class B 3,200	94	Kerr-McGee Corp. 3,073	150
Franklin Resources, Inc. 7,400	406	Marathon Oil Corp. 9,900	332
Freddie Mac 20,400	1,191	• Nabors Industries Ltd. 4,400	195
Golden West Financial Corp. 4,500	473	Sunoco, Inc. 2,400	151
Goldman Sachs Group, Inc. 14,354	1,389	• Transocean, Inc. 9,320	259
Janus Capital Group, Inc. 7,050	107	Unocal Corp. 7,700	277
Lehman Brothers Holdings, Inc. 8,300	609		<b>3,094</b>
MBNA Corp. 37,650	918	<b>Oil: International 3.6%</b>	
Merrill Lynch & Co., Inc. 28,700	1,556	ChevronTexaco Corp. 31,496	2,882
Moody's Corp. 4,400	284	▲ <b>③</b> Exxon Mobil Corp. 193,420	8,230
Morgan Stanley 32,300	1,660		<b>11,112</b>
• Provident Financial Corp. 8,300	101	<b>Optical &amp; Photo 0.2%</b>	
SLM Corp. 13,200	506	• Corning, Inc. 39,500	436
T. Rowe Price Group, Inc. 3,800	195	Eastman Kodak Co. 8,400	216
Washington Mutual, Inc. 26,400	1,040		<b>652</b>
	<b>23,598</b>	<b>Paper &amp; Forest Products 0.9%</b>	
<b>Non-Durables &amp; Entertainment 1.2%</b>		Boise Cascade Corp. 2,500	84
Darden Restaurants, Inc. 4,800	109	Georgia-Pacific Corp. 7,386	259
• Electronic Arts, Inc. 8,850	448	International Paper Co. 14,139	570
Fortune Brands, Inc. 4,400	336	Kimberly-Clark Corp. 14,900	975
Hasbro, Inc. 5,000	94	• Louisiana-Pacific Corp. 3,000	71
International Game Technology 10,150	383	MeadWestvaco Corp. 5,922	155
Mattel, Inc. 12,500	212	Temple-Inland, Inc. 1,600	99
McDonald's Corp. 37,100	1,010	Weyerhaeuser Co. 6,500	385
• Starbucks Corp. 11,640	452		<b>2,598</b>
Wendy's International, Inc. 3,400	133	<b>Producer Goods &amp; Manufacturing 4.8%</b>	
• Yum! Brands, Inc. 8,600	334	• American Standard Cos., Inc. 2,200	231
	<b>3,511</b>	Avery Dennison Corp. 3,300	212
<b>Non-Ferrous Metals 0.4%</b>		Caterpillar, Inc. 10,300	801
Alcoa, Inc. 25,704	790	Cooper Industries Ltd., Class A 2,700	148
Engelhard Corp. 3,600	104	Deere & Co. 7,200	490
Freeport-McMoran Copper & Gold, Inc., Class B 5,600	171	Dover Corp. 6,000	240
• Phelps Dodge Corp. 2,760	182	Emerson Electric Co. 12,400	747
	<b>1,247</b>	▲ <b>①</b> General Electric Co. 300,700	9,006
		Honeywell International, Inc. 25,212	872



Security and Number of Shares	Value (\$ x 1,000)
Illinois Tool Works, Inc. 9,100	785
Ingersoll-Rand Co., Class A 5,300	342
Johnson Controls, Inc. 5,500	302
• Millipore Corp. 1,400	73
Pall Corp. 3,600	86
Parker Hannifin Corp. 3,600	199
Snap-On, Inc. 1,700	57
W.W. Grainger, Inc. 2,700	141

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**14,732**

#### Railroad & Shipping 0.4%

Burlington Northern Santa Fe Corp. 10,900	356
CSX Corp. 6,300	194
Norfolk Southern Corp. 11,400	272
Union Pacific Corp. 7,700	454

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**1,276**

#### Real Property 0.4%

Apartment Investment & Management Co., Class A 2,700	76
Equity Office Properties Trust 11,650	293
Equity Residential 8,100	223
Plum Creek Timber Co., Inc. 5,400	160
ProLogis 5,300	156
Simon Property Group, Inc. 6,000	289

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**1,197**

#### Retail 6.7%

Albertson's, Inc. 10,683	249
• Autonation, Inc. 8,000	136
• AutoZone, Inc. 2,700	236
• Bed, Bath & Beyond, Inc. 8,800	327
Best Buy Co., Inc. 9,500	515
• Big Lots, Inc. 3,400	48
Circuit City Stores, Inc. 6,000	70
• Costco Wholesale Corp. 13,500	506
CVS Corp. 11,700	452
Dillard's, Inc., Class A 2,500	42
Dollar General Corp. 9,750	183
Family Dollar Stores, Inc. 5,000	161
Federated Department Stores, Inc. 5,400	265
The Gap, Inc. 26,300	579

Security and Number of Shares	Value (\$ x 1,000)
Home Depot, Inc. 67,100	2,361
J.C. Penney Co., Inc. Holding Co. 8,100	274
• Kohl's Corp. 10,100	422
• Kroger Co. 21,900	383
Limited Brands 14,900	307
Lowe's Cos., Inc. 23,100	1,203
The May Department Stores Co. 8,500	262
Nordstrom, Inc. 4,100	146
• Office Depot, Inc. 9,200	161
RadioShack Corp. 4,800	148
• Safeway, Inc. 13,000	298
Sears, Roebuck & Co. 6,700	268
• Staples, Inc. 14,700	379
Target Corp. 26,900	1,167
Tiffany & Co. 4,350	170
TJX Cos., Inc. 14,800	364
• Toys 'R' Us, Inc. 6,200	96
▲ Wal-Mart Stores, Inc. 127,550	7,270
Walgreen Co. 30,200	1,041
Winn-Dixie Stores, Inc. 3,800	29

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**20,518**

#### Steel 0.1%

Allegheny Technologies, Inc. 2,350	24
Nucor Corp. 2,400	143
United States Steel Corp. 3,400	97
Worthington Industries, Inc. 2,500	45

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**309**

#### Telephone 3.6%

Alltel Corp. 9,200	463
AT&T Corp. 23,297	400
• AT&T Wireless Services, Inc. 80,346	1,110
• Avaya, Inc. 12,295	168
BellSouth Corp. 54,050	1,395
CenturyTel, Inc. 4,100	118
• Citizens Communications Co. 8,086	105
• Nextel Communications, Inc., Class A 32,500	775
• Qwest Communications International, Inc. 51,721	208

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
SBC Communications, Inc. 97,530	2,429
Sprint Corp. (FON Group) 41,950	751
Verizon Communications, Inc. 81,428	3,073
	<b>10,995</b>

**Tobacco 1.2%**

Altria Group, Inc. 60,400	3,345
R.J. Reynolds Tobacco Holdings, Inc. 2,500	162
UST, Inc. 4,900	182
	<b>3,689</b>

**Travel & Recreation 0.6%**

Brunswick Corp. 2,800	115
Carnival Corp. 18,500	790
Harrah's Entertainment, Inc. 3,200	170
Hilton Hotels Corp. 11,000	192
Marriott International, Inc., Class A 6,700	316
Starwood Hotels & Resorts Worldwide, Inc. 6,100	243
	<b>1,826</b>

**Trucking & Freight 0.1%**

Paccar, Inc. 5,175	292
Ryder Systems, Inc. 1,900	70
	<b>362</b>

**Utilities: Electric & Gas 2.8%**

• The AES Corp. 18,300	159
• Allegheny Energy, Inc. 3,701	51
Ameren Corp. 5,400	236
American Electric Power Co., Inc. 11,680	355
• Calpine Corp. 11,800	51
Centerpoint Energy, Inc. 8,900	96
Cinergy Corp. 5,300	201
• CMS Energy Corp. 4,600	38
Consolidated Edison, Inc. 6,600	272
Constellation Energy Group, Inc. 5,000	192
Dominion Resources, Inc. 9,591	612
DTE Energy Co. 5,000	195
Duke Energy Corp. 26,600	560
• Dynegy, Inc., Class A 10,100	40
Edison International 9,500	222
El Paso Corp. 18,526	130

Security and Number of Shares	Value (\$ x 1,000)
Entergy Corp. 6,800	371
Exelon Corp. 9,650	646
FirstEnergy Corp. 9,788	383
FPL Group, Inc. 5,400	344
KeySpan Corp. 4,700	170
Kinder Morgan, Inc. 3,705	223
Nicor, Inc. 1,400	48
NiSource, Inc. 7,527	152
Peoples Energy Corp. 1,200	50
• PG&E Corp. 12,200	336
Pinnacle West Capital Corp. 2,600	102
PPL Corp. 5,200	223
Progress Energy, Inc. 7,126	305
Public Service Enterprise Group, Inc. 7,000	300
Sempra Energy 6,685	212
The Southern Co. 21,500	618
TECO Energy, Inc. 5,500	70
TXU Corp. 9,450	322
Williams Cos., Inc. 15,300	158
Xcel Energy, Inc. 11,560	193
	<b>8,636</b>

**Short-Term Investment**

0.8% of net assets

Provident Institutional TempFund 2,599,642	<b>2,600</b>
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Security Rate, Maturity Date	Face Amount (\$ x 1,000)
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**U.S. Treasury Obligation**

0.1% of net assets

▲ U.S. Treasury Bill 0.92%, 06/17/04	250	<b>250</b>
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**End of investments.**

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Collateral Invested for Securities on Loan**  
10.9% of net assets

**Commercial Paper & Other Corporate Obligations 4.5%**

American Express Credit Corp. 1.07%, 05/13/04	155	155
Bank of America Corp. 1.05%, 09/20/04	761	761
Canadian Imperial Bank Corp. 1.72%, 05/25/05	1,380	1,381
1.06%, 05/28/04	608	608
1.04%, 01/31/05	270	270
Concord Minutemen Capital Corp. 1.04%, 05/20/04	561	562
Crown Point Funding Corp. 1.04%, 05/10/04	825	825
Fairway Finance Corp. 1.04%, 05/13/04	2	2
Foreningssparbanken AB 1.06%, 01/18/05	930	930
General Electric Capital Corp. 1.22%, 05/10/04	2,856	2,857
Societe Generale 1.06%, 12/08/04	1,017	1,017
Svenska Handelsbanken 1.39%, 10/27/04	753	753
Westdeutsche Landesbank AG 1.50%, 01/10/05	2,670	2,670
1.05%, 09/23/04	430	430
1.05%, 09/29/04	46	46
1.05%, 10/12/04	573	572
	<b>13,839</b>	

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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**Short-Term Investment 0.9%**

Deutsche Bank, Time Deposit 1.04%, 05/03/04	2,747	<b>2,747</b>
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**Security and Number of Shares**

**Other Investment Companies 5.5%**

Institutional Money Market Trust 16,903,406	<b>16,903</b>
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**End of collateral invested for securities on loan.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$31,860 of securities on loan)	\$306,464
Collateral invested for securities on loan	33,489
Receivables:	
Fund shares sold	222
Interest	2
Dividends	336
Investments sold	419
Income from securities lending	2
Prepaid expenses	+ 15
<b>Total assets</b>	<b>340,949</b>

**Liabilities**

Collateral invested for securities on loan	33,489
Payables:	
Fund shares redeemed	120
Investments bought	1,163
Due to brokers for futures	16
Transfer agent and shareholder service fees	1
Accrued expenses	+ 44
<b>Total liabilities</b>	<b>34,833</b>

**Net Assets**

Total assets	340,949
Total liabilities	– 34,833
<b>Net assets</b>	<b>\$306,116</b>

**Net Assets by Source**

Capital received from investors	369,267
Net investment income not yet distributed	1,398
Net realized capital losses	(51,429)
Net unrealized capital losses	(13,120)

**Net Asset Value (NAV)**

Net Assets	÷	Shares Outstanding	=	NAV
\$306,116		35,222		\$8.69

Unless stated, all numbers x 1,000.

The fund paid \$319,566 for these securities.

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

Purchases	\$23,184
Sales/maturities	\$ 5,111

The fund's total security transactions with other SchwabFunds® during the period were \$7.

These derive from investments and futures. As of the report date, the fund had eight open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate contract value of \$2,212 and net unrealized losses of \$18.

**Federal Tax Data**

<b>Portfolio cost</b>	\$323,487
<b>Net unrealized gains and losses:</b>	
Gains	\$47,932
Losses	+ (64,955)
	<b>(\$17,023)</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
Ordinary income	\$3,116
Long-term capital gains	\$–

**Unused capital losses:**

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, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$2,426
Interest	9
Securities on loan	+ 12
<b>Total investment income</b>	<b>2,447</b>

**Net Realized Gains and Losses**

Net realized losses on investments sold	(55)
Net realized gains on futures contracts	+ 72
<b>Net realized gains</b>	<b>17</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	14,472
Net unrealized losses on futures contracts	+ (27)
<b>Net unrealized gains</b>	<b>14,445</b>

**Expenses**

Investment adviser and administrator fees	265
Transfer agent and shareholder service fees	147
Trustees' fees	3
Custodian fees	22
Portfolio accounting fees	20
Professional fees	16
Registration fees	12
Shareholder reports	17
Other expenses	+ 9
Total expenses	511
Expense reduction	- 290
<b>Net expenses</b>	<b>221</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>2,447</b>
<b>Net expenses</b>	<b>- 221</b>
<b>Net investment income</b>	<b>2,226</b>
<b>Net realized gains</b>	<b>17</b>
<b>Net unrealized gains</b>	<b>+ 14,445</b>
<b>Increase in net assets from operations</b>	<b>\$16,688</b>

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 \$265 from the investment adviser (CSIM) and \$25 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 \$14,462.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$2,226	\$3,778
Net realized gains or losses	17	(1,536)
Net unrealized gains	+ 14,445	42,910
<b>Increase in net assets from operations</b>	<b>16,688</b>	<b>45,152</b>

**Distributions Paid**

Dividends from net investment income	<b>\$3,944</b>	<b>\$3,544</b>
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**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	5,929	\$51,765	13,049	\$95,187
Shares reinvested	371	3,113	407	2,823
Shares redeemed	+ (3,786)	(33,015)	(9,685)	(70,755)
<b>Net transactions in fund shares</b>	<b>2,514</b>	<b>\$21,863</b>	<b>3,771</b>	<b>\$27,255</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	32,708	\$271,509	28,937	\$202,646
Total increase	+ 2,514	34,607	3,771	68,863
<b>End of period</b>	<b>35,222</b>	<b>\$306,116</b>	<b>32,708</b>	<b>\$271,509</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$3,544
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>	\$5
<b>Prior period</b>	\$21

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 \$1,398 and \$3,116 at the end of the current period and prior period, respectively.

# Institutional Select Large-Cap Value Index Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	8.66	7.14	8.92	11.44	10.68	10.00
Income or loss from investment operations:						
Net investment income	0.08	0.15	0.18	0.14	0.15	0.09
Net realized and unrealized gains or losses	0.60	1.55	(1.49)	(2.19)	0.84	0.59
Total income or loss from investment operations	0.68	1.70	(1.31)	(2.05)	0.99	0.68
Less distributions:						
Dividends from net investment income	(0.15)	(0.18)	(0.15)	(0.15)	(0.11)	—
Distributions from net realized gains	—	—	(0.32)	(0.32)	(0.12)	—
Total distributions	(0.15)	(0.18)	(0.47)	(0.47)	(0.23)	—
Net asset value at end of period	9.19	8.66	7.14	8.92	11.44	10.68
Total return (%)	7.89 <sup>2</sup>	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 <sup>3</sup>	0.25	0.26 <sup>4</sup>	0.25	0.26 <sup>5</sup>	0.21 <sup>3</sup>
Gross operating expenses	0.41 <sup>3</sup>	0.45	0.48	0.45	0.51	0.70 <sup>3</sup>
Net investment income	1.76 <sup>3</sup>	1.94	1.72	1.47	1.64	1.62 <sup>3</sup>
Portfolio turnover rate	6 <sup>2</sup>	24	26	47	27	19 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	96	79	70	128	129	71

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.25% if certain non-routine expenses (interest expense) had not been included.

<sup>5</sup> The ratio of net operating expenses would have been 0.25% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>97.2%</b>	<b>Common Stock</b>	87,055	92,826
<b>2.6%</b>	<b>Short-Term Investment</b>	2,463	2,463
<b>0.2%</b>	<b>U.S. Treasury Obligations</b>	180	180
<b>100.0%</b>	<b>Total Investments</b>	<b>89,698</b>	<b>95,469</b>
<b>8.3%</b>	<b>Collateral Invested for Securities on Loan</b>	7,975	7,975
<b>(8.3)%</b>	<b>Other Assets and Liabilities, Net</b>		(7,926)
<b>100.0%</b>	<b>Total Net Assets</b>		<b>95,518</b>

<b>Security and Number of Shares</b>	<b>Value</b> (\$ x 1,000)
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**Common Stock** 97.2% of net assets**Aerospace / Defense 1.7%**

Crane Co.	1,200	37
General Dynamics Corp.	3,500	328
Goodrich Corp.	2,100	60
Lockheed Martin Corp.	8,000	381
Northrop Grumman Corp.	3,224	320
Raytheon Co.	7,400	239
Rockwell Automation, Inc.	3,300	108
Textron, Inc.	2,500	138
		<b>1,611</b>

<b>Security and Number of Shares</b>	<b>Value</b> (\$ x 1,000)
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**Air Transportation 0.7%**

Delta Air Lines, Inc.	1,800	11
FedEx Corp.	5,300	381
Sabre Holdings Corp.	2,700	64
Southwest Airlines Co.	14,100	201
		<b>657</b>

**Alcoholic Beverages 0.1%**

Adolph Coors Co., Class B	700	<b>46</b>
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**Apparel 0.3%**

Jones Apparel Group, Inc.	2,100	77
Liz Claiborne, Inc.	1,800	63
Reebok International Ltd.	1,100	40
VF Corp.	2,000	92
		<b>272</b>

**Automotive Products / Motor Vehicles 1.8%**

Cooper Tire & Rubber Co.	1,300	28
Cummins, Inc.	800	48
Dana Corp.	2,500	51
Danaher Corp.	2,700	250
Eaton Corp.	2,800	166
Ford Motor Co.	32,509	499
General Motors Corp.	9,975	473
Genuine Parts Co.	3,000	107
Goodyear Tire & Rubber Co.	3,000	26
Visteon Corp.	1,985	22
		<b>1,670</b>

**Banks 13.4%**

AmSouth Bancorp.	6,100	134
④ Bank of America Corp.	36,240	2,917
The Bank of New York Co., Inc.	13,800	402
Bank One Corp.	19,900	983
BB&T Corp.	9,700	335
Comerica, Inc.	3,100	160
First Horizon National Corp.	2,200	97
Huntington Bancshares, Inc.	3,941	84
⑩ J.P. Morgan Chase & Co.	36,510	1,373
KeyCorp, Inc.	7,300	217



Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
M&T Bank Corp. 2,200	187	• Fiserv, Inc. 3,400	124
Marshall & Ilsley Corp. 3,966	146	• Interpublic Group of Cos., Inc. 7,200	113
Mellon Financial Corp. 7,700	228	• Intuit, Inc. 1	—
National City Corp. 10,800	374	• PeopleSoft, Inc. 6,200	105
Northern Trust Corp. 3,800	161	• Sungard Data Systems, Inc. 5,200	136
PNC Financial Services Group, Inc. 5,000	266	Tyco International Ltd. 35,501	974
Regions Financial Corp. 3,900	135	Waste Management, Inc. 10,200	290
SouthTrust Corp. 5,900	183		<b>2,950</b>
State Street Corp. 6,000	293		
SunTrust Banks, Inc. 5,100	347	<b>Chemicals 0.8%</b>	
U.S. Bancorp 34,078	874	Air Products & Chemicals, Inc. 4,100	204
UBS AG-Registered 3	—	Eastman Chemical Co. 1,400	60
Union Planters Corp. 3,250	90	Great Lakes Chemical Corp. 900	23
Wachovia Corp. 23,300	1,066	• Monsanto Co. 4,800	166
• Wells Fargo & Co. 30,000	1,694	PPG Industries, Inc. 3,000	178
Zions Bancorp. 1,700	96	Rohm & Haas Co. 4,105	159
	<b>12,842</b>		<b>790</b>
<b>Business Machines &amp; Software 2.1%</b>		<b>Construction 0.8%</b>	
• Apple Computer, Inc. 6,600	170	Centex Corp. 2,200	105
• BMC Software, Inc. 4,000	69	Fluor Corp. 1,300	50
• Compuware Corp. 6,100	47	KB Home 800	55
• Comverse Technology, Inc. 3,300	54	Masco Corp. 8,000	224
• Gateway, Inc. 6,900	33	Pulte Homes, Inc. 2,200	108
Hewlett-Packard Co. 54,198	1,068	The Sherwin-Williams Co. 2,600	99
• NCR Corp. 1,600	71	The Stanley Works 1,500	64
• Siebel Systems, Inc. 9,100	93	Vulcan Materials Co. 1,800	83
• Sun Microsystems, Inc. 58,100	227		<b>788</b>
• Xerox Corp. 14,200	191	<b>Consumer Durables 0.2%</b>	
	<b>2,023</b>	Leggett & Platt, Inc. 3,800	86
<b>Business Services 3.1%</b>		Newell Rubbermaid, Inc. 4,800	113
• Affiliated Computer Services, Inc., Class A 2,388	116		<b>199</b>
• Allied Waste Industries, Inc. 5,600	71	<b>Containers 0.1%</b>	
• Candant Corp. 17,800	422	Bemis Co. 2,200	60
Computer Associates International, Inc. 10,300	276	• Pactiv Corp. 3,100	71
• Computer Sciences Corp. 3,300	135		<b>131</b>
• Convergys Corp. 2,300	33	<b>Electronics 2.5%</b>	
Electronic Data Systems Corp. 8,500	155	• ADC Telecommunications, Inc. 12,800	32
		• Advanced Micro Devices, Inc. 6,000	85
		American Power Conversion Corp. 3,700	69

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Andrew Corp. 3,000	51	ConAgra Foods, Inc. 9,700	280
• Applied Micro Circuits Corp. 5,200	23	General Mills, Inc. 6,700	327
• CIENA Corp. 7,600	32	The Pepsi Bottling Group, Inc. 4,700	137
ITT Industries, Inc. 1,600	127	Supervalu, Inc. 2,400	74
• Jabil Circuit, Inc. 3,509	93		<b>1,243</b>
• JDS Uniphase Corp. 25,100	76		
• LSI Logic Corp. 6,200	46	<b>Gold 0.3%</b>	
• Micron Technology, Inc. 10,600	144	Newmont Mining Corp. 7,700	<b>288</b>
Molex, Inc. 3,400	101		
Motorola, Inc. 41,585	759	<b>Healthcare / Drugs &amp; Medicine 3.4%</b>	
• Novellus Systems, Inc. 2,600	75	AmerisourceBergen Corp. 2,000	116
• Nvidia Corp. 2,700	56	• Anthem, Inc. 2,529	224
PerkinElmer, Inc. 2,100	40	Applied Biosystems Group – Applera Corp. 4,100	76
• Power-One, Inc. 1,300	11	Bausch & Lomb, Inc. 1,100	69
• Sanmina-SCI Corp. 9,000	90	Becton Dickinson & Co. 4,400	222
Scientific-Atlanta, Inc. 2,800	91	• Caremark Rx, Inc. 7,943	269
• Solectron Corp. 14,800	73	• Genzyme Corp. 3,900	170
Symbol Technologies, Inc. 3,900	47	HCA, Inc. 8,800	358
Tektronix, Inc. 1,600	47	Health Management Associates, Inc., Class A 4,200	97
• Tellabs, Inc. 7,900	69	• Humana, Inc. 2,800	46
• Thermo Electron Corp. 3,100	91	• King Pharmaceuticals, Inc. 4,300	74
• Thomas & Betts Corp. 1,000	24	Manor Care, Inc. 1,800	58
	<b>2,352</b>	McKesson Corp. 5,300	174
		• Medco Health Solutions, Inc. 4,700	166
<b>Energy: Raw Materials 2.4%</b>		• Medimmune, Inc. 4,600	111
Anadarko Petroleum Corp. 4,538	243	• Quest Diagnostics 1,714	145
Apache Corp. 5,770	242	Schering-Plough Corp. 25,500	427
Baker Hughes, Inc. 5,900	216	• Tenet Healthcare Corp. 8,100	95
• BJ Services Co. 2,800	125	• Watson Pharmaceuticals, Inc. 2,000	71
Burlington Resources, Inc. 3,500	235	• WellPoint Health Networks, Inc. 2,700	302
Devon Energy Corp. 4,200	257		<b>3,270</b>
EOG Resources, Inc. 2,100	103		
Halliburton Co. 7,600	227	<b>Household Products 0.1%</b>	
• Noble Corp. 2,300	85	Alberto-Culver Co., Class B 1,800	<b>85</b>
Occidental Petroleum Corp. 6,900	326		
• Rowan Cos., Inc. 1,800	40	<b>Insurance 9.4%</b>	
Valero Energy Corp. 2,300	147	ACE Ltd. 5,000	219
	<b>2,246</b>	Aetna, Inc. 2,700	223
		AFLAC, Inc. 9,100	384
<b>Food &amp; Agriculture 1.3%</b>		The Allstate Corp. 12,500	574
Archer-Daniels-Midland Co. 11,905	209	AMBAC Financial Group, Inc. 1,800	124
Coca-Cola Enterprises, Inc. 8,000	216		

Security and Number of Shares	Value (\$ x 1,000)
▲③ American International Group, Inc. 46,448	3,328
AON Corp. 5,550	145
Chubb Corp. 3,300	228
CIGNA Corp. 2,500	161
Cincinnati Financial Corp. 2,940	121
Hartford Financial Services Group, Inc. 5,100	312
Jefferson-Pilot Corp. 2,400	119
Lincoln National Corp. 3,200	144
Loews Corp. 3,300	191
MBIA, Inc. 2,550	150
Metlife, Inc. 13,478	465
MGIC Investment Corp. 1,800	133
• Principal Financial Group, Inc. 5,700	201
The Progressive Corp. 3,800	333
Prudential Financial, Inc. 9,600	422
Safeco Corp. 2,500	109
St. Paul Cos., Inc. 11,740	477
Torchmark Corp. 2,100	109
UnumProvident Corp. 5,149	80
XL Capital Ltd., Class A 2,500	191
	<b>8,943</b>

#### Media 6.3%

Clear Channel Communications, Inc. 10,939	454
• Comcast Corp., Class A 39,983	1,203
Gannett Co., Inc. 4,800	416
R.R. Donnelley & Sons Co. 3,800	112
• Time Warner, Inc. 80,800	1,359
Tribune Co. 5,880	282
• Univision Communications, Inc., Class A 5,600	190
Viacom, Inc., Class B 31,101	1,202
The Walt Disney Co. 36,400	838
	<b>6,056</b>

#### Miscellaneous Finance 11.8%

The Bear Stearns Cos., Inc. 1,901	152
Capital One Financial Corp. 4,000	262
■ The Charles Schwab Corp. 23,600	243
Charter One Financial, Inc. 3,852	128

Security and Number of Shares	Value (\$ x 1,000)
▲② Citigroup, Inc. 91,473	4,399
Countrywide Financial Corp. 5,749	341
• E*TRADE Group, Inc. 6,300	72
Franklin Resources, Inc. 4,300	236
Freddie Mac 12,300	718
Golden West Financial Corp. 2,700	284
Goldman Sachs Group, Inc. 8,600	832
Janus Capital Group, Inc. 4,200	64
Lehman Brothers Holdings, Inc. 4,800	352
MBNA Corp. 22,600	551
Merrill Lynch & Co., Inc. 17,200	933
Morgan Stanley 19,500	1,002
• Provident Financial Corp. 5,000	61
Washington Mutual, Inc. 15,850	624
	<b>11,254</b>

#### Non-Durables & Entertainment 1.2%

Darden Restaurants, Inc. 2,900	66
Fortune Brands, Inc. 2,600	198
Hasbro, Inc. 2,850	54
Mattel, Inc. 7,500	127
McDonald's Corp. 22,400	610
Wendy's International, Inc. 2,100	82
	<b>1,137</b>

#### Non-Ferrous Metals 0.7%

Alcoa, Inc. 15,432	475
Engelhard Corp. 2,300	67
• Phelps Dodge Corp. 1,720	113
	<b>655</b>

#### Oil: Domestic 1.9%

Amerada Hess Corp. 1,700	121
Ashland, Inc. 1,200	57
ConocoPhillips 12,252	874
Kerr-McGee Corp. 1,800	88
Marathon Oil Corp. 6,100	205
• Nabors Industries Ltd. 2,550	113
Sunoco, Inc. 1,300	82
• Transocean, Inc. 5,548	154
Unocal Corp. 4,500	162
	<b>1,856</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Oil: International 7.0%</b>	
⑥ ChevronTexaco Corp. 18,912	1,730
▲① Exxon Mobil Corp. 116,450	4,955
	<b>6,685</b>

**Optical & Photo 0.4%**

• Corning, Inc. 24,400	269
Eastman Kodak Co. 5,200	134
	<b>403</b>

**Paper & Forest Products 1.0%**

Boise Cascade Corp. 1,500	51
Georgia-Pacific Corp. 4,510	158
International Paper Co. 8,515	343
• Louisiana-Pacific Corp. 1,900	45
MeadWestvaco Corp. 3,746	98
Temple-Inland, Inc. 900	55
Weyerhaeuser Co. 4,000	237
	<b>987</b>

**Producer Goods & Manufacturing 2.8%**

Caterpillar, Inc. 6,100	474
Cooper Industries Ltd., Class A 1,600	88
Deere & Co. 4,400	299
Dover Corp. 3,500	140
Honeywell International, Inc. 15,287	529
Illinois Tool Works, Inc. 5,400	466
Ingersoll-Rand Co., Class A 3,100	200
Johnson Controls, Inc. 3,300	181
Pall Corp. 2,200	52
Parker Hannifin Corp. 2,200	122
Snap-On, Inc. 1,000	34
W.W. Grainger, Inc. 1,700	89
	<b>2,674</b>

**Railroad & Shipping 0.8%**

Burlington Northern Santa Fe Corp. 6,500	212
CSX Corp. 3,800	117
Norfolk Southern Corp. 6,800	162
Union Pacific Corp. 4,600	271
	<b>762</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Real Property 0.8%</b>	
Apartment Investment & Management Co., Class A 1,700	48
Equity Office Properties Trust 7,300	184
Equity Residential 5,100	140
Plum Creek Timber Co., Inc. 3,200	94
ProLogis 3,400	100
Simon Property Group, Inc. 3,500	169
	<b>735</b>

**Retail 4.8%**

Albertson's, Inc. 6,738	157
• Autonation, Inc. 4,900	83
• Big Lots, Inc. 2,600	37
Circuit City Stores, Inc. 4,300	50
• Costco Wholesale Corp. 8,200	307
CVS Corp. 6,900	267
Dillards, Inc., Class A 1,800	30
Federated Department Stores, Inc. 3,300	162
⑨ Home Depot, Inc. 40,100	1,411
J.C. Penney Co., Inc. Holding Co. 4,800	162
• Kroger Co. 13,600	238
Limited Brands, Inc. 9,000	186
The May Department Stores Co. 5,200	160
Nordstrom, Inc. 2,600	93
• Office Depot, Inc. 5,800	102
• Safeway, Inc. 7,700	177
Sears, Roebuck & Co. 4,300	172
Target Corp. 16,000	694
• Toys 'R' Us, Inc. 3,700	57
Winn-Dixie Stores, Inc. 3,700	28
	<b>4,573</b>

**Steel 0.2%**

Allegheny Technologies, Inc. 1,350	14
Nucor Corp. 1,400	83
United States Steel Corp. 1,900	54
Worthington Industries, Inc. 2,000	36
	<b>187</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Telephone 6.2%</b>	
Alltel Corp. 5,600	282
AT&T Corp. 14,052	241
• AT&T Wireless Services, Inc. 48,645	672
BellSouth Corp. 32,500	839
CenturyTel, Inc. 2,500	72
• Citizens Communications Co. 4,748	62
⑧ SBC Communications, Inc. 58,700	1,462
Sprint Corp. (FON Group) 25,000	447
⑤ Verizon Communications, Inc. 49,000	1,849
	<b>5,926</b>

**Tobacco 0.1%**

R.J. Reynolds Tobacco Holdings, Inc. 1,600	<b>104</b>
--------------------------------------------	------------

**Travel & Recreation 1.1%**

Brunswick Corp. 1,600	66
Carnival Corp. 11,100	474
Harrah's Entertainment, Inc. 1,900	101
Hilton Hotels Corp. 6,600	115
Marriott International, Inc., Class A 4,100	193
Starwood Hotels & Resorts Worldwide, Inc. 3,600	143
	<b>1,092</b>

**Trucking & Freight 0.2%**

Paccar, Inc. 3,125	177
Ryder Systems, Inc. 1,200	44
	<b>221</b>

**Utilities: Electric & Gas 5.4%**

• Allegheny Energy, Inc. 2,100	29
Ameren Corp. 3,200	140
American Electric Power Co., Inc. 7,240	220
• Calpine Corp. 8,400	37

Security and Number of Shares	Value (\$ x 1,000)
Centerpoint Energy, Inc. 5,400	58
Cinergy Corp. 3,300	125
• CMS Energy Corp. 3,400	28
Consolidated Edison, Inc. 3,900	161
Constellation Energy Group, Inc. 3,000	115
Dominion Resources, Inc. 5,648	360
DTE Energy Co. 3,100	121
Duke Energy Corp. 16,100	339
• Dynegy, Inc., Class A 7,500	30
Edison International 5,600	131
El Paso Corp. 11,873	83
Entergy Corp. 4,100	224
Exelon Corp. 5,800	388
FirstEnergy Corp. 6,022	236
FPL Group, Inc. 3,200	204
KeySpan Corp. 2,700	98
Kinder Morgan, Inc. 2,245	135
Nicor, Inc. 800	27
NiSource, Inc. 4,515	91
Peoples Energy Corp. 700	29
• PG&E Corp. 7,300	201
Pinnacle West Capital Corp. 1,500	59
PPL Corp. 3,200	137
Progress Energy, Inc. 4,406	188
Public Service Enterprise Group, Inc. 4,100	176
Sempra Energy 3,900	124
The Southern Co. 13,000	374
TECO Energy, Inc. 3,000	38
TXU Corp. 5,800	198
Williams Cos., Inc. 9,000	93
Xcel Energy, Inc. 6,910	116
	<b>5,113</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
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**Short-Term Investment**  
 2.6% of net assets

Provident Institutional TempFund 2,463,096	<b>2,463</b>
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Security Rate, Maturity Date	Face Amount (\$ x 1,000)
---------------------------------	-----------------------------

**U.S. Treasury Obligations**  
 0.2% of net assets

▲ U.S. Treasury Bills 0.88%-0.92%, 06/17/04	180	<b>180</b>
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**End of investments.**
**Collateral Invested for Securities on Loan**  
 8.3% of net assets

**Commercial Paper & Other Corporate  
Obligations 4.0%**

American Express Credit Corp. 1.07%, 05/13/04	387	387
Bank of America Corp. 1.05%, 09/20/04	32	32
Canadian Imperial Bank Corp. 1.72%, 05/25/05	57	57
1.06%, 05/28/04	672	671
1.04%, 01/31/05	154	154
Concord Minutemen Capital Corp. 1.04%, 05/20/04	226	226
Crown Point Funding Corp.		

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
1.04%, 05/10/04	158	158
Foreningssparbanken AB 1.06%, 01/18/05	437	437
General Electric Capital Corp. 1.22%, 05/10/04	77	77
Societe Generale 1.06%, 12/08/04	243	243
Svenska Handelsbanken 1.39%, 10/27/04	417	417
Westdeutsche Landesbank AG 1.50%, 01/10/05	186	186
1.05%, 10/12/04	212	212
1.05%, 09/29/04	194	194
1.05%, 09/29/04	420	419

**3,870****Short-Term Investment 0.6%**

Deutsche Bank Time Deposit 1.04%, 05/03/04	577	<b>577</b>
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Security and Number of Shares

**Other Investment Companies 3.7%**

Institutional Money Market Trust 3,527,657	<b>3,528</b>
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**End of collateral invested for securities on loan.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$7,610 of securities on loan)	\$95,469
Collateral invested for securities on loan	7,975
Receivables:	
Fund shares sold	158
Interest	2
Dividends	146
Due from broker for futures	246
Income from securities on loan	1
Prepaid expenses	+ 11
<b>Total assets</b>	<b>104,008</b>

**Liabilities**

Collateral invested for securities on loan	7,975
Payables:	
Fund shares redeemed	30
Investments bought	447
Due to brokers for futures	18
Investment adviser and administrator fees	1
Accrued expenses	+ 19
<b>Total liabilities</b>	<b>8,490</b>

**Net Assets**

<b>Total assets</b>	104,008
<b>Total liabilities</b>	– 8,490
<b>Net assets</b>	<b>\$95,518</b>

**Net Assets by Source**

Capital received from investors	122,456
Net investment income not yet distributed	512
Net realized capital losses	(33,194)
Net unrealized capital gains	5,744

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$95,518		10,398		\$9.19

Unless stated, all numbers x 1,000.

The fund paid \$89,698 for these securities.

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

Purchases	\$14,335
Sales/maturities	\$ 4,788

The fund's total security transactions with other SchwabFunds® during the period were \$947.

These derive from investments and futures. As of the report date, the fund had nine open S&P 500 futures contracts due to expire on June 18, 2004 with an aggregate contract value of \$2,489 and net unrealized losses of \$27.

**Federal Tax Data**

<b>Portfolio cost</b>	\$91,476
<b>Net unrealized gains and losses:</b>	
Gains	\$15,614
Losses	+ (11,621)
	<b>\$3,993</b>

**As of October 31, 2003:****Undistributed earnings:**

Ordinary income	\$1,098
Long-term capital gains	\$–

**Unused capital losses:**

Expires 10/31 of:	Loss amount
2010	\$25,956
2011	+ 6,374
	<b>\$32,330</b>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$866
Interest	6
Securities on loan	+ 10
<b>Total investment income</b>	<b>882</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	1,140
Net realized losses on futures contracts	+ (91)
<b>Net realized gains</b>	<b>1,049</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	4,375
Net unrealized losses on futures contracts	+ (62)
<b>Net unrealized gains</b>	<b>4,313</b>

**Expenses**

Investment adviser and administrator fees	88
Transfer agent and shareholder service fees	44
Trustees' fees	2
Custodian fees	9
Portfolio accounting fees	6
Professional fees	12
Registration fees	8
Shareholder reports	5
Other expenses	+ 6
Total expenses	180
Expense reduction	- 70
<b>Net expenses</b>	<b>110</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>882</b>
<b>Net expenses</b>	<b>- 110</b>
<b>Net investment income</b>	<b>772</b>
<b>Net realized gains</b>	<b>1,049</b>
<b>Net unrealized gains</b>	<b>+ 4,313</b>
<b>Increase in net assets from operations</b>	<b>\$6,134</b>

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 \$69 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 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 \$5,362.



## Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$772	\$1,358
Net realized gains or losses	1,049	(6,127)
Net unrealized gains	+ 4,313	20,469
<b>Increase in net assets from operations</b>	<b>6,134</b>	<b>15,700</b>

**Distributions Paid**

Dividends from net investment income	<b>\$1,357</b>	<b>\$1,700</b>
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**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,294	\$21,170	3,034	\$23,065
Shares reinvested	132	1,153	200	1,408
Shares redeemed	+ (1,185)	(10,862)	(3,938)	(29,626)
<b>Net transactions in fund shares</b>	<b>1,241</b>	<b>\$11,461</b>	<b>(704)</b>	<b>(\$5,153)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	9,157	\$79,280	9,861	\$70,433
Total increase or decrease	+ 1,241	16,238	(704)	8,847
<b>End of period</b>	<b>10,398</b>	<b>\$95,518</b>	<b>9,157</b>	<b>\$79,280</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$1,700
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>	\$3
<b>Prior period</b>	\$12

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 \$512 and \$1,097 at the end of the current period and prior period, respectively.

# Institutional Select Small-Cap Value Index Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	12.55	9.50	10.82	11.23	9.89	10.00
Income or loss from investment operations:						
Net investment income	0.05	0.11	0.10	0.09	0.09	0.07
Net realized and unrealized gains or losses	1.18	3.04	(0.32)	0.32	1.74	(0.18)
Total income or loss from investment operations	1.23	3.15	(0.22)	0.41	1.83	(0.11)
Less distributions:						
Dividends from net investment income	(0.11)	(0.10)	(0.10)	(0.08)	(0.09)	—
Distributions from net realized gains	—	—	(1.00)	(0.74)	(0.40)	—
Total distributions	(0.11)	(0.10)	(1.10)	(0.82)	(0.49)	—
Net asset value at end of period	13.67	12.55	9.50	10.82	11.23	9.89
Total return (%)	9.84 <sup>2</sup>	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 <sup>3</sup>	0.32	0.33 <sup>4</sup>	0.32	0.28 <sup>5</sup>	0.00 <sup>3</sup>
Gross operating expenses	0.55 <sup>3</sup>	0.63	0.61	0.61	0.66	0.98 <sup>3</sup>
Net investment income	0.73 <sup>3</sup>	0.95	0.81	0.87	0.94	1.25 <sup>3</sup>
Portfolio turnover rate	19 <sup>2</sup>	36	56	69	71	38 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	38	36	37	47	39	32

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.32% if certain non-routine expenses (interest expense) had not been included.

<sup>5</sup> The ratio of net operating expenses would have been 0.27% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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>Value</b> (\$x1,000)
<b>98.7% Common Stock</b>	29,313	37,657
<b>1.3% Short-Term Investment</b>	514	514
<b>0.1% U.S. Treasury Obligation</b>	30	30
<b>100.1% Total Investments</b>	<b>29,857</b>	<b>38,201</b>
<b>9.5% Collateral Invested for Securities on Loan</b>	3,609	3,609
<b>(9.6)% Other Assets and Liabilities, Net</b>		(3,637)
<b>100.0% Total Net Assets</b>		<b>38,173</b>

<b>Security and Number of Shares</b>	<b>Value</b> (\$ x 1,000)
<b>Common Stock</b> 98.7% of net assets	

**Aerospace / Defense 1.4%**

• Armor Holdings, Inc.	4,600	152
• DRS Technologies, Inc.	4,000	113
EDO Corp.	3,600	82
• Esterline Technologies Corp.	3,400	84
GenCorp, Inc.	7,200	76
Kaman Corp., Class A	3,300	41
		<b>548</b>

**Air Transportation 1.2%**

▲ AAR Corp.	5,500	56
• Atlantic Coast Airlines Holdings, Inc.	7,100	46
• EGL, Inc.	7,800	145

Security and Number of Shares	Value (\$ x 1,000)
• Frontier Airlines, Inc. 5,600	51
SkyWest, Inc. 9,000	164
	<hr/> 462

**Apparel 2.1%**

▲ Ashworth, Inc.	2,400	20
Brown Shoe Co., Inc.	3,200	117
Haggar Corp.	700	14
• The J. Jill Group, Inc.	3,000	64
Kellwood Co.	4,600	181
Phillips-Van Heusen Corp.	4,700	85
Russell Corp.	5,000	83
Stride Rite Corp.	6,400	69
Wolverine World Wide, Inc.	6,500	175
		<b>808</b>

**Automotive Products / Motor Vehicles 1.2%**

A.O. Smith Corp., Class B	4,500	135
Coachmen Industries, Inc.	2,300	37
• Group 1 Automotive, Inc.	3,800	131
Myers Industries, Inc.	5,500	78
Standard Motor Products, Inc.	2,900	42
• Tower Automotive, Inc.	8,700	44
		<b>467</b>

**Banks 5.1%**

Anchor Bancorp Wisconsin, Inc.	3,600	87
▲ Brookline Bancorp, Inc.	9,100	129
Chittenden Corp.	6,000	183
First Republic Bank	2,100	80
• FirstFed Financial Corp.	3,000	121
Gold Banc Corp., Inc.	6,500	106
Irwin Financial Corp.	4,900	116
MAF Bancorp., Inc.	5,300	217
Movie Gallery, Inc.	5,000	97
Provident Bankshares Corp.	3,905	110
Riggs National Corp.	4,500	81
Sterling Bancshares, Inc.	6,600	84
Susquehanna Bancshares, Inc.	6,700	157
Umpqua Holdings Corp.	4,600	87
▲ Whitney Holding Corp.	6,850	281
		<b>1,936</b>

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Business Machines &amp; Software 2.3%</b>			
▲ Adaptec, Inc. 18,700	146	The Standard Register Co. 4,500	66
Analogic Corp. 2,000	95	• URS Corp. 6,800	176
Black Box Corp. 3,000	153	• Verity, Inc. 6,000	74
• Digi International, Inc. 3,600	35	• Volt Information Sciences, Inc. 2,800	72
• Imagistics International, Inc. 2,900	117	• Waste Connections, Inc. 4,600	185
• Input/Output, Inc. 7,800	62		<b>2,697</b>
• Invision Technologies, Inc. 2,600	129	<b>Chemicals 2.0%</b>	
Landamerica Financial Group, Inc. 2,800	115	A. Schulman, Inc. 4,900	98
• Roxio, Inc. 3,900	15	▲ Arch Chemicals, Inc. 3,700	108
• Ultimate Electronics, Inc. 2,000	9	• H.B. Fuller Co. 4,600	126
	<b>876</b>	▲ OM Group, Inc. 4,600	117
<b>Business Services 7.1%</b>		• Omnova Solutions, Inc. 5,400	26
ABM Industries, Inc. 8,200	151	Penford Corp. 1,600	26
• American Management Systems, Inc. 7,000	135	PolyOne Corp. 14,900	102
Angelica Corp. 1,400	32	Quaker Chemical Corp. 1,300	33
Bowne & Co., Inc. 5,400	91	Tredegar Corp. 6,100	81
CDI Corp. 3,100	100	Wellman, Inc. 4,500	36
• Ciber, Inc. 10,300	90		<b>753</b>
• Cross Country Healthcare, Inc. 5,000	82	<b>Construction 2.6%</b>	
• eFunds Corp. 7,800	125	Apogee Enterprises, Inc. 4,200	47
G&K Services, Inc., Class A 3,600	136	Building Material Holding Corp. 2,300	38
• Heidrick & Struggles International, Inc. 2,900	72	• EMCOR Group, Inc. 2,300	94
• Insurance Auto Auctions, Inc. 1,700	27	• Insituform Technologies, Inc., Class A 4,100	67
• JDA Software Group, Inc. 4,900	64	② MDC Holdings, Inc. 5,592	345
• Kroll, Inc. 6,700	199	⑥ Standard-Pacific Corp. 5,600	282
• Mapinfo Corp. 2,600	29	Texas Industries, Inc. 3,500	118
• MRO Software, Inc. 4,500	60		<b>991</b>
Nautilus Group, Inc. 5,500	88	<b>Consumer Durables 2.0%</b>	
• NCO Group, Inc. 5,000	114	• Applica, Inc. 4,500	51
• NYFIX, Inc. 4,800	24	Bassett Furniture Industries, Inc. 2,200	39
• On Assignment, Inc. 3,900	20	• Griffon Corp. 4,390	96
• Paxar Corp. 6,300	104	Haverty Furniture Cos., Inc. 3,900	71
• PC-Tel, Inc. 3,200	36	• Interface, Inc., Class A 7,800	67
• Pegasus Solutions, Inc. 3,600	39	La-Z-Boy, Inc. 8,500	177
• Phoenix Technologies Ltd. 4,200	24	National Presto Industries, Inc. 1,400	57
• PRG-Schultz International, Inc. 9,800	46	• Salton, Inc. 1,000	9
Roto-Rooter, Inc. 1,500	73	Skyline Corp. 1,200	51
• SourceCorp 2,600	67	Sturm Ruger & Co., Inc. 3,700	40
• Spherion Corp. 9,700	96	Thomas Industries, Inc. 2,800	95
			<b>753</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Containers 0.1%</b>	
• Mobile Mini, Inc. 2,100	40
<b>Electronics 7.5%</b>	
Agilysys, Inc. 5,200	61
• Alliance Semiconductor Corp. 6,300	37
• Anixter International, Inc. 6,200	182
• Audiovox Corp., Class A 3,800	57
Bel Fuse, Inc., Class B 2,000	62
Belden, Inc. 3,900	68
▲ Bell Microproducts, Inc. 3,700	24
▲ Benchmark Electronics, Inc. 6,850	185
C&D Technologies, Inc. 4,700	73
• Cable Design Technologies Corp. 6,250	53
• Captaris, Inc. 5,000	28
• Checkpoint Systems, Inc. 6,100	98
• Coherent, Inc. 4,800	117
Cohu, Inc. 3,500	61
CTS Corp. 6,200	81
• DSP Group, Inc. 4,600	114
• Dupont Photomasks, Inc. 3,000	62
• Electro Scientific Industries, Inc. 4,600	94
• Exar Corp. 6,700	102
• Gerber Scientific, Inc. 4,000	24
• Hutchinson Technology, Inc. 4,100	101
• Itron, Inc. 3,000	64
Methode Electronics, Class A 5,900	67
Park Electrochemical Corp. 3,300	78
• Pericom Semiconductor Corp. 4,000	42
• Pinnacle Systems, Inc. 9,700	76
• Planar Systems, Inc. 1,800	22
• Radisys Corp. 2,600	49
• SBS Technologies, Inc. 2,500	37
• SCM Microsystems, Inc. 2,700	17
▲ Skyworks Solutions, Inc. 23,600	202
• Standard Microsystems Corp. 3,100	74
• Supertex, Inc. 2,000	30
• Symmetricom, Inc. 6,800	55
• Technitrol, Inc. 6,500	138
• THQ, Inc. 5,800	108

Security and Number of Shares	Value (\$ x 1,000)
• Three-Five Systems, Inc. 2,200	11
• Tollgrade Communications, Inc. 2,200	27
• Vicor Corp. 6,900	96
<b>2,877</b>	
<b>Energy: Raw Materials 4.8%</b>	
• Atwood Oceanics, Inc. 2,200	81
• Cimarex Energy Co. 6,800	188
• Dril-Quip, Inc. 3,200	55
• Kirby Corp. 4,000	138
⑤ Massey Energy Co. 12,200	286
• Offshore Logistics, Inc. 3,700	81
• Seacor Holdings, Inc. 2,900	120
• Southwestern Energy Co. 5,600	141
• Swift Energy Co. 4,700	102
▲① Tom Brown, Inc. 7,300	349
• Unit Corp. 7,100	201
• W-H Energy Services, Inc. 4,000	73
<b>1,815</b>	
<b>Food &amp; Agriculture 3.4%</b>	
• American Italian Pasta Co., Class A 2,500	77
▲⑩ Corn Products International, Inc. 6,200	263
Flowers Foods, Inc. 7,600	186
• Hain Celestial Group, Inc. 5,400	107
• International Multifoods Corp. 2,800	70
• J & J Snack Foods Corp. 1,400	54
Lance, Inc. 5,300	80
Nash Finch Co. 2,300	48
• Performance Food Group Co. 7,100	249
• Ralcorp Holdings, Inc. 4,800	167
<b>1,301</b>	
<b>Healthcare / Drugs &amp; Medicine 6.4%</b>	
Alpharma, Inc., Class A 8,500	185
▲• Arqule, Inc. 3,700	25
▲ Cambrex Corp. 4,400	109
• Cima Labs, Inc. 2,200	70
• Conmed Corp. 4,800	118

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• CryoLife, Inc. 3,000	17	<b>Media 0.6%</b>	
• Curative Health Services, Inc. 1,400	16	▲ • Advanced Marketing Services, Inc. 2,200	22
• Datascope Corp. 2,600	86	• Consolidated Graphics, Inc. 2,200	82
• Haemonetics Corp. 4,400	124	• Information Holdings, Inc. 3,600	90
• Hologic, Inc. 2,900	58	• Network Equipment Technologies, Inc. 3,900	33
• Invacare Corp. 4,800	191		<b>227</b>
• Nature's Sunshine Products, Inc. 2,500	36	<b>Miscellaneous Finance 4.3%</b>	
• Orthodontic Centers of America, Inc. 7,100	51	• Bankunited Financial Corp., Class A 5,100	135
• Osteotech, Inc. 3,000	20	• Cash America International, Inc. 4,400	94
• Owens & Minor, Inc. 6,500	158	▲ • Commercial Federal Corp. 7,500	192
• Parexel International Corp. 3,800	74	▲ • Downey Financial Corp. 4,800	232
▲ • ④ Pediatrix Medical Group, Inc. 4,000	286	• Financial Federal Corp. 2,900	91
• Province Healthcare Co. 8,200	131	▲ • Flagstar Bancorp., Inc. 9,700	198
• RehabCare Group, Inc. 2,600	53	• Investment Technology Group, Inc. 7,000	100
• Savient Pharmaceuticals, Inc. 8,400	32	• Meritage Corp. 2,000	136
• Sola International, Inc. 5,200	107	• Piper Jaffray Cos. 3,000	145
• Sunrise Senior Living, Inc. 3,300	104	• Seacoast Financial Services Corp. 3,900	126
• Theragenics Corp. 3,600	19	• SWS Group, Inc. 2,997	49
• US Oncology, Inc. 13,300	198	• Waypoint Financial Corp. 5,240	136
• Viasys Healthcare, Inc. 5,000	97		<b>1,634</b>
• Vital Signs, Inc. 2,200	71	<b>Non-Durables &amp; Entertainment 3.2%</b>	
	<b>2,436</b>	• A.T. Cross Co., Class A 2,400	14
<b>Insurance 4.5%</b>		• Action Performance Cos., Inc. 2,400	38
• Delphi Financial Group, Inc., Class A 5,167	208	• Department 56, Inc. 2,200	35
⑨ • Fremont General Corp. 12,300	265	• Electronics Boutique Holdings Corp. 4,100	111
• Hilb, Rogal & Hamilton Co. 5,500	197	• Enesco Group, Inc. 1,900	25
• Hooper Holmes, Inc. 11,500	63	▲ • Huff Corp. 2,700	6
• Philadelphia Consolidated Holding Co. 3,800	219	• IHOP Corp. 3,600	134
• Presidential Life Corp. 4,400	71	• Jack in the Box, Inc. 6,000	162
• RLI Corp. 4,100	143	▲ • Jakks Pacific, Inc. 3,800	66
• SCPIE Holdings, Inc. 900	7	• Landry's Restaurants, Inc. 4,600	154
• Selective Insurance Group, Inc. 4,700	168	• Lone Star Steakhouse & Saloon, Inc. 3,759	116
• Stewart Information Services Corp. 3,100	110	• O'Charleys, Inc. 3,300	62
• UICI 8,000	139	• Russ Berrie & Co., Inc. 3,300	94
• Zenith National Insurance Corp. 3,000	129	• Ryan's Family Steak Houses, Inc. 6,800	123
	<b>1,719</b>	• Triarc Cos., Class B 9,000	94
			<b>1,234</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Non-Ferrous Metals 1.9%</b>	
▲ A.M. Castle & Co. 1,900	18
• Brush Engineered Materials, Inc. 2,600	42
• Century Aluminum Co. 3,900	77
Commercial Metals Co. 4,900	128
Commonwealth Industries, Inc. 2,600	20
• Imco Recycling, Inc. 1,500	13
• Mueller Industries, Inc. 5,800	195
Reliance Steel & Aluminum Co. 5,500	182
• RTI International Metals, Inc. 3,000	44
• Wolverine Tube, Inc. 1,200	15
	<b>734</b>
<b>Oil: Domestic 2.9%</b>	
• CAL Dive International, Inc. 6,200	168
• Nuevo Energy Co. 3,000	103
• Remington Oil & Gas Corp. 4,200	92
• Spinnaker Exploration Co. 5,400	193
St. Mary Land & Exploration Co. 4,600	166
• Stone Energy Corp. 4,300	212
Vintage Petroleum, Inc. 10,100	152
	<b>1,086</b>
<b>Optical &amp; Photo 0.2%</b>	
• Meade Instruments Corp. 3,300	12
• Photronics, Inc. 5,200	77
	<b>89</b>
<b>Paper &amp; Forest Products 1.6%</b>	
• Buckeye Technologies, Inc. 6,100	64
• Caraustar Industries, Inc. 4,200	53
Chesapeake Corp. 3,100	70
Deltic Timber Corp. 2,200	75
• Lydall, Inc. 2,000	19
Pope & Talbot, Inc. 2,700	45
Rock-Tennessee Co., Class A 5,300	79
Universal Forest Products, Inc. 2,900	79
Wausau-Mosinee Paper Corp. 8,400	118
	<b>602</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Producer Goods &amp; Manufacturing 9.5%</b>	
▲ Albany International Corp., Class A 5,500	168
Applied Industrial Technologies, Inc. 3,000	79
▲ Aptargroup, Inc. 6,300	248
• Astec Industries, Inc. 2,500	45
Barnes Group, Inc. 3,700	101
• Concord Camera Corp. 3,800	19
Curtiss-Wright Corp. 3,400	160
• Gardner Denver, Inc. 2,800	73
⑧ Hughes Supply, Inc. 5,000	279
IDEX Corp. 5,400	255
• Ionics, Inc. 3,500	81
Lawson Products, Inc. 1,700	59
Lennox International, Inc. 9,912	166
• Lone Star Technologies, Inc. 4,200	86
▲ Magnetek, Inc. 4,100	28
Manitowoc Co., Inc. 4,600	140
▲ Material Sciences Corp. 2,500	24
• Maverick Tube Corp. 6,800	154
• Moog, Inc., Class A 4,200	139
• Oceaneering International, Inc. 4,000	112
Regal Beloit 4,600	92
Robbins & Myers, Inc. 2,200	48
• The Shaw Group, Inc. 9,300	112
Standex International Corp. 2,200	59
Stewart & Stevenson Services, Inc. 4,400	70
③ The Timken Co. 14,600	322
• Triumph Group, Inc. 2,600	84
Valmont Industries, Inc. 3,800	78
Watsco, Inc. 4,400	128
Watts Water Technologies, Inc., Class A 4,900	120
Woodward Governor Co. 1,800	112
	<b>3,641</b>
<b>Railroad &amp; Shipping 0.4%</b>	
• Kansas City Southern Railway 10,000	138

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Real Property 3.2%</b>			
Capital Automotive Real Estate Investment Trust 5,600	158	Quanex Corp. 2,700	110
▲ Colonial Properties Trust 4,200	148	Ryerson Tull, Inc. 3,900	46
Commercial Net Lease Realty 8,200	136	• Steel Dynamics, Inc. 7,800	188
Gables Residential Trust 4,500	143	Steel Technologies, Inc. 1,900	37
Glenborough Realty Trust, Inc. 5,100	96		<b>502</b>
▲ Kilroy Realty Corp. 4,500	141	<b>Telephone 0.3%</b>	
Lexington Corp. Properties Trust 7,600	141	• Boston Communications Group 2,400	26
▲ Shurgard Storage Centers, Inc., Class A 7,400	246	• General Communication, Inc., Class A 10,200	91
	<b>1,209</b>		<b>117</b>
<b>Retail 5.8%</b>		<b>Tobacco 0.3%</b>	
▲ Aaron Rents, Inc. 5,600	162	DIMON, Inc. 6,900	48
Burlington Coat Factory Warehouse Corp. 7,100	135	Schweitzer-Mauduit International, Inc. 2,300	71
Casey's General Stores, Inc. 8,700	144		<b>119</b>
The Cato Corp., Class A 3,500	70	<b>Travel &amp; Recreation 1.5%</b>	
• The Dress Barn, Inc. 4,600	77	• Aztar Corp. 5,500	143
• Duane Reade, Inc. 3,800	63	• Bally Total Fitness Holding Corp. 5,200	22
• Genesco, Inc. 3,500	78	Central Parking Corp. 5,800	111
Goody's Family Clothing, Inc. 5,300	66	• K2, Inc. 5,000	73
• Great Atlantic & Pacific Tea Co. 6,300	50	The Marcus Corp. 5,200	84
Hancock Fabrics, Inc. 2,800	42	• Pinnacle Entertainment, Inc. 5,000	57
• Insight Enterprises, Inc. 8,000	134	• Prime Hospitality Corp. 7,600	76
▲ Jo-Ann Stores, Inc. 3,610	102		<b>566</b>
• Linens 'N Things, Inc. 7,200	234	<b>Trucking &amp; Freight 1.3%</b>	
Longs Drug Stores Corp. 5,500	108	Arkansas Best Corp. 3,900	101
Pep Boys-Manny, Moe & Jack 8,700	239	USF Corp. 4,600	153
• School Specialty, Inc. 3,100	110	• Yellow Roadway Corp. 7,287	248
• ShopKo Stores, Inc. 5,300	70		<b>502</b>
• Stein Mart, Inc. 6,800	87	<b>Utilities: Electric &amp; Gas 6.7%</b>	
• United Stationers, Inc. 5,800	220	American States Water Co. 2,200	51
• The Wet Seal, Inc., Class A 4,100	23	Atmos Energy Corp. 8,000	197
	<b>2,214</b>	Avista Corp. 8,100	137
<b>Steel 1.3%</b>		Cascade Natural Gas Corp. 1,600	33
Carpenter Technology Corp. 4,000	109	Central Vermont Public Service Corp. 2,200	44
Intermet Corp. 3,100	12		



Security and Number of Shares	Value (\$ x 1,000)
CH Energy Group, Inc. 2,500	116
Cleco Corp. 8,200	147
• El Paso Electric Co. 7,800	110
▲ Energen Corp. 6,000	248
▲ Green Mountain Power Corp. 900	23
The Laclede Group, Inc. 3,200	88
Northwest Natural Gas Co. 4,100	121
NUI Corp. 2,300	38
Piedmont Natural Gas Co. 6,200	251
• Southern Union Co. 11,629	229
Southwest Gas Corp. 5,600	128
UGI Corp. 8,300	262
UIL Holdings Corp. 2,200	99
Unisource Energy Corp. 5,300	130
• Veritas DGC, Inc. 5,500	112
	<b>2,564</b>

#### Short-Term Investment

1.3% of net assets

Provident Institutional TempFund 513,601	<b>514</b>
---------------------------------------------	------------

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

#### U.S. Treasury Obligation

0.1% of net assets

▲ U.S. Treasury Bill 0.92%, 06/17/04	30	<b>30</b>
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End of investments.

Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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#### Collateral Invested for Securities on Loan

9.5% of net assets

#### Commercial Paper & Other Corporate Obligations 2.6%

Foreningssparbanken AB 1.06%, 01/18/05	106	106
Societe Generale 1.06%, 12/08/04	185	185
Svenska Handelsbanken 1.39%, 10/27/04	127	127
Westdeutsche Landesbank AG 1.05%, 09/29/04	116	116
1.05%, 10/12/04	470	470
		<b>1,004</b>

#### Short-Term Investment 1.1%

Deutsche Bank, Time Deposit 1.04%, 05/03/04	403	<b>403</b>
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#### Security and Number of Shares

#### Other Investment Companies 5.8%

Institutional Money Market Trust Trust 2,202,199	<b>2,202</b>
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End of collateral invested for securities on loan.

## Statement of

## Assets and Liabilities

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

### Assets

Investments, at market value (Including \$3,438 of securities on loan)	\$38,201
Collateral invested for securities on loan	3,609
Receivables:	
Fund shares sold	10
Dividends	29
Investments sold	151
Income from securities on loan	1
Prepaid expenses	+ 8
<b>Total assets</b>	<b>42,009</b>

### Liabilities

Collateral invested for securities on loan	3,609
Payables:	
Fund shares redeemed	93
Investments bought	108
Due to brokers for futures	6
Accrued expenses	+ 20
<b>Total Liabilities</b>	<b>3,836</b>

### Net Assets

<b>Total Assets</b>	42,009
<b>Total Liabilities</b>	– 3,836
<b>Net Assets</b>	<b>\$38,173</b>

### Net Assets by Source

Capital received from investors	28,694
Net investment income not yet distributed	95
Net realized capital gains	1,063
Net unrealized capital gains	8,321

### Net Asset Value (NAV)

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$38,173		2,792		\$13.67

Unless stated, all numbers x 1,000.

The fund paid \$29,857 for these securities.

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

Purchases	\$7,333
Sales/maturities	\$8,666

These derive from investments and futures. As of the report date, the fund had two open Russell 2000 futures contracts due to expire on June 23, 2004, with an aggregate contract value of \$560 and net unrealized losses of \$23.

### Federal Tax Data

<b>Portfolio cost</b>	\$30,324
<b>Net unrealized gains and losses:</b>	
Gains	\$9,766
Losses	+ (1,889)
	<b>\$7,877</b>

### As of October 31, 2003:

<b>Undistributed earnings:</b>	
Ordinary income	\$268
Long-term capital gains	\$–

<b>Capital losses utilized</b>	\$542
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### Unused capital losses:

Expires 10/31 of:	Loss amount
2010	\$864

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$197
Interest	1
Lending of securities	+ 3
<b>Total investment income</b>	<b>201</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	2,429
Net realized gains on futures contracts	+ 15
<b>Net realized gains</b>	<b>2,444</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	971
Net unrealized losses on futures contracts	+ (33)
<b>Net unrealized gains</b>	<b>938</b>

**Expenses**

Investment adviser and administrator fees	48
Transfer agent and shareholder service fees	19
Trustees' fees	3
Custodian fees	2
Portfolio accounting fees	3
Professional fees	14
Registration fees	7
Shareholder reports	3
Other expenses	+ 6
Total expenses	105
Expense reduction	- 44
<b>Net expenses</b>	<b>61</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>201</b>
<b>Net expenses</b>	<b>- 61</b>
<b>Net investment income</b>	<b>140</b>
<b>Net realized gains</b>	<b>2,444</b>
<b>Net unrealized gains</b>	<b>+ 938</b>
<b>Increase in net assets from operations</b>	<b>\$3,522</b>

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 \$42 from the investment adviser (CSIM) and \$2 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the 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 \$3,382.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$140	\$341
Net realized gains	2,444	833
Net unrealized gains	+ 938	9,158
<b>Increase in Net Assets from Operations</b>	<b>3,522</b>	<b>10,332</b>

**Distributions Paid**

Dividends from net investment income	<b>\$313</b>	<b>\$401</b>
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**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	300	\$4,065	727	\$7,355
Shares reinvested	18	238	34	331
Shares redeemed	+ (382)	(5,172)	(1,794)	(18,743)
<b>Net transactions in fund shares</b>	<b>(64)</b>	<b>(\$869)</b>	<b>(1,033)</b>	<b>(\$11,057)</b>

**Shares outstanding and net assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	2,856	\$35,833	3,889	\$36,959
Total increase or decrease	+ (64)	2,340	(1,033)	(1,126)
<b>End of period</b>	<b>2,792</b>	<b>\$38,173</b>	<b>2,856</b>	<b>\$35,833</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$401
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>	\$1
<b>Prior period</b>	\$3

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 \$95 and \$268 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 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 4/30/04 (\$ × 1,000)	Average borrowing* (\$ × 1,000)	Weighted average interest rate* (%)
<b>Institutional Select S&amp;P 500 Fund</b>	—	95	1.38
<b>Institutional Select Small-Cap Value Index Fund</b>	—	57	1.38

\* 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.



# 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 4/30/04) 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., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; 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.

### 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	2003 (all trusts).	Vice Chair, 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>1,2</sup> 2/22/55	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.; SVP, 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.

<sup>2</sup> Effective June 8, 2004, Jeffrey Lyons resigned as trustee from each of the trusts.

## 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, 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, Laudus Trust, Laudus Variable Insurance Trust. <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 (corporate 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, Apton Corp. (bio-pharmaceuticals). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <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); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
<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 investment trust).
<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

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

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

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

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

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

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

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

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# 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. 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. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any 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.

## Proxy Voting Policies and Procedures

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

## 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, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

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

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

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

**Investment Adviser**

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

**Distributor**

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

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# Funds Using Schwab Equity Ratings®

## **Semiannual Report**

April 30, 2004

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

*charles* SCHWAB

# *The power of Schwab Equity Ratings®*

## *The convenience and diversification of mutual funds.*

### In This Report

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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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#### Schwab Core Equity Fund

Ticker Symbol: **SWANX**

The fund seeks long-term capital growth.

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#### Schwab Dividend Equity Fund

Investor Shares: **SWDIX** Select Shares®: **SWDSX**

The fund seeks current income and capital appreciation.

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#### Schwab Small-Cap Equity Fund

Investor Shares: **SWSIX** Select Shares: **SWSCX**

The fund seeks long-term capital growth.

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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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Ticker Symbol: **SWCFX**

The fund's goal is to seek long-term capital growth.

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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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# From the Chairman



Charles R. Schwab  
Chairman

When I look at the current economic trends, I see a lot of positive indicators. Corporate profits, revenues, capital spending and the employment numbers have been strong. With the GDP and capital spending also strong, we seem to be in the early stages of what could be a long-term economic recovery. However, even though stock market and economic cycles have historically been in synch, this now seems to be less certain.

The stock market, reflecting the uncertainty around the globe, has become increasingly volatile. Whether it's the war in Iraq or global terrorism, investors are exposed to frightening images over and over again throughout the day. This may play on investors' emotions, potentially contributing to the market's recent volatility.

Given this, and because it can be so difficult to fight your emotions, I believe it's more important than ever to stay diversified. By being diversified across and within all asset classes, you have an "all-weather" portfolio that can offer you some balance in any market climate. There are very obvious reasons why diversification is useful, but what I believe is its understated beauty is that it gives many of you the discipline you need to stick with a well thought out strategy.

I have been a fan of mutual funds throughout my long investing career. I say this because I firmly believe that mutual funds are a cost-effective and convenient way for investors to achieve a diversified portfolio. And as we face increasing uncertainty in the world and in the stock markets, this is perhaps more important than ever.

Overall, despite the likelihood of short-term market volatility, I maintain complete faith in the strength of the U. S. economy. I always have believed and continue to believe that the stock market is the best place for long-term investing, and that with a wise investing plan – and a well diversified portfolio – you will be well-positioned to meet your financial goals.

Sincerely,

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

# Management's Discussion

for the six months ended April 30, 2004



**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 2002, bringing with him 24 years of experience in the asset management industry.

Dear Shareholder:

The stock market's continued recovery during the report period was welcome news to long-term investors, especially those of you who had suffered through declining share prices before then.

For years, investors sold stocks and stock mutual funds when the economy was weak or when geopolitical tensions heightened, despite the fact that stock and fund prices often were relatively cheap during those dark hours. Over the past year, however, I've spoken with many individual investors who benefited from sticking with their long-term asset-allocation plans. As a result, they were able to participate in the past year's stock market gains. They learned how difficult it is to successfully "time the market" and determine when to "be in cash." Many have given up this chase altogether and have benefited both financially and emotionally.

Given the ongoing geopolitical situation, however, it's quite understandable that many investors are nervous, and some are again acting more on their emotions than on sound investment principles. When you invest in SchwabFunds®, you can be assured that our portfolio managers understand your concerns and are diligent in their approach to the investment process. Key to this is their knowledge of and adherence to each fund's objective and their vigilant focus on remaining true to it. In short, each of our portfolio manager's responsibility is to remain consistent in implementing their investment strategies, despite the market's fluctuations.

There's one more thing I want to address in this letter and that is, as of July 19, 2004, following a distinguished ten-year career at Schwab, Geri Hom, senior portfolio manager, has decided to retire. Jeff Mortimer, senior vice-president and chief investment officer, equities of Charles Schwab Investment Management, Inc., assumes Geri's responsibilities for overall management of the funds.

I expect these changes to be seamless to our shareholders, as SchwabFunds® has been and will continue to be managed by teams of seasoned professionals, who remain committed to their investing styles. We thank you for your trust in us as we help you reach your long- or short-term financial goals.

Sincerely,

*Randall W. Merk*

*With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq.*

## The Economy and the Market

The economy, which had improved during the second half of 2003, picked up steam at the end of the year and continued to show signs of recovery through the current report period of November 1, 2003 through April 30, 2004. The securities market reflected the positive news through first-quarter 2004. During that time, the market started to bounce around a little, as evidenced by the volatility in the S&P 500® Index in February and March. Toward the end of the report period, in late April, the market fell precipitously and many of the funds' 2004 gains were lost. Nonetheless, its earlier performance was strong enough to push the broader market up 6.27% for the report period, as measured by the S&P 500® Index.

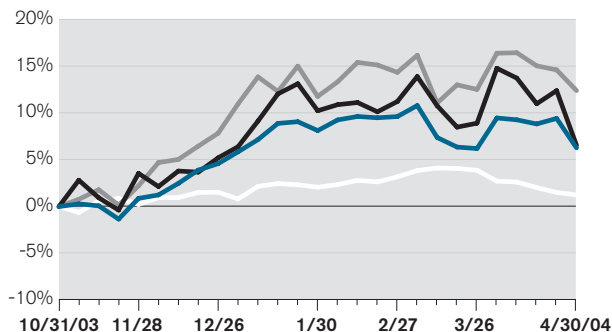
While the economy officially emerged from recession in 2001, the recovery didn't fully materialize until 2003. And it wasn't until late in 2003 when investors started buying companies with good solid fundamentals. During this time, both the manufacturing and services sectors exhibited strong growth. Capital spending showed signs of life amid rising corporate profits.

The economy continued to expand in 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise,

### 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.

- 6.27% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.54% **Russell 2000® Index:** measures U.S. small-cap stocks
- 12.39% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- 1.25% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market



These figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and you cannot invest in them directly. Remember that past performance is not an indication of future results. Data source: Charles Schwab & Co., Inc.



**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 senior 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.

despite a mid-quarter pause in the upward trend in consumer confidence, and higher commodity prices were holding. Mortgage refinancing activity, while still significant, started to show signs of waning as mortgage rates inched slightly upward. And finally, the last piece of the economic puzzle—job growth—began to exhibit solid growth.

On the currency front, the dollar rebounded from its lows, due to two reasons. First, the U. S. economy grew more than most other countries' economies did. The second reason is the expectation that interest rates will rise, which has served to stimulate inflows of foreign capital.

The Federal Reserve (Fed) left interest rates unchanged during the period. Inflation began to accelerate, alleviating Fed fears of possible deflation. Consequent expectations that the Fed would soon begin to raise interest rates weighed on markets toward the end of the period. Nevertheless, economic fundamentals remained sound. With delayed job growth underway, the economy was improving on all fronts. Strong personal income growth fueled consumer spending, despite higher oil prices and concerns about terrorism and the war in Iraq. Business profits exhibited another strong quarterly gain and investment in equipment and inventories remained healthy. In sum, it appeared that the economy, indeed, was back on track.

## The Funds

The equities market started off strong at the beginning of the period that ran from November 1, 2003 through April 30, 2004. Toward the middle of first-quarter 2004, however, the market, as evidenced by the S&P 500® Index, became fairly volatile and bounced around until the end of April, giving up some of its earlier gains. Nonetheless all the funds using Schwab Equity Ratings® posted gains for the report period.

During this time, the S&P 500® Index closed at 1107.30, up 6.27% for the period. Small-cap securities led the way for most of the period (the usual pattern when the economy recovers), but lost the lead in April and then were hurt by the market's fall at the end of April.

For most of the period, Schwab Equity Ratings®, which are designed to identify companies with high-quality characteristics, performed as expected, with the A- and B-rated stocks outperforming the D- and F-

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



**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.

rated ones. Toward the end of April 2004, however, the market started to reward stocks that, for the most part, lacked solid fundamentals. This action mirrored what occurred in the second half of 2003, when lower-rated stocks, many of which had D or F-ratings, led the market. Despite this set-back, the funds using Schwab Equity Ratings® still performed well.

**The Schwab Core Equity Fund** outperformed its benchmark, the S&P 500® Index, by 0.60%. The fund's value tilt in a market that favored value helped performance. The sectors that had the biggest positive impact on the fund, relative to its benchmark, were health-care, financial services and consumer discretionary. Stocks that performed especially well in these sectors included Progressive Corp. and United Healthcare. In addition, Exxon Mobil also positively impacted the fund's results. Sectors that underperformed for the period were industrials, telecommunications services, and information technology. Within these sectors, Intel and Hewlett-Packard negatively affected the fund's performance.

**The Schwab Dividend Equity Fund** outperformed the S&P 500® Index by 3.80% for the period, thanks in part to the fund having a value tilt in a market that favored value. The fund also benefited from holding stocks that paid high dividends because these stocks outperformed lower paying dividend stocks. In addition, the large- and mid-cap stocks in the fund tended to be at the lower end of the capitalization spectrum and these stocks outperformed larger ones. While all sectors in the fund had positive returns for the period, good stock selection in the consumer discretionary sector and being underweight in technology helped performance. One stock that did particularly well was recreational-sports manufacturer Brunswick Corp. Working against the fund's performance was being underweight in health care and energy.

**The Schwab Small-Cap Equity Fund** outperformed the S&P 600® Index by 3.62% for the period. First-quarter performance was outstanding, but results were severely hurt in the last few days of the period, in late April, when investors' fears of higher interest rates and inflation, coupled with a lower-than expected GDP report effectively erased the fund's first-quarter gains. The best performing sectors for the period were energy, consumer staples and health care. The stocks that were strong within these sectors were, respectively, Nuevo Energy Co., Natures

Schwab Equity Ratings® are produced by the Schwab Center for Investment Research®. Small company stocks are subject to greater volatility than other asset categories.

Performance at a Glance

Total return for the six months ended 4/30/04

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

<b>Schwab Core Equity Fund</b> . . .	<b>6.87%</b>
Benchmark . . . . .	<b>6.27%</b>
Fund Category <sup>1</sup> . . . . .	<b>5.47%</b>
<i>Performance Details . . . . . page 8</i>	

<b>Schwab Dividend Equity Fund</b>	
Investor Shares . . . . .	<b>10.07%</b>
Select Shares . . . . .	<b>10.07%</b>
Benchmark . . . . .	<b>6.27%</b>
Fund Category <sup>1</sup> . . . . .	<b>7.71%</b>
<i>Performance Details . . . pages 10-11</i>	

<b>Schwab Small-Cap Equity Fund</b>	
Investor Shares . . . . .	<b>12.09%</b>
Select Shares . . . . .	<b>12.18%</b>
Benchmark . . . . .	<b>8.47%</b>
Fund Category <sup>1</sup> . . . . .	<b>8.17%</b>
<i>Performance Details . . . pages 13-14</i>	

<b>Schwab Hedged Equity Fund</b> . . . . .	<b>5.98%</b>
Benchmark . . . . .	<b>6.27%</b>
Fund Category <sup>1</sup> . . . . .	<b>4.20%</b>
<i>Performance Details . . . . . page 16</i>	

Sunshine Products and Mine Safety Appliances. The weakest sectors in the fund were telecommunications services and information technology, with Benchmark Electrics the worst performing stock.

The Schwab Hedged Equity Fund slightly underperformed the S&P 500® Index by 0.29% for the period. The fund, which uses Schwab Equity Ratings®, generally invests in A- and B-rated stocks, and goes short on some lower-rated stocks within each sector. During the report period, the fund’s greatest net exposure was in the consumer discretionary sector, which had a slight drag on returns. The fund’s overweight in telecommunications services contributed positively to results. The fund’s largest underweight was the worst performing sector, information technology, enhancing returns relative to the benchmark. Importantly, while the fund closely tracked the S&P 500® Index, it did it with about 30% less month-to-month volatility.

The most profitable position on the long side was A-rated Cytoc Corp., while the most profitable short position was F-rated Leapfrog Enterprises. The worst performing long position was Time Warner Telecom, while the biggest loser on the short side was Mandalay Resort Group.

The Schwab Communications Focus Fund underperformed the S&P 1500 SuperComposite Telecommunications Sector Index by 8.13%, but still had positive returns for the period. The telecommunications sector, bouncing off its 2000 lows, started to show strength in 2003 and into 2004. Excess capacity and capital spending continued to plague the sector, but broad market rallies lifted the sector out of the doldrums, as the hardest-hit securities often bounce back faster than the rest of the market. The best performing stock was Sprint PCS, which more than doubled—up 119.77% for the period. The worst performer was Time Warner Telecom, which was down 63.28%, dragging down the fund’s returns by 2.32%

All fund and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Expenses may be partially absorbed by CSIM and Schwab. Without these reductions, the funds’ total returns would have been lower. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares. Small company stocks are subject to greater volatility than other asset categories. 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.

Schwab Equity Ratings® are produced by the Schwab Center for Investment Research®.  
<sup>1</sup> Source for category information: Morningstar, Inc.

## Performance at a Glance

Total return for the six months ended 4/30/04

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

### Communications

**Focus Fund** . . . . . **2.95%**  
Benchmark . . . . . **11.08%**  
Fund Category<sup>1</sup> . . . . . **10.04%**  
*Performance Details* . . . . . *page 18*

### Financial Services

**Focus Fund** . . . . . **4.68%**  
Benchmark . . . . . **3.49%**  
Fund Category<sup>1</sup> . . . . . **4.95%**  
*Performance Details* . . . . . *page 20*

**Health Care Focus Fund** . . . . . **25.62%**  
Benchmark . . . . . **9.88%**  
Fund Category<sup>1</sup> . . . . . **13.91%**  
*Performance Details* . . . . . *page 22*

**Technology Focus Fund** . . . . . **2.78%**  
Benchmark . . . . . **-3.62%**  
Fund Category<sup>1</sup> . . . . . **-4.33%**  
*Performance Details* . . . . . *page 24*

**The Schwab Financial Services Focus Fund** outperformed the S&P 1500 SuperComposite Financial Services Index by 1.19%. The strongest industry in the fund was diversified financials, with Fidelity National Financial and Greenpoint Financial among the top performers in the fund. The industry that was the biggest drag on performance was insurance, with Compucredit Corp., Bancorpsouth Inc., and Oceanfirst Financial Corp negatively affecting returns.

**The Schwab Health Care Focus Fund** was the best performer of all the funds using Schwab Equity Ratings®, outperforming the S&P 1500 SuperComposite Health Care Sector Index by 15.74%. All industries in the sector reported double-digit growth for the period. Being overweight in health care facilities, services, and supplies helped performance. And although the fund was slightly underweight in health care equipment, performance was strong. The worst industry in the fund, health care distributors, was still up 13.65%. Within this sector was Nutraceutical International, which was the top stock in the fund, up 99.2% for the period. The weakest performer was HMO Health Net, Inc., which fell 19.27%.

**The Schwab Technology Focus Fund** outperformed the S&P 1500 SuperComposite Technology Sector Index by 6.40%. The fund benefited from having a tilt toward value which was in favor during the report period. The fund also saw gains from holding larger-cap stocks, which did well in the technology sector. The industries that had the most positive effect on the fund were semiconductors, Internet software, and communications equipment. Within this group, Akami Technologies and SS&C Technologies were the leaders. The weakest industries were IT services and electronic equipment, with Amkor Technologies and Ingram Micro, Inc. the worst performers.

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

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

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

<sup>1</sup> Source for category information: Morningstar, Inc.



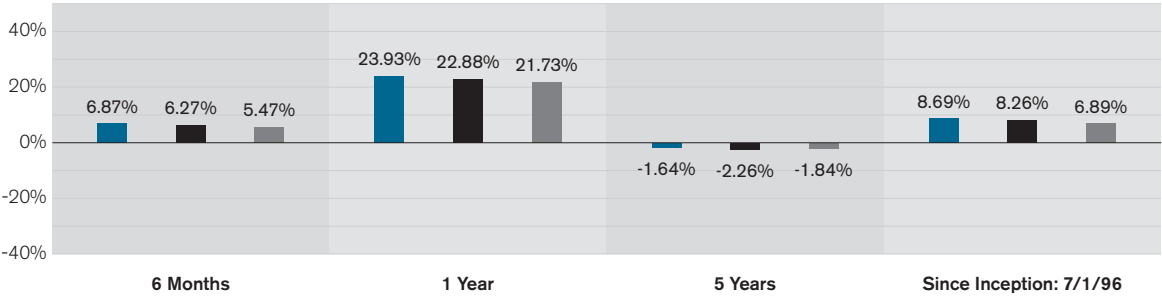
# Schwab Core Equity Fund

Performance as of 4/30/04

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

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

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

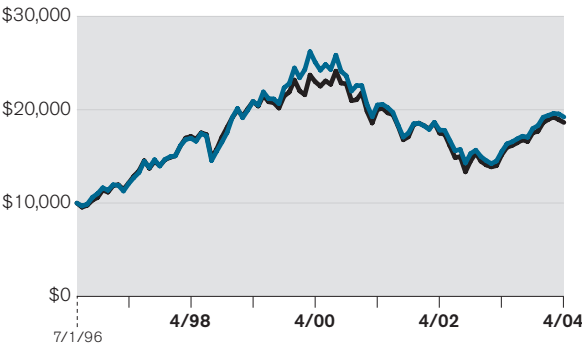


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$19,220 Fund
- \$18,635 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. Results for the report period are not annualized.

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

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



Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

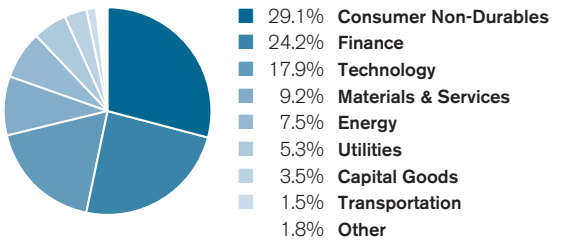
Number of Holdings	150
Weighted Average Market Cap (\$ x 1,000,000)	\$71,717
Price/Earnings Ratio (P/E)	17.3
Price/Book Ratio (P/B)	3.1
Portfolio Turnover Rate <sup>2</sup>	21%

Top Holdings<sup>3</sup>

	% of Net Assets
Security	
1 Procter & Gamble Co.	4.4%
2 Citigroup, Inc.	3.3%
3 Exxon Mobil Corp.	3.2%
4 Cisco Systems, Inc.	3.0%
5 Intel Corp.	2.9%
6 The Progressive Corp.	2.7%
7 Fannie Mae	2.6%
8 Microsoft Corp.	2.4%
9 Wachovia Corp.	2.2%
10 Bank of America Corp.	1.9%
Total	28.6%

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.



Portfolio holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

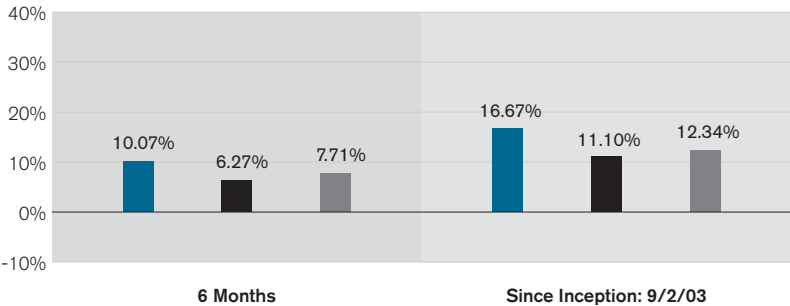
# Schwab Dividend Equity Fund

## Investor Shares Performance as of 4/30/04

### 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 Value**

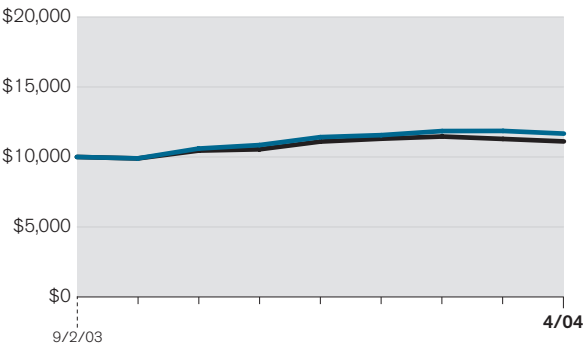


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$11,667 **Investor Shares**
- \$11,110 **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. Results for the report period are not annualized.

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

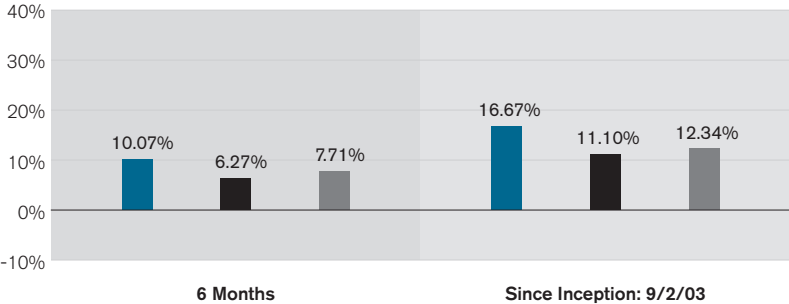
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares Performance as of 4/30/04

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

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

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

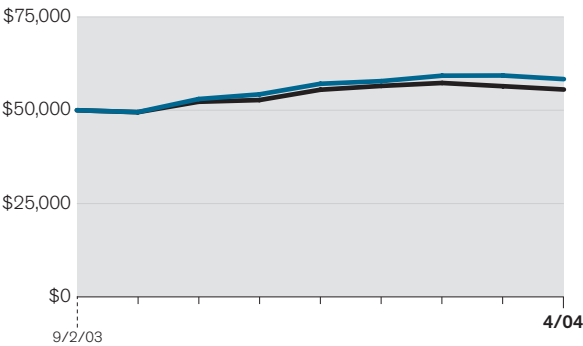


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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

- \$58,335 **Select Shares**
- \$55,548 **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. Results for the report period are not annualized.

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

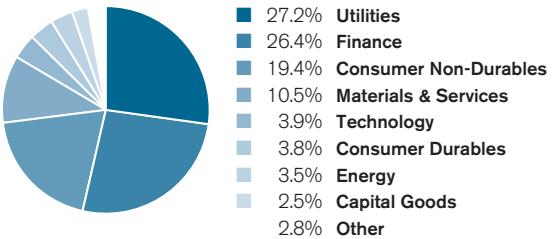
<sup>2</sup> Source for category information: Morningstar, Inc.

Fund Facts as of 4/30/04

Top Holdings <sup>1</sup>		
Security		% of Net Assets
1 Public Service Enterprise Group, Inc.		1.3%
2 ChevronTexaco Corp.		1.2%
3 R.J. Reynolds Tobacco Holdings, Inc.		1.2%
4 Procter & Gamble Co.		1.2%
5 Kellogg Co.		1.2%
6 Bank of America Corp.		1.2%
7 Bristol-Myers Squibb Co.		1.2%
8 3M Co.		1.2%
9 Verizon Communications, Inc.		1.2%
10 SBC Communications, Inc.		1.2%
Total		12.1%

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	104
Weighted Average Market Cap (\$ x 1,000,000)	\$29,683
Price/Earnings Ratio (P/E)	14.9
Price/Book Ratio (P/B)	2.3
Portfolio Turnover Rate <sup>2</sup>	24%
SEC Yield <sup>3</sup>	
Investor Shares	3.32%
Select Shares	3.31%
SEC Yield—No Waiver <sup>4</sup>	
Investor Shares	2.14%
Select Shares	2.29%
Qualified Dividend Income (QDI) <sup>5</sup>	100%
For the 2003 calendar year	

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

Style Assessment<sup>6</sup>



Fund holdings may have changed since the report date.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Fund expenses have been absorbed by CSIM and Schwab. Without these reductions, the fund's 30-day SEC yield would have been lower. The yield does not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares.

<sup>4</sup> Yield if fund expenses had not been absorbed by CSIM and Schwab.

<sup>5</sup> Percentage of the fund's ordinary income distributions eligible to be treated as qualified dividend income subject to reduced tax rates. The percentage is determined at the end of each calendar year.

<sup>6</sup> Source: Morningstar, Inc. This style assessment is the result of evaluating the fund based on a ten-factor model for value and growth characteristics. The fund's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the fund's portfolio as of 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

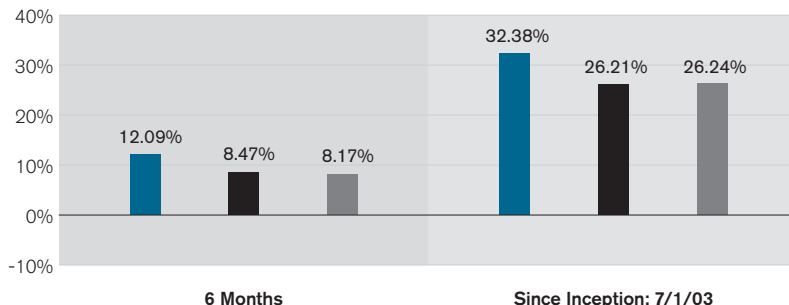
# Schwab Small-Cap Equity Fund

## Investor Shares Performance as of 4/30/04

### 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**

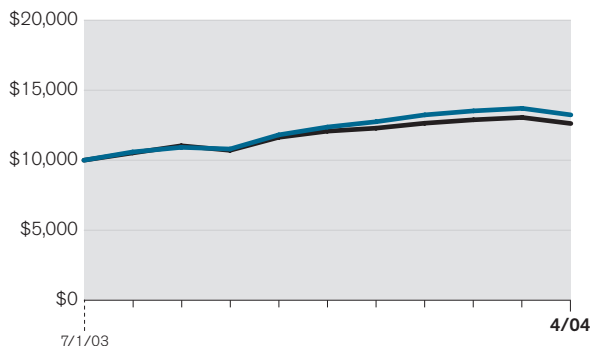


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

■ \$13,238 **Investor Shares**  
 ■ \$12,621 **S&P SmallCap 600 Index**



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

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

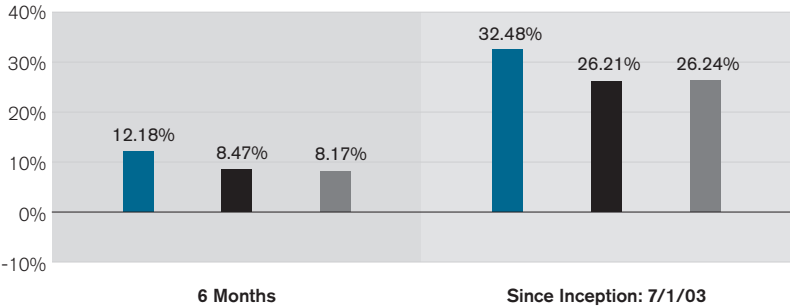
<sup>2</sup> Source for category information: Morningstar, Inc.

Select Shares Performance as of 4/30/04

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

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

- Fund: **Select Shares**
- Benchmark: **S&P SmallCap 600 Index**
- Fund Category: **Morningstar Small-Cap Blend**

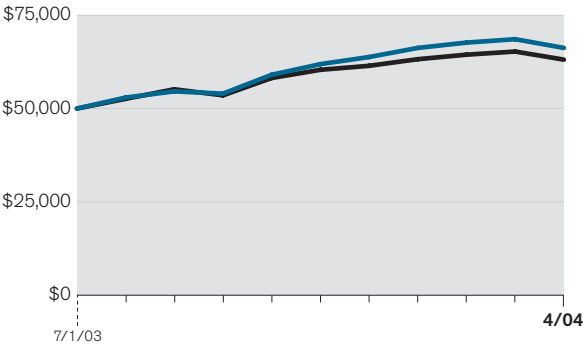


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Performance of a Hypothetical \$50,000 Investment<sup>1</sup>

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

- \$66,240 **Select Shares**
- \$63,104 **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.

Fund Facts as of 4/30/04

Style Assessment<sup>1</sup>



Statistics

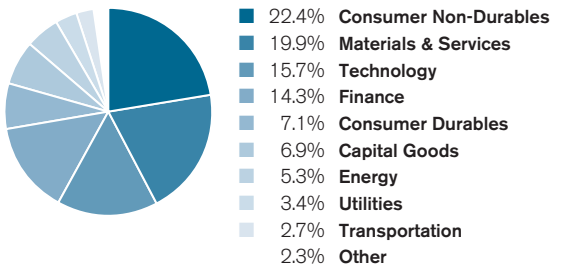
Number of Holdings	184
Weighted Average Market Cap (\$ x 1,000,000)	\$1,016
Price/Earnings Ratio (P/E)	19.5
Price/Book Ratio (P/B)	2.3
Portfolio Turnover Rate <sup>2</sup>	39%

Top Holdings<sup>3</sup>

Security	% of Net Assets
1 Alliant Techsystems, Inc.	1.6%
2 UGI Corp.	1.3%
3 Graco, Inc.	1.3%
4 Choice Hotels International, Inc.	1.2%
5 Universal Compression Holdings, Inc.	1.2%
6 Oshkosh Truck Corp.	1.2%
7 Lone Star Steakhouse & Saloon, Inc.	1.2%
8 Church & Dwight Co., Inc.	1.2%
9 NVR, Inc.	1.2%
10 Tesoro Petroleum Corp.	1.1%
Total	12.5%

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 holdings may have changed since 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 4/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

<sup>2</sup> Not annualized.

<sup>3</sup> This list is not a recommendation of any security by the investment adviser.

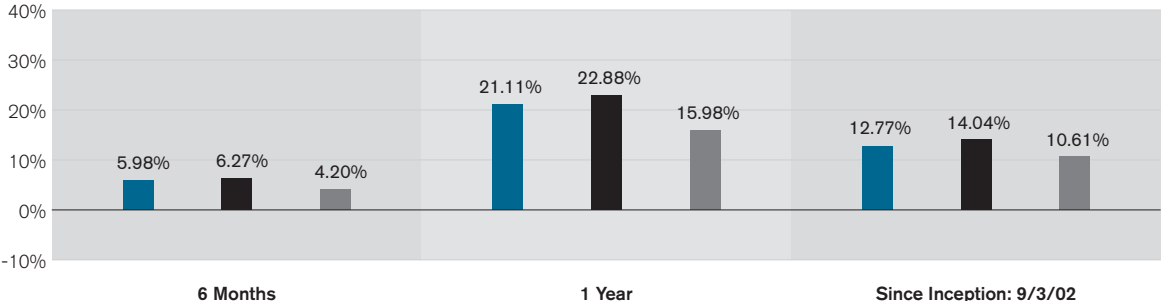
# Schwab Hedged Equity Fund

Performance as of 4/30/04

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

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

- Fund
- Benchmark: **S&P 500® Index**
- Fund Category: **Morningstar Moderate Allocation**

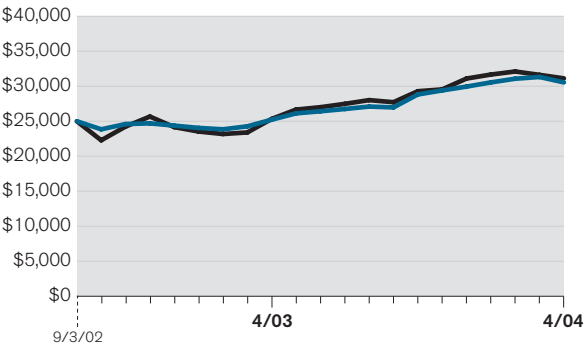


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## Performance of a Hypothetical \$25,000 Investment<sup>1</sup>

This graph shows performance since inception of a hypothetical \$25,000 investment in the fund (the minimum investment for this fund), compared with a similar investment in a benchmark.

- \$30,550 Fund
- \$31,128 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.



## Fund Facts as of 4/30/04

Top Long Holdings<sup>1</sup>

Security	% of Net Assets
① Coca-Cola Enterprises, Inc.	0.8%
② TXU Corp.	0.7%
③ Briggs & Stratton Corp.	0.7%
④ The Sherwin-Williams Co.	0.7%
⑤ Kellogg Co.	0.7%
<b>Total</b>	<b>3.6%</b>

Top Short Positions<sup>1</sup>

Security	% of Net Assets
① Mandalay Resort Group	0.6%
② Newell Rubbermaid, Inc.	0.6%
③ Inamed Corp.	0.6%
④ Janus Capital Group, Inc.	0.5%
⑤ Metro-Goldwyn-Mayer, Inc.	0.5%
<b>Total</b>	<b>2.8%</b>

## Statistics

	Long Holdings	Short Positions
<b>Number of Holdings</b>	196	126
<b>Weighted Average Market Cap</b> (\$ × 1,000,000)	\$11,878	\$4,977
<b>Price/Earnings Ratio</b> (P/E)	16.7	32.1
<b>Price/Book Ratio</b> (P/B)	2.4	2.3
<b>Portfolio Turnover Rate</b> <sup>2</sup>	45%	n/a

Portfolio holdings may have changed since the report date.

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

<sup>2</sup> Not annualized. Short positions have been excluded from the calculation of portfolio turnover because at the time of entering into the short positions, the fund did not intend to hold the positions for more than one year.

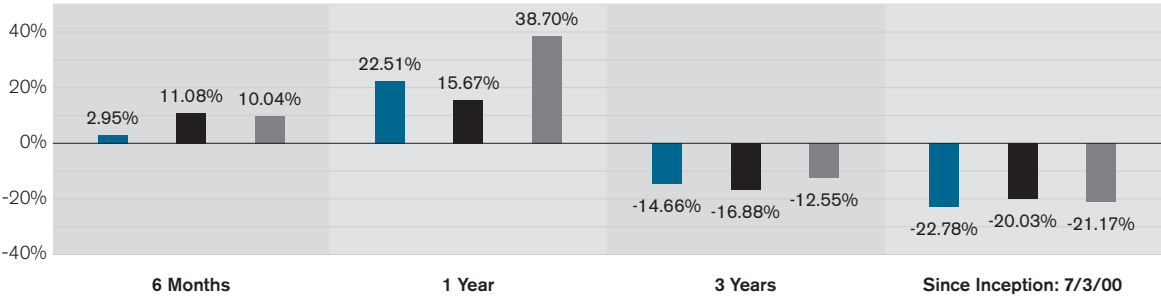
# Communications Focus Fund

## Performance as of 4/30/04

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

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

- Fund
- Benchmark: **S&P 1500 SuperComposite Telecommunications Sector Index**
- Fund Category: **Morningstar Communications**

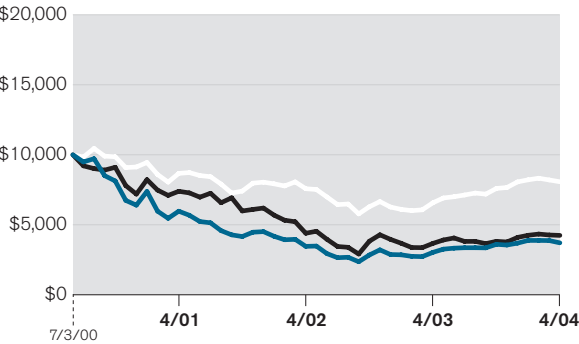


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### Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$3,710 Fund
- \$4,243 S&P 1500 SuperComposite Telecommunications Sector Index
- \$8,073 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.

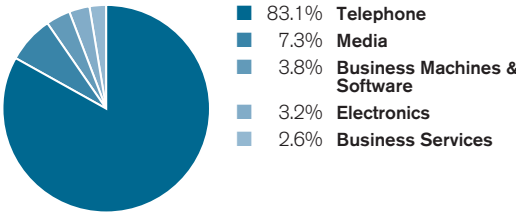
Fund Facts as of 4/30/04

Top Holdings <sup>1</sup>	
Security	% of Net Assets
① CenturyTel, Inc.	5.7%
② Alltel Corp.	5.3%
③ SBC Communications, Inc.	5.3%
④ Sprint Corp. (FON Group)	5.2%
⑤ AT&T Corp.	5.1%
⑥ Nextel Communications, Inc., Class A	4.9%
⑦ Verizon Communications, Inc.	4.7%
⑧ Qwest Communications International, Inc.	4.4%
⑨ BellSouth Corp.	4.2%
⑩ Citizens Communications Co.	4.2%
Total	49.0%

Statistics	
Number of Holdings	28
Weighted Average Market Cap (\$ x 1,000,000)	\$16,938
Price/Earnings Ratio (P/E)	21.0
Price/Book Ratio (P/B)	1.8
Portfolio Turnover Rate <sup>2</sup>	41%

Industry Weightings % of Portfolio

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



Portfolio holdings may have changed since the report date.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.

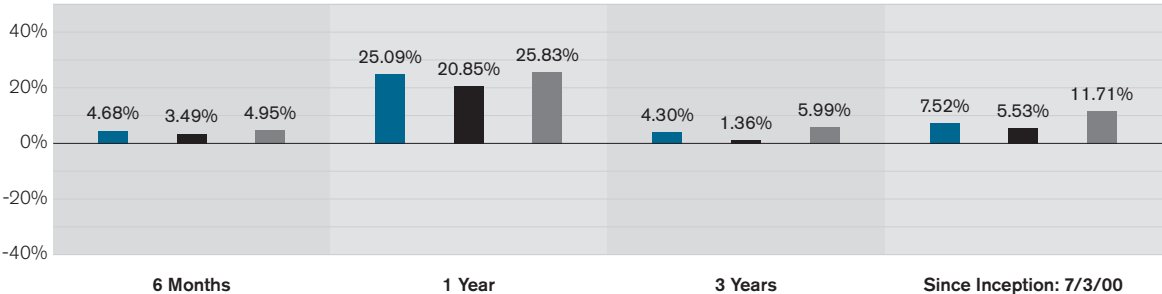
# Financial Services Focus Fund

Performance as of 4/30/04

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

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

- Fund
- Benchmark: **S&P 1500 SuperComposite Financials Sector Index**
- Fund Category: **Morningstar Financial Services**

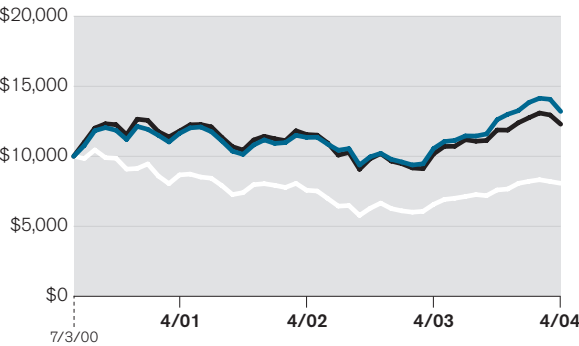


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$13,206 Fund
- \$12,293 S&P 1500 SuperComposite Financials Sector Index
- \$8,073 S&P 500® Index



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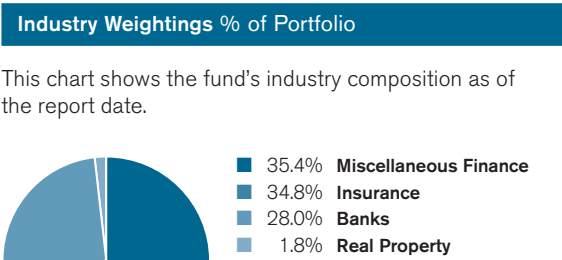
<sup>1</sup> Fund expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the fund's returns would have been lower. These returns do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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

Fund Facts as of 4/30/04

Top Holdings <sup>1</sup>	
Security	% of Net Assets
① Countrywide Financial Corp.	2.5%
② The Progressive Corp.	2.5%
③ Delphi Financial Group, Inc., Class A	2.5%
④ Arthur J. Gallagher & Co.	2.4%
⑤ Fidelity National Financial, Inc.	2.4%
⑥ Lehman Brothers Holdings, Inc.	2.4%
⑦ Safeco Corp.	2.4%
⑧ Berkshire Hathaway, Inc., Class A	2.3%
⑨ Stancorp Financial Group, Inc.	2.3%
⑩ Metlife, Inc.	2.3%
Total	24.0%

Statistics	
Number of Holdings	56
Weighted Average Market Cap (\$ x 1,000,000)	\$21,298
Price/Earnings Ratio (P/E)	11.2
Price/Book Ratio (P/B)	1.8
Portfolio Turnover Rate <sup>2</sup>	17%



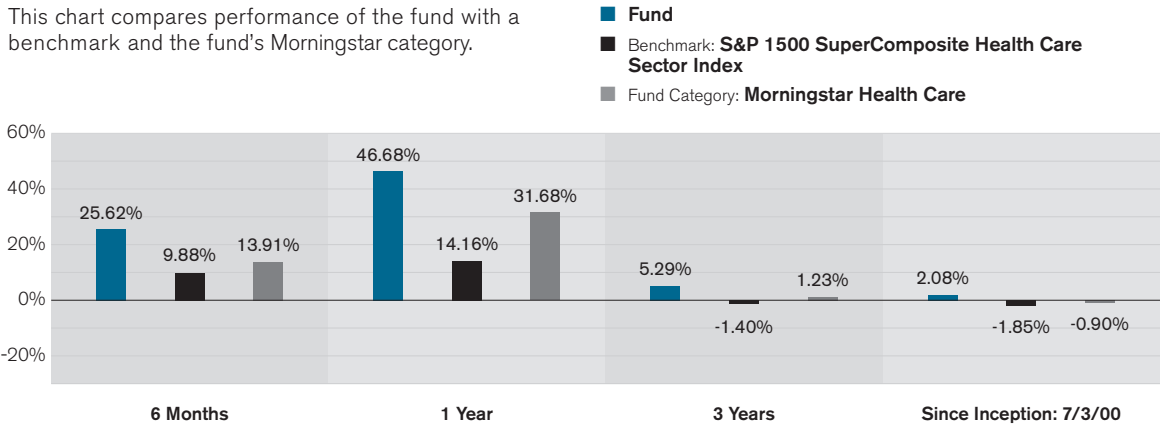
Portfolio holdings may have changed since the report date.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.

# Health Care Focus Fund

Performance as of 4/30/04

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

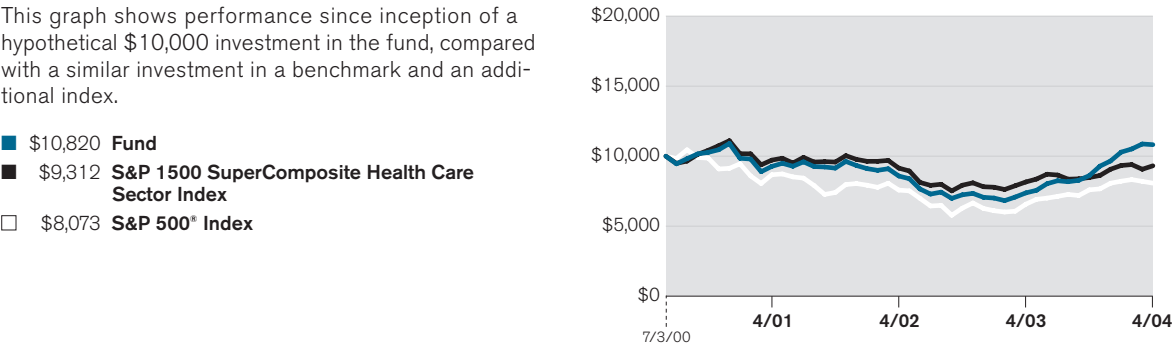
This chart compares performance of the fund with a benchmark and the fund's Morningstar category.



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

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



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. Results for the report period are not annualized.

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

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

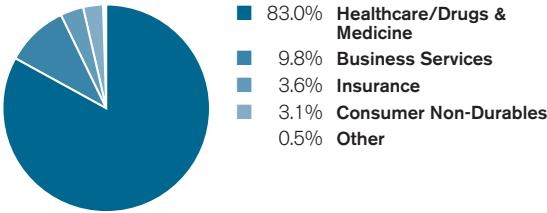
Fund Facts as of 4/30/04

Top Holdings <sup>1</sup>	
Security	% of Net Assets
① Oxford Health Plans, Inc.	4.2%
② IMS Health, Inc.	3.8%
③ King Pharmaceuticals, Inc.	3.7%
④ Health Net, Inc.	3.6%
⑤ Coventry Health Care, Inc.	3.6%
⑥ Sierra Health Services, Inc.	3.5%
⑦ C.R. Bard, Inc.	3.3%
⑧ Bausch & Lomb, Inc.	3.3%
⑨ Pediatrix Medical Group, Inc.	3.3%
⑩ Cytoc Corp.	3.2%
Total	35.5%

Statistics	
Number of Holdings	42
Weighted Average Market Cap (\$ x 1,000,000)	\$6,803
Price/Earnings Ratio (P/E)	21.3
Price/Book Ratio (P/B)	3.1
Portfolio Turnover Rate <sup>2</sup>	50%

Industry Weightings % of Portfolio

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



Portfolio holdings may have changed since the report date.  
<sup>1</sup> This list is not a recommendation of any security by the investment adviser.  
<sup>2</sup> Not annualized.

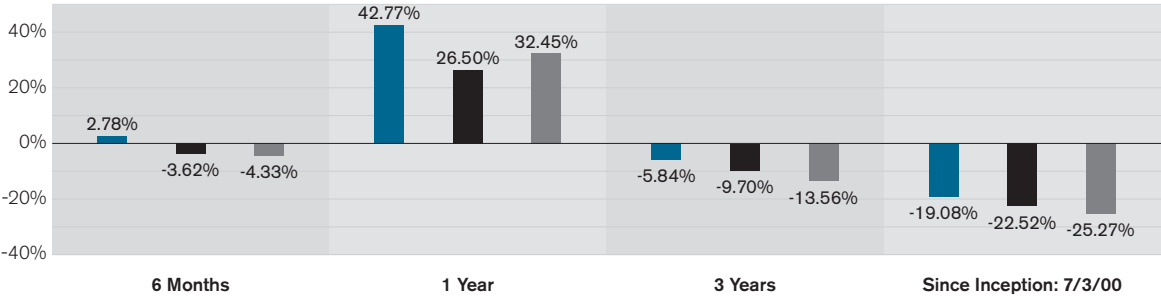
# Technology Focus Fund

Performance as of 4/30/04

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

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

- Fund
- Benchmark: **S&P 1500 SuperComposite Technology Sector Index**
- Fund Category: **Morningstar Technology**

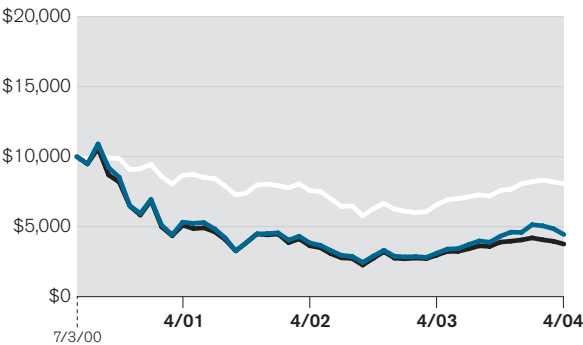


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## Performance of a Hypothetical \$10,000 Investment<sup>1</sup>

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

- \$4,440 Fund
- \$3,758 S&P 1500 SuperComposite Technology Sector Index
- \$8,073 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.



## Fund Facts as of 4/30/04

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

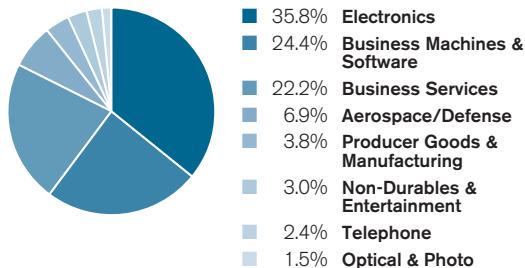
Security	% of Net Assets
① International Business Machines Corp.	3.4%
② Activision, Inc.	3.0%
③ Autodesk, Inc.	3.0%
④ Motorola, Inc.	2.9%
⑤ Transaction Systems Architects, Inc., Class A	2.9%
⑥ Rockwell Collins, Inc.	2.5%
⑦ NCR Corp.	2.5%
⑧ SS&C Technologies, Inc.	2.3%
⑨ Xerox Corp.	2.3%
⑩ National Semiconductor Corp.	2.3%
<b>Total</b>	<b>27.1%</b>

### Statistics

<b>Number of Holdings</b>	57
<b>Weighted Average Market Cap</b> (\$ x 1,000,000)	\$17,218
<b>Price/Earnings Ratio</b> (P/E)	24.3
<b>Price/Book Ratio</b> (P/B)	2.9
<b>Portfolio Turnover Rate</b> <sup>2</sup>	41%

### Industry Weightings % of Portfolio

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



Portfolio holdings may have changed since the report date.

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

<sup>2</sup> Not annualized.

# Schwab Core Equity Fund

## Financial Statements

### Financial Highlights

	11/1/03– 04/30/04*	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 (\$)<sup>1</sup></b>						
Net asset value at beginning of period	12.71	10.89	12.53	18.53	18.91	14.57
Income or loss from investment operations:						
Net investment income	0.06	0.10	0.08	0.08	0.05	0.06
Net realized and unrealized gains or losses	0.81	1.79	(1.64)	(4.57)	1.08	4.94
Total income or loss from investment operations	0.87	1.89	(1.56)	(4.49)	1.13	5.00
Less distributions:						
Dividends from net investment income	(0.11)	(0.07)	(0.08)	(0.07)	(0.04)	(0.09)
Distributions from net realized gains	–	–	–	(1.44)	(1.47)	(0.57)
Total distributions	(0.11)	(0.07)	(0.08)	(1.51)	(1.51)	(0.66)
Net asset value at end of period	13.47	12.71	10.89	12.53	18.53	18.91
Total return (%)	6.87 <sup>2</sup>	17.54	(12.58)	(25.93)	5.75	35.20
<b>Ratios/Supplemental Data (%)<sup>1</sup></b>						
Ratios to average net assets:						
Net operating expenses	0.75 <sup>3</sup>	0.75	0.75	0.75	0.76 <sup>4</sup>	0.75
Gross operating expenses	0.88 <sup>3</sup>	0.88	0.91	0.88	0.87	0.93
Net investment income	0.98 <sup>3</sup>	0.94	0.63	0.55	0.29	0.34
Portfolio turnover rate	21 <sup>2</sup>	73	114	106	96	99
Net assets, end of period (\$ x 1,000,000)	259	237	179	210	342	289

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 0.75% if certain non-routine expenses (proxy fees) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>99.7%</b>	<b>Common Stock</b>	208,664	257,754
<b>0.1%</b>	<b>Short-Term Investment</b>	346	346
<b>0.0%</b>	<b>U.S. Treasury Obligation</b>	40	40
<b>99.8%</b>	<b>Total Investments</b>	<b>209,050</b>	<b>258,140</b>
<b>6.9%</b>	<b>Collateral Invested for Securities on Loan</b>	17,769	17,769
<b>(6.7)%</b>	<b>Other Assets and Liabilities, Net</b>		(17,394)
<b>100.0%</b>	<b>Total Net Assets</b>		<b>258,515</b>

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

**Common Stock 99.7% of net assets**

**Aerospace / Defense 2.0%**

Rockwell Automation, Inc.	34,000	1,111
United Technologies Corp.	47,200	4,072
		<b>5,183</b>

**Air Transportation 1.5%**

▲ ExpressJet Holdings, Inc.	22,000	280
▲ FedEx Corp.	22,000	1,582
United Parcel Service, Inc., Class B	28,200	1,978
		<b>3,840</b>

**Alcoholic Beverages 0.2%**

Anheuser-Busch Cos., Inc.	8,800	<b>451</b>
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Security and Number of Shares	Value (\$ x 1,000)
-------------------------------	-----------------------

**Apparel 0.2%**

Liz Claiborne, Inc.	12,000	421
• Timberland Co., Class A	800	50
		<b>471</b>

**Automotive Products / Motor Vehicles 1.6%**

Dana Corp.	64,600	1,302
Eaton Corp.	24,400	1,449
Ford Motor Co.	90,300	1,387
		<b>4,138</b>

**Banks 6.6%**

▲⑩ Bank of America Corp.	62,500	5,031
Bank One Corp.	28,000	1,382
J.P. Morgan Chase & Co.	42,000	1,579
UnionBanCal Corp.	20,600	1,102
⑨ Wachovia Corp.	127,000	5,810
Wells Fargo & Co.	38,400	2,168
		<b>17,072</b>

**Business Machines & Software 9.1%**

•④ Cisco Systems, Inc.	368,900	7,699
• Dell, Inc.	51,400	1,784
Hewlett-Packard Co.	115,000	2,265
International Business Machines Corp.	24,100	2,125
• Lexmark International, Inc., Class A	15,300	1,384
▲⑧ Microsoft Corp.	235,800	6,124
• Oracle Corp.	125,500	1,408
• Storage Technology Corp.	10,400	273
▲• Xerox Corp.	43,900	590
		<b>23,652</b>

**Business Services 3.2%**

Automatic Data Processing, Inc.	14,000	613
• Cendant Corp.	119,000	2,818
• Citrix Systems, Inc.	26,500	505
Computer Associates International, Inc.	10,600	284
• Dun & Bradstreet Corp.	2,900	152
H&R Block, Inc.	16,000	722
IMS Health, Inc.	56,200	1,419

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
▲ Polycorn, Inc. 10,000	191	<b>Healthcare / Drugs &amp; Medicine 11.7%</b>	
• Synopsys, Inc. 26,500	708	Bausch & Lomb, Inc. 25,500	1,602
• VeriSign, Inc. 14,600	235	Becton Dickinson & Co. 67,300	3,402
• Veritas Software Corp. 23,500	627	Bristol-Myers Squibb Co. 160,700	4,034
	<b>8,274</b>	C.R. Bard, Inc. 16,800	1,785
<b>Chemicals 2.6%</b>		• Coventry Health Care, Inc. 14,250	596
Dow Chemical Co. 110,500	4,386	• Cytoc Corp. 32,900	704
MacDermid, Inc. 4,300	139	• DaVita, Inc. 29,500	1,507
• Monsanto Co. 46,500	1,608	• Health Net, Inc. 35,900	913
PPG Industries, Inc. 12,000	712	• Humana, Inc. 13,500	220
	<b>6,845</b>	▲ Johnson & Johnson 30,900	1,670
<b>Construction 0.1%</b>		• King Pharmaceuticals, Inc. 8,000	138
Centex Corp. 5,000	<b>240</b>	Merck & Co., Inc. 70,500	3,314
<b>Consumer Durables 0.4%</b>		Oxford Health Plans, Inc. 28,800	1,568
Black & Decker Corp. 16,400	<b>949</b>	• Pacificare Health Systems, Inc. 57,000	2,038
<b>Electronics 5.5%</b>		• Pediatrix Medical Group, Inc. 14,000	1,001
• Agilent Technologies, Inc. 12,500	338	• Sunrise Senior Living, Inc. 13,100	414
• Atmel Corp. 23,500	137	• Sybron Dental Specialties, Inc. 12,500	366
• Avnet, Inc. 21,000	454	UnitedHealth Group, Inc. 80,200	4,931
⑤ Intel Corp. 293,000	7,539		<b>30,203</b>
Motorola, Inc. 123,000	2,245	<b>Household Products 4.8%</b>	
• Plantronics, Inc. 4,600	175	The Gillette Co. 30,000	1,228
Scientific-Atlanta, Inc. 25,300	819	▲ ① Procter & Gamble Co. 106,800	11,294
Texas Instruments, Inc. 58,000	1,456		<b>12,522</b>
• Thermo Electron Corp. 40,000	1,168	<b>Insurance 7.1%</b>	
	<b>14,331</b>	▲ Aetna, Inc. 25,000	2,069
<b>Energy: Raw Materials 1.1%</b>		AFLAC, Inc. 91,900	3,881
Burlington Resources, Inc. 44,000	<b>2,960</b>	The Allstate Corp. 38,500	1,767
<b>Food &amp; Agriculture 4.8%</b>		Fidelity National Financial, Inc. 29,122	1,066
Coca-Cola Enterprises, Inc. 25,000	675	Marsh & McLennan Cos., Inc. 23,400	1,055
H.J. Heinz Co. 62,000	2,368	▲ Metlife, Inc. 20,000	690
Hershey Foods Corp. 13,000	1,155	• Principal Financial Group, Inc. 24,200	854
Kellogg Co. 67,800	2,909	⑥ The Progressive Corp. 78,300	6,853
PepsiCo, Inc. 71,300	3,885		<b>18,235</b>
Tyson Foods, Inc., Class A 79,100	1,482	<b>Media 2.2%</b>	
	<b>12,474</b>	• EchoStar Communications Corp., Class A 4,500	150

Security and Number of Shares	Value (\$ x 1,000)
The McGraw-Hill Cos., Inc. 19,100	1,506
• Time Warner, Inc. 86,500	1,455
▲ Viacom, Inc., Class B 65,100	2,516
	<b>5,627</b>
<b>Miscellaneous 1.2%</b>	
3M Co. 36,400	<b>3,148</b>
<b>Miscellaneous Finance 9.5%</b>	
American Express Co. 39,600	1,938
▲ ② Citigroup, Inc. 176,433	8,485
⑦ Fannie Mae 96,500	6,632
Goldman Sachs Group, Inc. 26,500	2,564
Legg Mason, Inc. 14,000	1,289
Lehman Brothers Holdings, Inc. 11,000	807
MBNA Corp. 5,500	134
Merrill Lynch & Co., Inc. 38,000	2,061
Morgan Stanley 13,000	668
	<b>24,578</b>
<b>Non-Durables &amp; Entertainment 2.2%</b>	
Fortune Brands, Inc. 27,500	2,097
Hasbro, Inc. 22,300	421
McDonald's Corp. 94,500	2,573
• Yum! Brands, Inc. 14,000	543
	<b>5,634</b>
<b>Non-Ferrous Metals 0.5%</b>	
Engelhard Corp. 6,500	189
• Phelps Dodge Corp. 15,000	987
	<b>1,176</b>
<b>Oil: Domestic 1.7%</b>	
ConocoPhillips 13,000	927
Kerr-McGee Corp. 66,500	3,254
Marathon Oil Corp. 3,500	117
	<b>4,298</b>
<b>Oil: International 4.7%</b>	
ChevronTexaco Corp. 41,000	3,751
③ Exxon Mobil Corp. 197,200	8,391
	<b>12,142</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Optical &amp; Photo 0.2%</b>	
Eastman Kodak Co. 13,800	356
• Ingram Micro, Inc., Class A 15,000	179
	<b>535</b>
<b>Paper &amp; Forest Products 0.6%</b>	
International Paper Co. 23,600	952
Weyerhaeuser Co. 11,000	651
	<b>1,603</b>
<b>Producer Goods &amp; Manufacturing 3.0%</b>	
Briggs & Stratton Corp. 14,500	1,015
▲ Deere & Co. 48,500	3,300
Emerson Electric Co. 45,000	2,710
HON Industries, Inc. 17,900	662
• SPX Corp. 2,800	124
	<b>7,811</b>
<b>Retail 4.4%</b>	
Claire's Stores, Inc. 7,400	151
Dollar General Corp. 56,400	1,058
Federated Department Stores, Inc. 68,300	3,347
The Gap, Inc. 136,700	3,009
The May Department Stores Co. 24,000	739
Nordstrom, Inc. 7,500	267
RadioShack Corp. 46,000	1,415
• Rent-A-Center, Inc. 3,000	88
• Rite Aid Corp. 103,000	505
• Saks, Inc. 13,500	194
• Staples, Inc. 6,400	165
• United Stationers, Inc. 11,000	418
	<b>11,356</b>
<b>Telephone 5.7%</b>	
Alltel Corp. 3,500	176
AT&T Corp. 3,020	52
• Avaya, Inc. 11,000	151
BellSouth Corp. 126,500	3,265
• Nextel Communications, Inc., Class A 104,000	2,481

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
SBC Communications, Inc. 76,200	1,897
Sprint Corp. (FON Group) 122,700	2,195
Verizon Communications, Inc. 118,200	4,461
	<b>14,678</b>

**Tobacco 0.1%**

Altria Group, Inc. 3,200	<b>177</b>
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**Travel & Recreation 0.6%**

• Caesars Entertainment, Inc. 37,000	490
Marriott International, Inc., Class A 15,000	707
• MGM MIRAGE 6,500	298
	<b>1,495</b>

**Trucking & Freight 0.0%**

• Landstar Systems, Inc. 2,600	<b>117</b>
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**Utilities: Electric & Gas 0.6%**

Constellation Energy Group, Inc. 6,000	231
Great Plains Energy, Inc. 41,900	1,308
	<b>1,539</b>

**Short-Term Investment**

0.1% of net assets

Provident Institutional TempFund 346,459	<b>346</b>
---------------------------------------------	------------

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

**U.S. Treasury Obligation**

0.0% of net assets

▲ U.S. Treasury Bill, 0.92%, 06/17/04 40	<b>40</b>
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End of investments.

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

**Collateral Invested for Securities on Loan**  
6.9% of net assets**Commercial Paper & Other Corporate  
Obligations 5.1%**

American Express Credit Corp. 1.07%, 05/13/04 544	544
Canadian Imperial Bank Corp. 1.06%, 05/28/04 348	348
Credit Lyonnais 1.08%, 09/30/04 710	709
Crown Point Funding Corp. 1.04%, 05/10/04 96	96
Foreningssparbanken AB 1.06%, 05/17/04 6,491	6,489
Societe Generale 1.14%, 05/03/04 575	575
Svenska Handelsbanken 1.39%, 10/27/04 1,742	1,742
Westdeutsche Landesbank AG 1.50%, 01/10/05 410	410
1.05%, 09/23/04 1,054	1,054
1.05%, 09/29/04 1,062	1,062
	<b>13,029</b>

**Short-Term Investment 0.3%**

Deutsche Bank, Time Deposit 1.04%, 05/03/04 842	<b>842</b>
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**Security and Number of Shares****Other Investment Companies 1.5%**

Institutional Money Market Trust Trust 3,898,185	<b>3,898</b>
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End of collateral invested for securities on loan.

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value (including \$16,925 of securities on loan)	\$258,140
Collateral held for securities on loan	17,769
Receivables:	
Fund shares sold	126
Dividends	407
Income from securities on loan	2
Prepaid expenses	+ 17
<b>Total assets</b>	<b>276,461</b>

**Liabilities**

Collateral held for securities on loan	17,769
Payables:	
Fund shares redeemed	111
Due to brokers for futures	4
Investment adviser and administrator fees	6
Transfer agent and shareholder service fees	4
Accrued expenses	+ 52
<b>Total liabilities</b>	<b>17,946</b>

**Net Assets**

<b>Total assets</b>	276,461
<b>Total liabilities</b>	- 17,946
<b>Net assets</b>	<b>\$258,515</b>

**Net Assets by Source**

Capital received from investors	252,065
Net investment income not yet distributed	823
Net realized capital losses	(43,453)
Net unrealized capital gains	49,080

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$258,515		19,193		\$13.47

Unless stated, all numbers x 1,000.

The fund paid \$209,050 for these securities.

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

Purchases	\$59,574
Sales/maturities	\$52,620

These derive from investments and futures. As of the report date, the fund had two open S&P 500 futures contracts due to expire on June 18, 2004, with an aggregate net contract value of \$553 and net unrealized losses of \$10.

**Federal Tax Data**

<b>Portfolio cost</b>	\$209,051
<b>Net unrealized gains and losses:</b>	
Gains	\$53,021
Losses	+ (3,932)
	<b>\$49,089</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
Ordinary income	\$1,643
Long-term capital gains	\$-

**Unused capital losses:**

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, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$2,190
Interest	6
Securities on loan	+ 17
<b>Total investment income</b>	<b>2,213</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	2,981
Net realized gains on futures contracts	+ 138
<b>Net realized gains</b>	<b>3,119</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	11,963
Net unrealized losses on futures contracts	+ (38)
<b>Net unrealized gains</b>	<b>11,925</b>

**Expenses**

Investment adviser and administrator fees	691
Transfer agent and shareholder service fees	320
Trustees' fees	3
Custodian fees	12
Portfolio accounting fees	17
Professional fees	16
Registration fees	13
Shareholder reports	49
Other expenses	+ 1
Total expenses	1,122
Expense reduction	- 163
<b>Net expenses</b>	<b>959</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	2,213
<b>Net expenses</b>	- 959
<b>Net investment income</b>	<b>1,254</b>
<b>Net realized gains</b>	3,119
<b>Net unrealized gains</b>	+ 11,925
<b>Increase in net assets from operations</b>	<b>\$16,298</b>

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 28, 2005, 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 \$15,044.



Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$1,254	\$1,895
Net realized gains or losses	3,119	(10,956)
Net unrealized gains	+ 11,925	43,747
<b>Increase in net assets from operations</b>	<b>16,298</b>	<b>34,686</b>

**Distributions paid**

Dividends from net investment income	<b>\$2,074</b>	<b>\$1,261</b>
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**Transactions in fund shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	2,879	\$38,774	5,806	\$65,590
Shares reinvested	144	1,891	109	1,152
Shares redeemed	+ (2,478)	(33,432)	(3,746)	(42,567)
<b>Net transactions in fund shares</b>	<b>545</b>	<b>\$7,233</b>	<b>2,169</b>	<b>\$24,175</b>

**Shares outstanding and net assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	18,648	\$237,058	16,479	\$179,458
Total increase	+ 545	21,457	2,169	57,600
<b>End of period</b>	<b>19,193</b>	<b>\$258,515</b>	<b>18,648</b>	<b>\$237,058</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$1,261
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 \$823 and \$1,643 at the end of the current period and prior period, respectively.

# Schwab Dividend Equity Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	9/2/03 <sup>1</sup> – 10/31/03
<b>Per-Share Data (\$)</b>		
Net asset value at beginning of period	10.60	10.00
Income from investment operations:		
Net investment income	0.17	0.05
Net realized and unrealized gains	0.89	0.55
Total income from investment operations	1.06	0.60
Less distributions:		
Dividends from net investment income	(0.18)	—
Net asset value at end of period	11.48	10.60
Total return (%)	10.07 <sup>2</sup>	6.00 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses	—	—
Gross operating expenses	1.18 <sup>3</sup>	1.34 <sup>3</sup>
Net investment income	3.40 <sup>3</sup>	3.41 <sup>3</sup>
Portfolio turnover rate	24 <sup>2</sup>	2 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	198	94

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares	11/1/03– 4/30/04*	9/2/03 <sup>1</sup> – 10/31/03
<b>Per-Share Data (\$)</b>		
Net asset value at beginning of period	10.60	10.00
Income from investment operations:		
Net investment income	0.17	0.05
Net realized and unrealized gains	0.89	0.55
Total income from investment operations	1.06	0.60
Less distributions:		
Dividends from net investment income	(0.18)	—
Net asset value at end of period	11.48	10.60
Total return (%)	10.07 <sup>2</sup>	6.00 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses	—	—
Gross operating expenses	1.04 <sup>3</sup>	1.19 <sup>3</sup>
Net investment income	3.42 <sup>3</sup>	3.41 <sup>3</sup>
Portfolio turnover rate	24 <sup>2</sup>	2 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	206	111

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>		<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>98.7%</b>	<b>Common Stock</b>	379,928	399,135
<b>1.0%</b>	<b>Short-Term Investments</b>	3,953	3,953
<b>99.7%</b>	<b>Total Investments</b>	<b>383,881</b>	<b>403,088</b>
<b>0.3%</b>	<b>Other Assets and Liabilities, Net</b>		1,446
<b>100.0%</b>	<b>Total Net Assets</b>		<b>404,534</b>

<b>Security and Number of Shares</b>	<b>Value</b> (\$ x 1,000)
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**Common Stock** 98.7% of net assets**Aerospace / Defense** 1.0%

Rockwell Automation, Inc.	128,600	<b>4,204</b>
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**Apparel** 1.1%

VF Corp.	94,900	<b>4,381</b>
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**Automotive Products / Motor Vehicles** 3.7%

Bandag, Inc.	50,500	2,199
Ford Motor Co.	290,200	4,458
General Motors Corp.	92,500	4,386
Genuine Parts Co.	105,000	3,759
		<b>14,802</b>

**Banks** 17.6%

AmSouth Bancorp.	197,900	4,358
⑥ Bank of America Corp.	59,700	4,805
Bank One Corp.	78,700	3,885
Comerica, Inc.	89,500	4,621
First Horizon National Corp.	101,000	4,440

**Security and Number of Shares**

**Value**  
(\$ x 1,000)

Hudson United Bancorp	50,000	1,787
J.P. Morgan Chase & Co.	99,700	3,749
KeyCorp, Inc.	157,500	4,678
National City Corp.	133,400	4,625
National Commerce Financial Corp.	148,300	3,943
Peoples Bank-Bridgeport	90,000	3,799
PNC Financial Services Group, Inc.	88,400	4,694
Regions Financial Corp.	114,900	3,988
U.S. Bancorp	176,300	4,520
UnionBanCal Corp.	79,000	4,221
Wachovia Corp.	99,700	4,561
Wells Fargo & Co.	80,200	4,528
		<b>71,202</b>

**Business Machines & Software** 1.1%

Pitney Bowes, Inc.	100,700	<b>4,406</b>
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**Business Services** 0.8%

Deluxe Corp.	73,000	3,016
H&R Block, Inc.	9,000	406
		<b>3,422</b>

**Chemicals** 7.9%

Dow Chemical Co.	114,300	4,537
E.I. du Pont de Nemours & Co.	106,400	4,570
Eastman Chemical Co.	108,000	4,598
Lubrizol Corp.	108,900	3,463
Olin Corp.	145,000	2,504
PPG Industries, Inc.	75,000	4,448
Rohm & Haas Co.	112,000	4,343
RPM International, Inc.	240,000	3,619
		<b>32,082</b>

**Consumer Durables** 0.1%

Black & Decker Corp.	6,500	<b>376</b>
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**Electronics** 1.7%

Acuity Brands, Inc.	129,200	3,161
PerkinElmer, Inc.	197,500	3,802
		<b>6,963</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Food &amp; Agriculture 4.4%</b>	
ConAgra Foods, Inc. 163,700	4,729
H.J. Heinz Co. 121,500	4,640
⑤ Kellogg Co. 112,400	4,822
Sara Lee Corp. 150,000	3,462
	<b>17,653</b>
<b>Healthcare / Drugs &amp; Medicine 2.4%</b>	
⑦ Bristol-Myers Squibb Co. 191,200	4,799
Merck & Co., Inc. 100,700	4,733
	<b>9,532</b>
<b>Household Products 3.5%</b>	
Clorox Co. 90,500	4,686
The Gillette Co. 109,000	4,460
④ Procter & Gamble Co. 46,100	4,875
	<b>14,021</b>
<b>Insurance 5.9%</b>	
The Allstate Corp. 102,200	4,691
Cincinnati Financial Corp. 101,745	4,170
Lincoln National Corp. 90,700	4,071
Marsh & McLennan Cos., Inc. 94,700	4,271
Mercury General Corp. 82,100	4,186
Unitrin, Inc. 60,500	2,399
	<b>23,788</b>
<b>Miscellaneous 1.2%</b>	
⑧ 3M Co. 55,200	4,774
<b>Miscellaneous Finance 3.9%</b>	
Citigroup, Inc. 96,800	4,655
Flagstar Bancorp., Inc. 140,000	2,860
GreenPoint Financial Corp. 94,700	3,694
Washington Mutual, Inc. 114,500	4,510
	<b>15,719</b>
<b>Non-Durables &amp; Entertainment 1.4%</b>	
Fortune Brands, Inc. 58,500	4,460
Tupperware Corp. 75,000	1,405
	<b>5,865</b>
<b>Oil: Domestic 1.1%</b>	
Kerr-McGee Corp. 90,100	4,409

Security and Number of Shares	Value (\$ x 1,000)
<b>Oil: International 2.4%</b>	
② ChevronTexaco Corp. 54,300	4,969
Exxon Mobil Corp. 108,800	4,629
	<b>9,598</b>
<b>Producer Goods &amp; Manufacturing 3.5%</b>	
Briggs & Stratton Corp. 60,300	4,221
Harsco Corp. 87,200	3,796
Hubbell, Inc., Class B 78,800	3,541
Lennox International, Inc. 149,000	2,490
	<b>14,048</b>
<b>Railroad &amp; Shipping 0.7%</b>	
GATX Corp. 120,000	<b>2,820</b>
<b>Retail 1.1%</b>	
Limited Brands, Inc. 220,300	<b>4,547</b>
<b>Steel 0.7%</b>	
Worthington Industries, Inc. 163,400	<b>2,949</b>
<b>Telephone 6.8%</b>	
Alltel Corp. 91,800	4,621
AT&T Corp. 264,100	4,529
BellSouth Corp. 179,600	4,636
⑩ SBC Communications, Inc. 191,000	4,756
Sprint Corp. (FON Group) 239,800	4,290
⑨ Verizon Communications, Inc. 126,300	4,767
	<b>27,599</b>
<b>Tobacco 4.3%</b>	
Altria Group, Inc. 84,300	4,669
③ R.J. Reynolds Tobacco Holdings, Inc. 76,000	4,922
Universal Corp. 62,000	3,115
UST, Inc. 125,000	4,651
	<b>17,357</b>
<b>Utilities: Electric &amp; Gas 20.4%</b>	
American Electric Power Co., Inc. 150,000	4,566
Centerpoint Energy, Inc. 384,500	4,149
CH Energy Group, Inc. 50,000	2,315
Cinergy Corp. 121,500	4,610
Constellation Energy Group, Inc. 105,700	4,067

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
DPL, Inc. 243,000	4,282
Duquesne Light Holdings, Inc. 50,000	939
Energy East Corp. 168,800	3,975
Exelon Corp. 64,700	4,331
FirstEnergy Corp. 117,100	4,579
Great Plains Energy, Inc. 140,600	4,388
National Fuel Gas Co. 139,300	3,411
NSTAR 78,500	3,799
OGE Energy Corp. 149,200	3,588
Pinnacle West Capital Corp. 105,000	4,101
① Public Service Enterprise Group, Inc. 125,000	5,363
Puget Energy, Inc. 9,000	198
The Southern Co. 158,000	4,544
UGI Corp. 109,800	3,459
Westar Energy, Inc. 187,400	3,825
WGL Holdings, Inc. 11,500	325
WPS Resources Corp. 83,100	3,807
Xcel Energy, Inc. 239,000	3,997
	<b>82,618</b>

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

1.0% of net assets

Bank of America, London Time Deposit 0.50%, 05/03/04	453	453
Bank One, Grand Cayman Time Deposit 0.50%, 05/03/04	3,500	3,500
		<b>3,953</b>

**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$403,088
Receivables:	
Fund shares sold	904
Dividends	987
Reimbursement from adviser	21
Prepaid expenses	+ 40
<b>Total assets</b>	<b>405,040</b>

**Liabilities**

Payables:	
Fund shares redeemed	473
Accrued expenses	+ 33
<b>Total liabilities</b>	<b>506</b>

**Net Assets**

<b>Total assets</b>	405,040
<b>Total liabilities</b>	- 506
<b>Net assets</b>	<b>\$404,534</b>

**Net Assets by Source**

Capital received from investors	374,883
Net investment income not yet distributed	1,314
Net realized capital gains	9,130
Net unrealized capital gains	19,207

**Net asset value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$198,397		17,287		\$11.48
Select Shares	\$206,137		17,962		\$11.48

Unless stated, all numbers x 1,000.

The fund paid \$383,881 for these securities.

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

Purchases	\$251,103
Sales/maturities	\$75,027

The fund's total security transactions with other SchwabFunds® during the period were \$526.

**Federal Tax Data**

<b>Portfolio Cost</b>	\$383,888
<b>Net unrealized gains and losses:</b>	
Gains	\$25,905
Losses	+ (6,705)
	<b>\$19,200</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
Ordinary income	\$931
Long-term capital gains	\$-

**Unused capital losses:**

Expires 10/31 of:	Loss amount
2011	\$268

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	\$5,405
Interest	+ 10
<b>Total investment income</b>	<b>5,415</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	<b>9,491</b>
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**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>9,577</b>
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**Expenses**

Investment adviser and administrator fees	1,351
Transfer agent and shareholder service fees:	
Investor Shares	192
Select Shares	82
Trustees' fees	4
Custodian fees	13
Portfolio accounting fees	29
Professional fees	25
Registration fees	28
Shareholder reports	33
Other expenses	+ 1
Total expenses	1,758
Expense reduction	- 1,758
<b>Net expenses</b>	<b>-</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	5,415
<b>Net expenses</b>	- -
<b>Net investment income</b>	<b>5,415</b>
<b>Net realized gains</b>	9,491
<b>Net unrealized gains</b>	+ 9,577
<b>Increase in net assets from operations</b>	<b>\$24,483</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% 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 \$1,351 from the investment adviser (CSIM) and \$274 from the transfer agent and shareholder service agent (Schwab). In addition, the total expenses reimbursed by the investment adviser was \$133. 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 \$19,068.



Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	9/2/03*–10/31/03
Net investment income	\$5,415	\$931
Net realized gains or losses	9,491	(361)
Net unrealized gains	+ 9,577	9,630
<b>Increase in net assets from operations</b>	<b>24,483</b>	<b>10,200</b>

**Distributions paid**

Distributions from net investment income		
Investor Shares	2,428	—
Select Shares	+ 2,604	—
<b>Total dividends from net investment income</b>	<b>\$5,032</b>	<b>\$—</b>

**Transactions in Fund Shares**

	11/1/03–4/30/04		9/2/03–10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	9,667	\$109,583	9,018	\$90,936
Select Shares	+ 8,425	95,569	10,753	108,229
<b>Total shares sold</b>	<b>18,092</b>	<b>\$205,152</b>	<b>19,771</b>	<b>\$199,165</b>
<b>Shares Reinvested</b>				
Investor Shares	160	\$1,805	—	\$—
Select Shares	+ 153	1,724	—	—
<b>Total shares reinvested</b>	<b>313</b>	<b>\$3,529</b>	<b>—</b>	<b>\$—</b>
<b>Shares Redeemed</b>				
Investor Shares	(1,402)	(\$16,091)	(156)	(\$1,596)
Select Shares	+ (1,079)	(12,309)	(290)	(2,967)
<b>Total shares redeemed</b>	<b>(2,481)</b>	<b>(\$28,400)</b>	<b>(446)</b>	<b>(\$4,563)</b>
<b>Net transactions in fund shares</b>	<b>15,924</b>	<b>\$180,281</b>	<b>19,325</b>	<b>\$194,602</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		9/2/03–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	19,325	\$204,802	—	\$—
Total increase	+ 15,924	199,732	19,325	204,802
<b>End of period</b>	<b>35,249</b>	<b>\$404,534</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 \$1,314 and \$931 at the end of the current period and prior period, respectively.

\* Commencement of operations.

# Schwab Small-Cap Equity Fund

## Financial Statements

### Financial Highlights

Investor Shares	11/1/03– 4/30/04*	7/1/03 <sup>1</sup> – 10/31/03
<b>Per-Share Data (\$)</b>		
Net asset value at beginning of period	11.81	10.00
Income or loss from investment operations:		
Net investment loss	(0.01)	(0.02)
Net realized and unrealized gains	1.43	1.83
Total income from investment operations	1.42	1.81
Less distributions:		
Distributions from net realized gains	(0.22)	—
Net asset value at end of period	13.01	11.81
Total return (%)	12.09 <sup>2</sup>	18.10 <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses	1.30 <sup>3</sup>	1.30 <sup>3</sup>
Gross operating expenses	1.61 <sup>3</sup>	1.73 <sup>3</sup>
Net investment loss	(0.16) <sup>3</sup>	(0.54) <sup>3</sup>
Portfolio turnover rate	39 <sup>2</sup>	39 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	34	26

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

Select Shares	11/1/03– 4/30/04*	7/1/03 <sup>1</sup> – 10/31/03
<b>Per-share data (\$)</b>		
Net asset value at beginning of period	11.81	10.00
Income or loss from investment operations:		
Net investment income or loss	0.00 <sup>2</sup>	(0.01)
Net realized and unrealized gains	1.43	1.82
Total income from investment operations	1.43	1.81
Less distributions:		
Distributions from net realized gains	(0.22)	—
Net asset value at end of period	13.02	11.81
Total return (%)	12.18 <sup>3</sup>	18.10 <sup>3</sup>
<b>Ratios/Supplemental Data (%)</b>		
Ratios to average net assets:		
Net operating expenses	1.12 <sup>4</sup>	1.12 <sup>4</sup>
Gross operating expenses	1.46 <sup>4</sup>	1.58 <sup>4</sup>
Net investment income or loss	0.02 <sup>4</sup>	(0.36) <sup>4</sup>
Portfolio turnover rate	39 <sup>3</sup>	39 <sup>3</sup>
Net assets, end of period (\$ x 1,000,000)	17	14

\* Unaudited.

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

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

<sup>3</sup> Not annualized.

<sup>4</sup> Annualized.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>98.9%</b>	<b>Common Stock</b>	43,076	50,168
<b>1.0%</b>	<b>Short-Term Investment</b>	522	522
<b>0.2%</b>	<b>U.S. Treasury Obligation</b>	90	90
<b>100.1%</b>	<b>Total Investments</b>	<b>43,688</b>	<b>50,780</b>
<b>(0.1)%</b>	<b>Other Assets and Liabilities, Net</b>		(55)
<b>100.0%</b>	<b>Total Net Assets</b>		<b>50,725</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Common Stock** 98.9% of net assets**Aerospace / Defense** 2.0%

EDO Corp.	11,100	252
• EnPro Industries, Inc.	24,700	489
• Teledyne Technologies, Inc.	13,200	251
		<b>992</b>

**Air Transportation** 0.6%

• AAR Corp.	16,400	166
• EGL, Inc.	6,200	115
		<b>281</b>

**Apparel** 2.9%

• Finlay Enterprises, Inc.	13,500	261
• Guess?, Inc.	8,100	126
K-Swiss, Inc., Class A	10,800	211
Kellwood Co.	7,800	308
• Stage Stores, Inc.	7,800	306

Security and Number of Shares		Value (\$ x 1,000)
Wolverine World Wide, Inc.	9,000	242
		<hr/> 1,454

**Automotive Products / Motor Vehicles** 3.7%

Carlisle Cos., Inc.	2,700	160
• Dura Automotive Systems, Inc., Class A	18,800	236
• Monaco Coach Corp.	6,100	159
▲⑥ Oshkosh Truck Corp.	11,600	594
Polaris Industries, Inc.	7,500	322
• Stoneridge, Inc.	11,000	168
• United Defense Industries, Inc.	6,900	239
		<b>1,878</b>

**Banks** 5.1%

Anchor Bancorp Wisconsin, Inc.	10,200	248
BancFirst Corp.	4,000	220
Columbia Banking Systems, Inc.	8,000	180
Cullen/Frost Bankers, Inc.	4,400	191
▲ First Bancorp Puerto Rico	15,700	579
First Midwest Bancorp, Inc. Illinois	8,900	300
Great Southern Bancorp, Inc.	2,000	99
Hancock Holding Co.	11,000	307
Hudson United Bancorp	8,100	289
Mid-State Bancshares	8,500	191
		<b>2,604</b>

**Business Machines & Software** 1.5%

• Digi International, Inc.	13,000	126
• General Binding Corp.	9,900	139
• Imagistics International, Inc.	9,200	373
• PTEK Holdings, Inc.	13,900	141
		<b>779</b>

**Business Services** 9.7%

• 4Kids Entertainment, Inc.	6,200	136
• Administaff, Inc.	14,500	254
• Barra, Inc.	4,300	176
• Catapult Communications Corp.	10,000	188
• Credit Acceptance Corp.	10,600	152
• DocuCorp International, Inc.	20,900	227
• Forrester Research, Inc.	9,600	166
• Gentiva Health Services, Inc.	16,100	235
Global Payments, Inc.	3,500	168

Security and Number of Shares	Value (\$ x 1,000)
• Informatica Corp. 20,000	145
• ITT Educational Services, Inc. 6,300	254
▲ John H. Harland Co. 14,800	456
• Korn/Ferry International 13,500	202
• Kronos, Inc. 3,900	142
• NCO Group, Inc. 10,000	227
• Progress Software Corp. 7,600	156
• SYKES Enterprises, Inc. 19,300	106
• Tetra Tech, Inc. 2,000	33
▲ Transaction Systems Architects, Inc., Class A 19,100	406
• United Online, Inc. 9,300	154
• Ventiv Health, Inc. 25,400	357
• Watson Wyatt & Co. Holdings 9,700	254
• WebEx Communications, Inc. 13,300	298
	<b>4,892</b>

**Chemicals 1.6%**

Arch Chemicals, Inc. 12,300	359
▲ Ethyl Corp. 24,200	451
	<b>810</b>

**Construction 4.1%**

Eagle Materials, Inc. 4,400	289
Florida Rock Industries, Inc. 4,200	167
MDC Holdings, Inc. 4,950	306
• NVR, Inc. 1,300	586
The Ryland Group, Inc. 3,000	237
Standard-Pacific Corp. 7,700	388
• Yankee Candle Co., Inc. 4,200	114
	<b>2,087</b>

**Consumer Durables 2.5%**

Ethan Allen Interiors, Inc. 4,200	175
▲ Genlyte Group, Inc. 9,400	539
Kimball International, Inc., Class B 15,000	221
Stanley Furniture Co., Inc. 8,600	344
	<b>1,279</b>

Security and Number of Shares	Value (\$ x 1,000)
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**Containers 0.4%**

• Crown Holdings, Inc. 25,000	<b>211</b>
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**Electronics 10.7%**

▲ Acuity Brands, Inc. 10,300	252
• Acxiom Corp. 22,000	509
• Alliant Techsystems, Inc. 13,500	800
▲ Aspect Communications Corp. 33,900	401
▲ Benchmark Electronics, Inc. 13,900	376
• C-COR.net Corp. 16,300	148
• Checkpoint Systems, Inc. 10,200	164
• Dionex Corp. 6,500	332
▲ Harman International Industries, Inc. 7,200	546
• LeCroy Corp. 15,200	293
• Littelfuse, Inc. 7,000	269
Raven Industries, Inc. 8,200	266
• SCM Microsystems, Inc. 28,800	181
• Technitrol, Inc. 11,400	242
• Thomas & Betts Corp. 9,100	219
• Viasat, Inc. 9,900	218
• Western Wireless Corp., Class A 11,000	229
	<b>5,445</b>

**Energy: Raw Materials 1.5%**

Joy Global, Inc. 7,500	197
• Prima Energy Corp. 13,000	483
World Fuel Services Corp. 2,300	97
	<b>777</b>

**Food & Agriculture 4.8%**

• 7-Eleven, Inc. 20,300	327
Corn Products International, Inc. 7,000	298
• Darling International, Inc. 84,600	321
Flowers Foods, Inc. 11,300	277
• J & J Snack Foods Corp. 4,000	153
Lance, Inc. 13,100	198
• The Pantry, Inc. 18,800	375
Sanderson Farms, Inc. 13,350	496
	<b>2,445</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Healthcare / Drugs &amp; Medicine 10.8%</b>		<b>Miscellaneous Finance 2.9%</b>	
• Align Technology, Inc. 6,800	118	• CompuCredit Corp. 20,000	331
• America Service Group, Inc. 9,300	341	Fidelity Bankshares, Inc. 4,000	133
• AMERIGROUP Corp. 13,300	552	First Albany Cos., Inc. 6,000	75
• Arqule, Inc. 13,300	88	First Financial Holdings, Inc. 5,800	166
Arrow International, Inc. 11,700	350	Independent Bank Corp. Michigan 4,180	105
Cambrex Corp. 9,000	223	MB Financial, Inc. 4,350	153
• DJ Orthopedics, Inc. 15,000	345	• Meritage Corp. 2,800	190
• Haemonetics Corp. 15,000	423	New Century Financial Corp. 7,600	322
• Kendle International, Inc. 14,900	123		<b>1,475</b>
▲ Mine Safety Appliances Co. 12,800	347	<b>Non-Durables &amp; Entertainment 4.6%</b>	
Nature's Sunshine Products, Inc. 26,300	381	• CEC Entertainment, Inc. 9,600	328
• Osteotech, Inc. 21,000	139	• Handleman Co. 16,400	369
Owens & Minor, Inc. 12,100	294	▲⑦ Lone Star Steakhouse & Saloon, Inc. 19,300	593
• PSS World Medical, Inc. 31,900	357	• SCP Pool Corp. 7,100	286
• Respironics, Inc. 5,200	273	• Service Corp. International 71,400	528
• Sierra Health Services, Inc. 12,200	453	World Wrestling Entertainment, Inc. 14,600	201
• Techne Corp. 4,200	164		<b>2,305</b>
• Visx, Inc. 8,200	180	<b>Oil: Domestic 3.3%</b>	
• Wright Medical Group, Inc. 9,000	309	• Clayton Williams Energy, Inc. 15,800	498
	<b>5,460</b>	•⑩ Tesoro Petroleum Corp. 28,500	579
<b>Household Products 1.4%</b>		▲•⑤ Universal Compression Holdings, Inc. 20,400	607
▲⑧ Church & Dwight Co., Inc. 13,100	589		<b>1,684</b>
• Elizabeth Arden, Inc. 5,300	116	<b>Producer Goods &amp; Manufacturing 7.8%</b>	
	<b>705</b>	Aptargroup, Inc. 6,900	271
<b>Insurance 3.7%</b>		• Catalyst Semiconductor, Inc. 17,700	129
▲ Delphi Financial Group, Inc., Class A 9,150	368	Cognex Corp. 5,600	178
• FPIC Insurance Group, Inc. 8,600	190	Franklin Electric Co., Inc. 5,100	307
Odyssey Re Holdings Corp. 12,400	294	▲③ Graco, Inc. 23,400	660
• Philadelphia Consolidated Holding Co. 2,500	144	• Hexcel Corp. 19,900	167
State Auto Financial Corp. 16,000	449	Lennox International, Inc. 12,600	211
• Stewart Information Services Corp. 8,300	295	MSC Industrial Direct Co., Class A 6,400	183
• Universal American Financial Corp. 13,900	153	Nordson Corp. 4,300	149
	<b>1,893</b>	• Plug Power, Inc. 857	7
<b>Media 0.4%</b>		Sauer-Danfoss, Inc. 24,900	374
• Consolidated Graphics, Inc. 5,300	<b>198</b>		

Security and Number of Shares	Value (\$ x 1,000)
Tennant Co. 12,500	496
•Tenneco Automotive, Inc. 29,200	403
The Timken Co. 20,000	441
	<b>3,976</b>
<b>Railroad &amp; Shipping 0.6%</b>	
•SCS Transportation, Inc. 12,900	<b>295</b>
<b>Real Property 2.6%</b>	
•American Retirement Corp. 63,600	315
•Avatar Holdings, Inc. 6,900	263
•Jones Lang LaSalle, Inc. 22,900	541
•Trammell Crow Co. 13,500	182
	<b>1,301</b>
<b>Retail 3.3%</b>	
•Big 5 Sporting Goods Corp. 5,100	127
Borders Group, Inc. 12,500	300
•The Children's Place Retail Stores, Inc. 7,500	197
▲The Men's Wearhouse, Inc. 7,200	183
•Pacific Sunwear of California 9,300	200
•Party City Corp. 11,400	190
•Pathmark Stores, Inc. 35,000	299
Ruddick Corp. 9,700	198
	<b>1,694</b>
<b>Telephone 1.5%</b>	
•Alaska Communications Systems Group, Inc. 34,500	245
•Inet Technologies, Inc. 10,500	103
North Pittsburgh Systems, Inc. 8,000	143
•Primus Telecommunications Group, Inc. 17,700	99
•US LEC Corp., Class A 37,200	175
	<b>765</b>
<b>Tobacco 0.2%</b>	
•M & F Worldwide Corp. 9,700	<b>120</b>
<b>Travel &amp; Recreation 1.2%</b>	
④ Choice Hotels International, Inc. 13,900	<b>624</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Trucking &amp; Freight 1.6%</b>	
•Forward Air Corp. 8,200	273
Heartland Express, Inc. 12,700	311
•Pacer International, Inc. 11,000	207
	<b>791</b>
<b>Utilities: Electric &amp; Gas 1.9%</b>	
Cleco Corp. 14,900	268
▲② UGI Corp. 21,600	680
	<b>948</b>

Security Rate, Maturity Date	Face Amount (\$ x 1,000)
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#### Short-Term Investment 1.0% of net assets

Bank One, Grand Cayman Time Deposit 0.50%, 05/03/04	522	<b>522</b>
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#### U.S. Treasury Obligation 0.2% of net assets

▲ U.S. Treasury Bill, 0.92%, 06/17/04	90	<b>90</b>
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**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$50,780
Receivables:	
Dividends	29
Prepaid expenses	+ 19
<b>Total assets</b>	<b>50,828</b>

**Liabilities**

Payables:	
Fund shares redeemed	49
Due to brokers for futures	6
Investment adviser and administrator fees	2
Transfer agent and shareholder service fees	1
Accrued expenses	+ 45
<b>Total liabilities</b>	<b>103</b>

**Net Assets**

<b>Total assets</b>	50,828
<b>Total liabilities</b>	- 103
<b>Net assets</b>	<b>\$50,725</b>

**Net Assets by Source**

Capital received from investors	41,389
Net investment loss	(24)
Net realized capital gains	2,278
Net unrealized capital gains	7,082

**Net asset value (NAV) by Share Class**

Share Class	Net Assets	÷	Shares Outstanding	=	NAV
Investor Shares	\$33,936		2,609		\$13.01
Select Shares	\$16,789		1,290		\$13.02

Unless stated, all numbers x 1,000.

The fund paid \$43,688 for these securities.

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

Purchases	\$24,455
Sales/maturities	\$18,077

These derive from investments and futures. As of the report date, the fund had two open Russell 2000 futures contracts due to expire on June 23, 2004, with an aggregate net contract value of \$560 and net unrealized losses of \$10.

**Federal Tax Data**

<b>Portfolio Cost</b>	\$43,688
<b>Net unrealized gains and losses:</b>	
Gains	\$8,488
Losses	+ (1,396)
	<b>\$7,092</b>

**As of October 31, 2003:****Undistributed earnings:**

Ordinary income	\$643
Long-term capital gains	\$123



## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$271
Interest	+	3
<b>Total investment income</b>		<b>274</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	2,214
Net realized gains received on futures contracts	+ 94
<b>Net realized gains</b>	<b>2,308</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	2,693
Net unrealized losses on futures contracts	+ (40)
<b>Net unrealized gains</b>	<b>2,653</b>

**Expenses**

Investment adviser and administrator fees	253
Transfer agent and shareholder service fees:	
Investor Shares	40
Select Shares	8
Trustees' fees	3
Custodian fees	13
Portfolio accounting fees	11
Professional fees	17
Registration fees	9
Shareholder reports	20
Other expenses	+ 1
Total expenses	<u>375</u>
Expense reduction	- 77
<b>Net expenses</b>	<u><b>298</b></u>

**Increase in Net Assets from Operations**

Total investment income	274
Net expenses	— 298
Net investment loss	<u>(24)</u>
Net realized gains	2,308
Net unrealized gains	+ 2,653
Increase in net assets from operations	<u>\$4,937</u>

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 \$74 from the investment adviser (CSIM) and \$3 from the transfer agent and shareholder service agent (Schwab). These reductions reflect a guarantee by CSIM and Schwab to limit the operating expenses of this fund through February 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 \$4,961.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03–4/30/04	7/1/03*–10/31/03
Net investment loss	(\$24)	(\$50)
Net realized gains	2,308	786
Net unrealized gains	+ 2,653	4,429
<b>Increase in net assets from operations</b>	<b>4,937</b>	<b>5,165</b>

**Distributions paid**

Distributions from net realized gains		
Investor Shares	500	—
Select Shares	+ 266	—
<b>Total distributions from net realized gains</b>	<b>\$766</b>	<b>\$—</b>

**Transactions in Fund Shares**

	11/1/03–4/30/04		7/1/03–10/31/03	
	SHARES	VALUE	SHARES	VALUE
<b>Shares Sold</b>				
Investor Shares	772	\$9,967	2,272	\$23,526
Select Shares	+ 162	2,103	1,245	12,704
<b>Total shares sold</b>	<b>934</b>	<b>\$12,070</b>	<b>3,517</b>	<b>\$36,230</b>
<b>Shares Reinvested</b>				
Investor Shares	37	\$453	—	\$—
Select Shares	+ 17	204	—	—
<b>Total shares reinvested</b>	<b>54</b>	<b>\$657</b>	<b>—</b>	<b>\$—</b>
<b>Shares Redeemed</b>				
Investor Shares	(367)	(\$4,764)	(105)	(\$1,137)
Select Shares	+ (96)	(1,260)	(38)	(407)
<b>Total shares redeemed</b>	<b>(463)</b>	<b>(\$6,024)</b>	<b>(143)</b>	<b>(\$1,544)</b>
<b>Net transactions in fund shares</b>	<b>525</b>	<b>\$6,703</b>	<b>3,374</b>	<b>\$34,686</b>

**Shares Outstanding and Net Assets**

	11/1/03–4/30/04		7/1/03–10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,374	\$39,851	—	\$—
Total increase	+ 525	10,874	3,374	39,851
<b>End of period</b>	<b>3,899</b>	<b>\$50,725</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.

Includes net investment loss in the amount of \$24 at the end of the current period.

\* Commencement of operations.

# Schwab Hedged Equity Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	11/1/02– 10/31/03	9/3/02 <sup>1</sup> – 10/31/02
<b>Per-Share Data (\$)</b>			
Net asset value at beginning of period	11.53	9.84	10.00
Income or loss from investment operations:			
Net investment loss	(0.04)	(0.09)	(0.01)
Net realized and unrealized gains or losses	0.73	1.78	(0.15)
Total income or losses from investment operations	0.69	1.69	(0.16)
Net asset value at end of period	12.22	11.53	9.84
Total return (%)	5.98 <sup>2</sup>	17.17	(1.60) <sup>2</sup>
<b>Ratios/Supplemental Data (%)</b>			
Ratios to average net assets:			
Net operating expenses (including dividend expense on short sales)	2.41 <sup>3</sup>	2.37	2.39 <sup>3</sup>
Net operating expenses (excluding dividend expense on short sales)	2.10 <sup>3,4</sup>	2.00	2.00 <sup>3</sup>
Gross operating expenses	2.72 <sup>3</sup>	2.77	3.33 <sup>3</sup>
Net investment loss	(0.77) <sup>3</sup>	(0.90)	(0.79) <sup>3</sup>
Portfolio turnover rate	45 <sup>2</sup>	114	68 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	50	44	32

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

<sup>4</sup> The ratio of net operating expenses would have been 2.00% if certain non-routine expenses (interest expense) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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 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)	Value (\$x1,000)
98.3%	Common Stock	41,689	49,035
8.2%	Short-Term Investments	4,099	4,099
106.5%	<b>Total Investments</b>	<b>45,788</b>	<b>53,134</b>
(25.0)%	Short Sales	(12,425)	(12,459)
18.5%	Other Assets and Liabilities, Net		9,224
100.0%	<b>Total Net Assets</b>		<b>49,899</b>

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

**Common Stock** 98.3% of net assets

**Aerospace / Defense 1.9%**

Goodrich Corp.	400	12
■ Rockwell Collins, Inc.	9,500	306
■ Rockwell International Corp.	9,600	314
■ United Technologies Corp.	3,500	302
		<b>934</b>

**Air Transportation 0.3%**

■ Fedex Corp.	1,700	<b>122</b>
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**Alcoholic Beverages 0.0%**

Brown-Forman Corp.	200	<b>9</b>
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**Apparel 1.4%**

Kellwood Co.	500	20
■ Reebok International Ltd.	2,900	105

Security and Number of Shares		Value (\$ x 1,000)
• Timberland Co., Class A	5,100	320
■ VF Corp.	5,900	272
		<hr/> 717

**Automobile Products / Motor Vehicles 3.0%**

• Advance Auto Parts, Inc.	7,300	315
■ Carlisle Cos., Inc.	4,800	284
■ Eaton Corp.	5,600	333
Ford Motor Co.	19,000	292
Lear Corp.	4,400	267
		<b>1,491</b>

**Banks 6.3%**

Associated Bancorp.	5,600	229
BancorpSouth, Inc.	2,200	45
Bank of Hawaii Corp.	1,900	83
■ Commerce Bancshares, Inc.	4,088	184
Cullen Frost Bankers, Inc.	5,000	216
■ Doral Financial Corp.	9,250	303
First Bancorp Puerto Rico	2,100	77
Marshall & Ilsley Corp.	8,000	294
National City Corp.	8,300	288
PNC Financial Services Corp.	4,700	250
■ Popular, Inc.	7,006	294
■ UnionBanCal Corp.	5,400	289
■ Wachovia Corp.	6,600	302
Zions Bancorp.	4,649	263
		<b>3,117</b>

**Business Machines & Software 5.8%**

■ 3M Co.	3,500	303
Autodesk, Inc.	8,489	284
■ BMC Software, Inc.	16,700	289
■ Cisco Systems, Inc.	11,300	236
Fair, Isaac & Co., Inc.	8,200	276
Hewlett Packard Co.	13,400	264
■ Lexmark International, Inc., Class A	3,700	335
■ NCR Corp.	7,500	335
■ Storage Technology Corp.	11,400	299
• Sybase, Inc.	14,600	250
• Xerox Corp.	500	7
		<b>2,878</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Business Services 3.1%</b>	
■ Cendant Corp. 12,200	289
• CheckFree Corp. 7,800	234
■ Citrix Systems, Inc. 13,816	263
• Earthlink, Inc. 9,100	84
■ H&R Block, Inc. 5,500	248
■ IMS Health, Inc. 13,400	338
■ Polycom, Inc. 5,487	105
	<b>1,561</b>
<b>Chemical 1.6%</b>	
Cytec Industries, Inc. 6,200	244
• Hercules, Inc. 11,500	128
MacDermid, Inc. 3,900	126
PPG Industries, Inc. 5,000	296
	<b>794</b>
<b>Construction 3.4%</b>	
D.R. Horton, Inc. 6,600	190
■ KB Home 4,400	303
Masco Corp. 9,200	258
Standard Pacific Corp. 600	30
The Ryland Group, Inc. 3,400	269
■④ The Sherwin-Williams Co. 9,100	346
Vulcan Materials Co. 6,500	301
	<b>1,697</b>
<b>Consumer Durables 2.3%</b>	
■ Black & Decker Corp. 5,300	307
• Penn National Gaming, Inc. 11,164	329
■ Rent-A-Center, Inc. 9,950	291
Toro Co. 3,700	215
	<b>1,142</b>
<b>Containers 0.6%</b>	
■ Ball Corp. 4,200	277
• Crown Holdings, Inc. 4,600	39
	<b>316</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Electronics 7.7%</b>	
Acuity Brands, Inc. 2,900	71
• Alliant Techsystems, Inc. 5,600	332
■ Amkor Technology, Inc. 5,820	47
• Arrow Electronics, Inc. 700	18
• Aspect Telecommunications Corp. 1,200	14
• Atmel Corp. 20,000	117
• Avnet, Inc. 2,500	54
■ Benchmark Electronics, Inc. 7,700	208
• Dionex Corp. 1,700	87
Harman International Industries, Inc. 4,000	303
■ Intel Corp. 9,700	250
• International Rectifier Corp. 3,600	143
ITT Industries, Inc. 200	16
■ Motorola, Inc. 16,600	303
• National Semiconductor Corp. 200	8
• Nextel Communications, Inc., Class A 11,000	262
PerkinElmer, Inc. 14,100	271
■ Plantronics, Inc. 6,000	228
• Sanmina-SCI Corp. 300	3
■ Scientific Atlanta, Inc. 9,000	291
• Synopsys, Inc. 6,800	182
Tektronix, Inc. 600	18
■ Texas Instruments, Inc. 10,500	264
• Thermo Electron Corp. 3,200	93
• Western Wireless Corp. Class A 13,270	276
	<b>3,859</b>
<b>Energy: Raw Materials 0.9%</b>	
Burlington Resources, Inc. 1,300	87
Devon Energy Corp. 1,300	80
Peabody Energy Corp. 5,900	277
	<b>444</b>
<b>Food &amp; Agriculture 3.7%</b>	
• 7-Eleven, Inc. 6,300	102
① Coca-Cola Enterprises, Inc. 14,400	389
Corn Products International, Inc. 4,500	191

## Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Flowers Foods, Inc. 7,100	174	Metlife, Inc. 8,200	283
H.J. Heinz Co. 2,800	107	Nationwide Financial Services, Inc. 6,700	230
Hershey Foods Corp. 3,500	311	Odyssey Re Holdings Corp. 3,000	71
■ Kellogg Co. 8,000	343	Old Republic International Corp. 12,400	288
PepsiAmericas, Inc. 11,700	233	Principal Financial Group, Inc. 9,600	339
	<b>1,850</b>	Prudential Financial, Inc. 1,200	53
		Safeco Corp. 6,891	302
<b>Healthcare / Drugs &amp; Medicine 6.1%</b>		StanCorp. Financial Group, Inc. 3,600	223
• Amerigroup Corp. 1,100	46	■ The Progressive Corp. 3,500	306
■ Bausch & Lomb, Inc. 5,400	339	Transatlantic Holdings, Inc. 300	27
■ Becton Dickinson & Co. 6,300	318	W.R. Berkley Corp. 7,450	302
■ C.R. Bard, Inc. 2,800	298		<b>4,654</b>
• Community Health Systems, Inc. 400	10	<b>Media 2.4%</b>	
■ Coventry Healthcare, Inc. 7,650	320	• EchoStar Communications Corp. 7,871	261
• Cytec Corp. 15,700	336	McClatchy Co., Class A 1,500	107
■ DaVita, Inc. 6,700	342	McGraw Hill Cos., Inc. 3,400	268
■ Health Net, Inc. 8,900	226	Media General, Inc. 3,500	252
• King Pharmaceuticals, Inc. 5,100	88	■ PanAmSat Corp. 14,087	325
Manor Care, Inc. 4,400	143		<b>1,213</b>
• Pediatrix Medical Group, Inc. 500	36	<b>Miscellaneous 0.4%</b>	
■ United Healthcare Corp. 4,500	277	• SpectraSite, Inc. 5,200	194
■ VISX, Inc. 11,700	256		
	<b>3,035</b>	<b>Miscellaneous Finance 5.2%</b>	
<b>Household Products 1.7%</b>		Citigroup, Inc. 600	29
Church & Dwight, Inc. 4,700	211	• Compucredit Corp. 5,912	98
Estee Lauder Cos., Inc., Class A 5,900	270	■ Countrywide Credit Industries, Inc. 4,600	273
Gillette Co. 1,700	70	■ Fannie Mae 4,100	282
Procter & Gamble Co. 2,600	275	Franklin Resources, Inc. 5,300	291
	<b>826</b>	■ Legg Mason, Inc. 3,400	313
<b>Insurance 9.3%</b>		Lehman Brothers Holdings, Inc. 3,500	257
■ AFLAC, Inc. 7,300	308	MBNA Corp. 3,500	85
• Allmerica Financial Corp. 8,700	302	Morgan Stanley 400	20
Allstate Corp. 5,700	262	New Century Financial Corp. 6,800	288
AMBAC, Inc. 4,200	290	■ Nuveen Investments, Inc. 2,800	72
Delphi Financial Group Inc., Class A 4,450	179	SLM Corp. 6,700	257
■ Fidelity National Financial, Inc. 8,305	304	■ The Bear Stearns Cos., Inc. 3,100	248
■ First American Financial Corp. 11,000	298	The Goldman Sachs Group, Inc. 100	10
Lincoln National Corp. 6,400	287	• WFS Financial, Inc. 1,775	79
			<b>2,602</b>

Security and Number of Shares	Value (\$ x 1,000)
<b>Non-Durables &amp; Entertainment 4.1%</b>	
• American Greetings Corp., Class A 10,100	207
■ Energizer Holdings, Inc. 6,900	299
■ Fortune Brands, Inc. 4,000	305
Hasbro, Inc. 14,000	264
McDonalds Corp. 11,000	300
• Service Corp. International 9,400	69
• The Yankee Candle Co. 11,100	301
■ Yum! Brands, Inc. 8,100	314
	<b>2,059</b>
<b>Non-Ferrous Metals 0.6%</b>	
Mueller Industries, Inc. 1,300	44
■ Phelps Dodge Corp. 3,800	250
	<b>294</b>
<b>Oil: Domestic 1.0%</b>	
Marathon Oil Corp. 1,700	57
• Tesoro Petroleum Corp. 16,300	331
• Universal Compression Holdings, Inc. 3,400	101
	<b>489</b>
<b>Optical &amp; Photo 0.4%</b>	
• Ingram Micro, Inc., Class A 14,700	<b>176</b>
<b>Paper &amp; Forest Products 1.6%</b>	
• Louisiana-Pacific Corp. 13,000	306
Temple-Inland, Inc. 4,400	272
Weyerhaeuser Co. 3,800	225
	<b>803</b>
<b>Producer Goods &amp; Manufacturing 4.0%</b>	
Blyth, Inc. 5,300	172
■ Briggs & Stratton Corp. 5,100	357
Clarcor, Inc. 1,200	53
Deere & Co. 4,700	320
Graco, Inc. 7,350	207
Harsco Corp. 4,400	192
Herman Miller, Inc. 11,193	294

Security and Number of Shares	Value (\$ x 1,000)
Hon Industries, Inc. 4,400	163
• Terex Corp. 7,700	253
	<b>2,011</b>
<b>Retail 6.1%</b>	
■ Barnes & Noble, Inc. 8,700	260
Borders Group, Inc. 12,100	290
Claire's Stores, Inc. 15,300	312
Dollar General Corp. 7,700	144
■ Federated Department Stores, Inc. 6,500	318
• Rite Aid Corp. 20,000	98
Ross Stores, Inc. 10,000	305
Saks, Inc. 20,000	288
Tandy Corp. 9,200	283
The Gap, Inc. 15,400	339
The Neiman-Marcus Group, Inc., Class A 6,000	292
• United Stationers, Inc. 1,800	68
• Zale Corp. 600	34
	<b>3,031</b>
<b>Telephone 3.6%</b>	
Alltel Corp. 900	45
■ Amdocs Ltd. 10,500	279
AT&T Corp. 4,000	69
BellSouth Corp. 11,200	289
Century Telephone Enterprises, Inc. 9,000	260
• Citizens Communications Co. 20,000	261
■ Sprint Corp. 17,200	308
• Time Warner Telecom, Inc., Class A 19,986	76
Verizon Communications, Inc. 5,600	211
	<b>1,798</b>
<b>Travel &amp; Recreation 2.7%</b>	
Brunswick Corp. 7,100	292
• Caesars Entertainment, Inc. 20,000	265
Choice Hotels International, Inc. 3,900	175
Mariott International, Inc., Class A 6,600	311
■ MGM MIRAGE 6,800	312
	<b>1,355</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)
<b>Trucking &amp; Freight 1.3%</b>	
CNF, Inc. 9,000	329
• Landstar System, Inc. 7,238	325
	<b>654</b>
<b>Utilities: Electric &amp; Gas 5.8%</b>	
• AES Corp. 12,100	105
CenterPoint Energy, Inc. 17,900	193
Constellation Energy Group, Inc. 8,700	335
Edison International 12,800	300
Energy East Corp. 6,600	155
Great Plains Energy, Inc. 7,600	237
Kinder Morgan, Inc. 1,400	84
National Fuel Gas Co. 9,100	223
Oneok, Inc. 7,400	155
Questar Corp. 9,100	323
② TXU Corp. 10,600	362
UGI Corp. 5,450	172
Westar Energy, Inc. 8,200	167
Xcel Energy, Inc. 5,900	99
	<b>2,910</b>
<b>Short-Term Investments</b> 8.2% of net assets	
Provident Institutional Funds— TempCash 963,713	964
Provident Institutional Funds— TempFund 3,135,306	3,135
	<b>4,099</b>
<b>End of investments.</b>	

Security and Number of Shares	Value (\$ x 1,000)
<b>Short Sales 25.0% of net assets</b>	
<b>Aerospace / Defense 0.6%</b>	
Raytheon Co. 7,600	245
Trimble Navigation Ltd. 3,000	75
	<b>320</b>
<b>Air Transportation 0.3%</b>	
AirTran Holdings, Inc. 1,800	22
Jetblue Airways Corp. 4,488	124
	<b>146</b>
<b>Alcoholic Beverages 0.3%</b>	
Constellation Brands, Inc., Class A 4,600	<b>152</b>
<b>Automobile Products / Motor Vehicles 1.0%</b>	
O'Reilly Automotive, Inc. 5,462	245
Sonic Automotive, Inc. 2,300	58
Superior Industries International, Inc. 6,400	218
	<b>521</b>
<b>Banks 0.9%</b>	
B B & T Corp. 6,700	231
BankNorth Group, Inc. 3,800	117
Citizens Banking Corp. MICH 3,200	98
	<b>446</b>
<b>Business Machines &amp; Software 0.3%</b>	
Compuware Corp. 4,800	37
Comverse Technology, Inc. 4,000	65
Icon Office Solutions, Inc. 700	8
Novell, Inc. 5,444	52
PalmOne, Inc. 100	2
	<b>164</b>



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

**Business Services 2.0%**

Bearingpoint, Inc. 2,200	22
Career Education Corp. 2,200	141
Ebay, Inc. 200	16
Interpublic Group of Cos., Inc. 9,200	145
Mentor Graphics Corp. 11,529	191
Mercury Interactive Corp. 4,400	187
Netflix, Inc. 1,100	28
Take 2 Interactive Software, Inc. 2,600	75
Weight Watchers International, Inc. 3,900	152
Wynn Resorts Ltd. 900	36
	<b>993</b>

**Chemical 0.5%**

Celgene Corp. 1,000	51
Lyondell Petrochemical Co. 11,300	185
	<b>236</b>

**Construction 0.9%**

Fluor Corp. 3,900	149
Hovnanian Enterprises, Inc. 3,000	108
Toll Brothers, Inc. 4,600	182
	<b>439</b>

**Consumer Durables 0.6%**

② Newell Rubbermaid, Inc. 13,100	<b>310</b>
----------------------------------	------------

**Electronics 0.2%**

Advanced Fibre Communications, Inc. 400	7
MEMC Electronic Materials, Inc. 3,500	28
NVIDIA Corp. 500	10
Power Integrations, Inc. 1,900	47
Sollectron Corp. 1,100	5
	<b>97</b>

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

**Energy: Raw Materials 1.2%**

EOG Resources, Inc. 3,200	158
Evergreen Resources, Inc. 1,300	52
Forest Oil Corp. 5,000	131
Noble Drilling Corp. 2,100	78
Rowan Cos., Inc. 900	20
Tidewater, Inc. 4,100	116
Weatherford International Ltd. 700	30
	<b>585</b>

**Food & Agriculture 0.6%**

Del Monte Foods Co. 3,100	34
Fresh del Monte Produce, Inc. 400	10
Sensient Technologies Corp. 11,600	237
	<b>281</b>

**Healthcare / Drugs & Medicine 3.3%**

Allergan, Inc. 200	18
Applied Biosystems Group 4,900	91
Apria Healthcare Group, Inc. 100	3
Forest Laboratories, Inc. 700	45
Genentech, Inc. 1,300	160
Gilead Sciences, Inc. 2,500	152
Health Management Associates, Inc. 3,700	85
Healthcare Compare Corp. 900	15
③ Inamed Corp. 5,200	306
Lincare Holdings, Inc. 300	10
Medimmune, Inc. 6,100	148
Neurocrine Biosciences, Inc. 1,506	99
Patterson Dental Co. 1,900	140
Pharmaceutical Product Development, Inc. 7,685	227
Pharmaceutical Resources, Inc. 2,200	89
Protein Design Labs, Inc. 1,745	43
	<b>1,631</b>

**Portfolio Holdings** continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
<b>Insurance 1.4%</b>		<b>Paper &amp; Forest Products 0.0%</b>	
CNA Financial Corp. 3,100	85	Smurfit-Stone Container Corp. 200	3
Erie Indemnity Co. 728	34		
Hilb, Rogal & Hamilton Co. 3,600	129	<b>Producer Goods &amp; Manufacturing 0.1%</b>	
Loews Corp. 1,500	87	Grainger, Inc. 600	31
MGIC Investment Corp. 600	44	Pentair, Inc. 300	18
PMI Group, Inc. 4,000	172	Trinity Industries, Inc. 200	6
UnumProvident Corp. 8,200	128		<b>55</b>
	<b>679</b>		
<b>Media 0.7%</b>		<b>Railroad &amp; Shipping 0.5%</b>	
EW Scripps Co., Class A 700	74	Alexander & Baldwin, Inc. 2,759	87
⑤ Metro-Goldwyn-Mayer, Inc. 12,000	252	CSX Corp. 4,900	151
	<b>326</b>		<b>238</b>
<b>Miscellaneous Finance 1.1%</b>		<b>Retail 2.4%</b>	
CapitalSource, Inc. 100	2	99 Cents Only Stores 3,000	59
Cathay General Bancorp. 200	13	Albertson's, Inc. 1,800	42
④ Janus Capital Group, Inc. 17,200	262	American Eagle Outfitters, Inc. 7,200	185
Leucadia National Corp. 5,100	251	BJ's Wholesale Club, Inc. 200	5
	<b>528</b>	Carmax, Inc. 3,100	80
<b>Non-Durables &amp; Entertainment 0.9%</b>		Circuit City Stores, Inc. 18,200	213
Krispy Kreme Doughnuts, Inc. 3,500	114	Dollar Tree Stores, Inc. 9,100	245
Leapfrog Enterprises, Inc. 7,200	155	Hot Topic, Inc. 834	19
Marvel Enterprises, Inc. 1,350	25	Kohls Corp. 5,400	226
Panera Bread Co., Class A 300	12	Kroger Co. 2,400	42
The Cheesecake Factory, Inc. 3,700	157	Pier 1 Imports, Inc. 3,800	78
	<b>463</b>		<b>1,194</b>
<b>Non-Ferrous Metals 0.0%</b>		<b>Steel 0.1%</b>	
Coeur d'Alene Mines Corp. 2,000	9	Allegheny Technologies, Inc. 6,400	65
<b>Oil: Domestic 0.1%</b>		<b>Telephone 0.3%</b>	
National Oilwell, Inc. 1,500	42	Dobson Communications Corp., Class A 400	2
Premcor, Inc. 700	24	Liberty Media Corp., Class A 5,700	62
	<b>66</b>	Nextel Partners, Inc., Class A 5,204	70
<b>Optical &amp; Photo 0.2%</b>		United States Cellular Corp. 100	3
Lexar Media, Inc. 12,500	116		<b>137</b>

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

**Travel & Recreation 1.3%**

Carnival Corp.	900	38
Dick's Sporting Goods, Inc.	5,600	151
Extended Stay America, Inc.	8,100	158
❶ Mandalay Resort Group	5,600	322
		<b>669</b>

**Trucking & Freight 0.4%**

Yellow Corp.	6,177	<b>210</b>
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**Utilities: Electric & Gas 2.8%**

Aqua America, Inc.	6,900	141
Consolidated Edison, Inc.	2,800	116
Dominion Resources, Inc.	2,900	185
DTE Energy Co.	600	24
Equitable Resources, Inc.	4,300	202
Exelon Corp.	600	40
Hawaiian Electric Industries, Inc.	400	20
Indiana Energy, Inc.	2,700	65
Nicor, Inc.	3,100	105
NiSource, Inc.	3,600	73
Puget Sound Power & Light Co.	11,300	248
Southern Union Co.	8,200	161
		<b>1,380</b>

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**End of short sale positions.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at value	\$53,134
Deposits with broker for short sales	9,074
Receivables:	
Fund shares sold	123
Interest	5
Dividends	72
Prepaid expenses	+ 9
<b>Total assets</b>	<b>62,417</b>

**Liabilities**

Securities sold short, at value	12,459
Payables:	
Dividends on short sales	11
Investment adviser and administrator fees	4
Transfer agent and shareholder service fees	1
Accrued expenses	+ 43
<b>Total liabilities</b>	<b>12,518</b>

**Net Assets**

<b>Total assets</b>	62,417
<b>Total liabilities</b>	- 12,518
<b>Net assets</b>	<b>\$49,899</b>

**Net Assets by Source**

Capital received from investors	41,162
Net investment loss	(181)
Net realized capital gains	1,606
Net unrealized capital gains	7,312

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$49,899		4,082		\$12.22

Unless stated, all numbers x 1,000.

The fund paid \$45,788 for these securities.

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

Purchases	\$21,447
Sales/maturities	\$21,661

The proceeds for securities sold short is \$12,425

These derive from investments and short sales.

**Federal Tax Data**

<b>Portfolio cost</b>	\$45,934
<b>Net unrealized gains and losses:</b>	
Gains	\$8,154
Losses	+ (954)
	<b>\$7,200</b>

**As of October 31, 2003:****Undistributed earnings:**

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

**Unused capital losses:**

Expires 10/31 of:	Loss amount:
2010	\$46
2011	+ 214
	<b>\$260</b>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$352
Interest	+	31
<b>Total investment income</b>		<b>383</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	3,640
Net realized losses on short sales	(1,649)
<b>Net realized gains</b>	<b>1,991</b>

**Net Unrealized Gains and Losses**

Net unrealized gains on investments	107
Net unrealized gains on short sales	+ 673
<b>Net unrealized gains</b>	<b>780</b>

**Expenses**

Investment adviser and administrator fees	410
Transfer agent and shareholder service fees	59
Trustees' fees	3
Custodian and portfolio accounting fees	28
Professional fees	18
Registration fees	8
Shareholder reports	15
Interest expense	23
Other expenses	+ 2
Total expenses before short sales	<hr/> 566
Dividends on short sales	73
Expense reduction	+ (75)
<b>Net expenses</b>	<hr/> <b>564</b>

**Increase in Net Assets from Operations**

Total investment income		383
Net expenses	—	564
Net investment loss		<b>(181)</b>
Net realized gains		1,991
Net unrealized gains	+	780
Increase in net assets from operations		<b>\$2,590</b>

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 28, 2005, to 2.00% of average daily net assets. This limit doesn't include interest, taxes, certain non-routine expenses and expenses for dividends and interest paid on securities sold short.

These add up to a net gain on investments of \$2,771.

## Statement of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment loss	(\$181)	(\$338)
Net realized gains or losses	1,991	(235)
Net unrealized gains	+ 780	6,703
<b>Increase in net assets from operations</b>	<b>\$2,590</b>	<b>\$6,130</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	740	\$9,030	1,672	\$17,074
Shares redeemed	+ (473)	(5,689)	(1,153)	(11,663)
<b>Net transactions in fund shares</b>	<b>267</b>	<b>3,341</b>	<b>519</b>	<b>\$5,411</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,815	\$43,968	3,296	\$32,427
Total increase	+ 267	5,931	519	11,541
<b>End of period</b>	<b>4,082</b>	<b>49,899</b>	<b>3,815</b>	<b>\$43,968</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>	\$10
<b>Prior period</b>	\$42

Dollar amounts are net of the redemption proceeds.

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

Includes net investment loss in the amount of \$181 at the end of the current period.

# Communications Focus Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	3.57	2.84	4.16	8.13	10.00
Income or loss from investment operations:					
Net investment income or loss	0.00²	0.02	0.03	(0.00)²	0.00²
Net realized and unrealized gains or losses	0.10	0.74	(1.35)	(3.97)	(1.87)
Total income or loss from investment operations	0.10	0.76	(1.32)	(3.97)	(1.87)
Less distributions:					
Dividends from net investment income	(0.01)	(0.03)	—	(0.00)²	—
Net asset value at end of period	3.66	3.57	2.84	4.16	8.13
Total return (%)	2.95³	26.87	(31.73)	(48.82)	(18.70)³
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	1.11⁴,⁵	1.04⁶	0.89	0.90⁷	0.89⁴
Gross operating expenses	1.69⁴	1.77	1.68	1.30	1.71⁴
Net investment income or loss	0.20⁴	0.45	0.69	(0.02)	0.07⁴
Portfolio turnover rate	41³	179	94	154	45³
Net assets, end of period (\$ x 1,000,000)	11	11	9	16	32

\* Unaudited.

¹ Commencement of operations.

² Per-share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

⁵ The ratio of net operative expenses would have been 1.10% if certain non-routine expenses (interest expense) had not been included.

⁶ The ratio of net operating expenses would have been 1.03% if certain non-routine expenses (interest expense) had not been included.

⁷ The ratio of net operating expenses would have been 0.89% if certain non-routine expenses (interest expense) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.6% Common Stock</b>	10,380	10,626
<b>99.6% Total Investments</b>	<b>10,380</b>	<b>10,626</b>
<b>0.4% Other Assets and Liabilities, Net</b>		40
<b>100.0% Total Net Assets</b>		<b>10,666</b>

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

**Common Stock** 99.6% of net assets

**Business Machines & Software** 3.8%

• PTEK Holdings, Inc.	40,000	<b>407</b>
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**Business Services** 2.6%

• Aether Systems, Inc.	70,000	<b>274</b>
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**Electronics** 3.2%

• Hungarian Telephone & Cable	35,400	<b>343</b>
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**Media** 7.2%

• American Tower Corp., Class A	18,000	224
• EchoStar Communications Corp., Class A	9,300	310
• The McGraw-Hill Cos., Inc.	3,000	236
		<b>770</b>

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

**Telephone** 82.8%

<b>2</b> Alltel Corp.	11,300	569
<b>5</b> AT&T Corp.	31,500	540
<b>9</b> BellSouth Corp.	17,437	450
<b>1</b> CenturyTel, Inc.	21,100	609
• Cincinnati Bell, Inc.	79,900	316
<b>10</b> Citizens Communications Co.	34,500	450
• Commonwealth Telephone Enterprises, Inc.	10,000	417
CT Communications, Inc.	25,400	316
D&E Communications, Inc.	20,500	280
• General Communication, Inc., Class A	31,000	276
Hickory Tech Corp.	30,900	329
<b>6</b> Nextel Communications, Inc., Class A	21,900	523
North Pittsburgh Systems, Inc.	20,300	363
• Primus Telecommunications Group, Inc.	47,900	267
<b>8</b> Qwest Communications International, Inc.	118,000	474
<b>3</b> SBC Communications, Inc.	22,604	563
<b>4</b> Sprint Corp. (FON Group)	30,900	553
Telephone & Data Systems, Inc.	2,600	171
• Time Warner Telecom, Inc., Class A	38,000	144
• Ubiquitel, Inc.	97,000	401
• US LEC Corp., Class A	69,000	324
<b>7</b> Verizon Communications, Inc.	13,182	497
		<b>8,832</b>

**End of investments.**



Statement of  
**Assets and liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$10,626
Receivables:	
Fund shares sold	29
Dividends	19
Investments sold	1,659
Prepaid expenses	+ 12
<b>Total assets</b>	<b>12,345</b>

**Liabilities**

Cash overdraft	52
Payables:	
Investments bought	1,600
Accrued expenses	+ 27
<b>Total liabilities</b>	<b>1,679</b>

**Net Assets**

<b>Total assets</b>	12,345
<b>Total liabilities</b>	- 1,679
<b>Net assets</b>	<b>\$10,666</b>

**Net Assets by Source**

Capital received from investors	36,357
Net investment income not yet distributed	9
Net realized capital losses	(25,946)
Net unrealized capital gains	246

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$10,666		2,913		\$3.66

Unless stated, all numbers x 1,000.

The fund paid \$10,380 for these securities.

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

Purchases	\$4,586
Sales/maturities	\$5,356

**Federal Tax Data**

<b>Portfolio Cost</b>	\$10,639
<b>Net unrealized gains and losses:</b>	
Gains	\$1,075
Losses	+ (1,088)
	<b>(\$13)</b>

**As of October 31, 2003:**

<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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	<b>\$73</b>
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**Net Realized Gains and Losses**

Net realized gains on investments sold	<b>684</b>
----------------------------------------	------------

**Net Unrealized Gains and Losses**

Net unrealized losses on investments	<b>(372)</b>
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**Expenses**

Investment adviser and administrator fees	30
-------------------------------------------	----

Transfer agent and shareholder service fees	14
---------------------------------------------	----

Trustees' fees	2
----------------	---

Custodian fees	20
----------------	----

Portfolio accounting fees	1
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Professional fees	15
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Registration fees	5
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Shareholder reports	7
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Other expenses	+	1
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Total expenses	95
----------------	----

Expense reduction	-	33
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<b>Net expenses</b>	<b>62</b>
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**Increase in Net Assets from Operations**

<b>Total investment income</b>	<b>73</b>
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<b>Net expenses</b>	<b>-</b>	<b>62</b>
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<b>Net investment income</b>	<b>11</b>
------------------------------	-----------

<b>Net realized gains</b>	<b>684</b>
---------------------------	------------

<b>Net unrealized losses</b>	<b>+</b>	<b>(372)</b>
------------------------------	----------	--------------

<b>Increase in net assets from operations</b>	<b>\$323</b>
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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 \$29 from the investment adviser (CSIM) and \$4 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, to 1.10% 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 \$312.

Statements of

## Changes in Net Assets

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

### Operations

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$11	\$44
Net realized gains or losses	684	(2,109)
Net unrealized gains or losses	+ (372)	4,443
<b>Increase in net assets from operations</b>	<b>323</b>	<b>2,378</b>

### Distributions Paid

Dividends from net investment income	<b>\$45</b>	<b>\$87</b>
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### Transactions in Fund Shares

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	303	\$1,135	825	\$2,570
Shares reinvested	11	39	27	78
Shares redeemed	+ (504)	(1,868)	(1,019)	(3,138)
<b>Net transactions in fund shares</b>	<b>(190)</b>	<b>(\$694)</b>	<b>(167)</b>	<b>(\$490)</b>

### Shares Outstanding and Net Assets

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	3,103	\$11,082	3,270	\$9,281
Total increase or decrease	+ (190)	(416)	(167)	1,801
<b>End of period</b>	<b>2,913</b>	<b>\$10,666</b>	<b>3,103</b>	<b>\$11,082</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$87
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>	\$1
<b>Prior period</b>	\$6

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 \$9 and \$43 at the end of the current period and prior period, respectively.

# Financial Services Focus Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	11.77	9.44	9.75	11.86	10.00
Income or loss from investment operations:					
Net investment income	0.04	0.11	0.12	0.09	0.04
Net realized and unrealized gains or losses	0.51	2.37	(0.28)	(1.76)	1.82
Total income or loss from investment operations	0.55	2.48	(0.16)	(1.67)	1.86
Less distributions:					
Dividends from net investment income	(0.10)	(0.15)	(0.09)	(0.06)	—
Distributions from net realized gains	—	—	(0.06)	(0.38)	—
Total distributions	(0.10)	(0.15)	(0.15)	(0.44)	—
Net asset value at end of period	12.22	11.77	9.44	9.75	11.86
Total return (%)	4.68²	26.68	(1.78)	(14.51)	18.60²
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	1.10³	1.04⁴	0.89	0.89	0.89³
Gross operating expenses	1.33³	1.49	1.32	1.23	1.99³
Net investment income	0.57³	1.05	1.20	0.75	1.04³
Portfolio turnover rate	17²	181	131	151	40²
Net assets, end of period (\$ x 1,000,000)	20	18	17	21	24

\* Unaudited.

¹ Commencement of operations.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 1.03% if certain non-routine expenses (interest expense) had not been included.

**Portfolio Holdings** as of April 30, 2004, unaudited

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)	Value (\$x1,000)
<b>100.2% Common Stock</b>	17,563	20,068
<b>0.0% Short-Term Investment</b>	5	5
<b>100.2% Total Investments</b>	<b>17,568</b>	<b>20,073</b>
<b>(0.2)% Other Assets and Liabilities, Net</b>		(48)
<b>100.0% Total Net Assets</b>		<b>20,025</b>

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

**Common Stock** 100.2% of net assets**Banks 28.0%**

Anchor Bancorp Wisconsin, Inc.	11,000	267
Associated Banc-Corp.	10,000	409
BancFirst Corp.	2,500	138
Bancorpsouth, Inc.	16,000	324
Bank of America Corp.	5,480	441
Bank of Hawaii Corp.	10,100	441
City National Corp.	6,700	413
Doral Financial Corp.	13,100	429
First Bancorp Puerto Rico	11,200	413
National City Corp.	12,200	423
OceanFirst Financial Corp.	11,200	245
Popular, Inc.	8,800	370
Second Bancorp., Inc.	4,400	132
UnionBanCal Corp.	8,200	438
Wachovia Corp.	8,500	389
Zions Bancorp.	6,000	339

**5,611**

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

**Insurance 34.9%**

AFLAC, Inc.	10,500	444
AMBAC Financial Group, Inc.	6,000	414
④ Arthur J. Gallagher & Co.	15,000	484
③ Delphi Financial Group, Inc., Class A	12,400	498
⑤ Fidelity National Financial, Inc.	13,200	483
First American Corp.	13,100	355
Fremont General Corp.	17,000	366
⑩ Metlife, Inc.	13,200	455
Nationwide Financial Services, Inc., Class A	10,000	344
Odyssey Re Holdings Corp.	17,500	415
Old Republic International Corp.	15,000	348
• Principal Financial Group, Inc.	11,800	417
② The Progressive Corp.	5,800	508
Reinsurance Group of America, Inc.	8,500	330
⑦ Safeco Corp.	10,800	473
⑨ Stancorp Financial Group, Inc.	7,400	458
• Stewart Information Services Corp.	5,500	195
		<b>6,987</b>

**Miscellaneous Finance 35.4%**

• ACE Cash Express, Inc.	8,500	259
The Bear Stearns Cos., Inc.	5,500	441
•⑧ Berkshire Hathaway, Inc., Class A	5	468
Berkshire Hills Bancorp, Inc.	3,000	101
• Capital Corp. of the West	10,800	399
Citigroup, Inc.	7,375	355
• CompuCredit Corp.	18,700	310
① Countrywide Financial Corp.	8,599	510
• Delta Financial Corp.	21,500	165
• E*TRADE Group, Inc.	22,800	259
Fannie Mae	6,620	455
First Financial Holdings, Inc.	3,000	85
Franklin Resources, Inc.	7,600	417
Goldman Sachs Group, Inc.	4,000	387
IndyMac Bancorp, Inc.	13,500	434
⑥ Lehman Brothers Holdings, Inc.	6,500	477

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
MBNA Corp. 15,390	375
Merrill Lynch & Co., Inc. 7,000	380
Nuveen Investments, Inc., Class A 14,700	377
• WFS Financial, Inc. 10,000	445
	<b>7,099</b>

Real Property 1.9%

• Jones Lang LaSalle, Inc. 10,000	236
• Trammell Crow Co. 10,000	135
	<b>371</b>

Security Rate, Maturity Date	Face Amount (\$ x 1,000)
<b>Short-Term Investment</b> 0.0% of net assets	

Brown Brothers Harriman, Grand Cayman Time Deposit 0.50%, 05/03/04	5	<b>5</b>
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End of investments.

Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$20,073
Receivables:	
Fund shares sold	12
Dividends	14
Investments sold	1,814
Prepaid expenses	+ 13
<b>Total assets</b>	<b>21,926</b>

**Liabilities**

Payables:	
Fund shares redeemed	39
Investments bought	1,826
Accrued expenses	+ 36
<b>Total liabilities</b>	<b>1,901</b>

**Net Assets**

<b>Total assets</b>	21,926
<b>Total liabilities</b>	- 1,901
<b>Net assets</b>	<b>\$20,025</b>

**Net Assets by Source**

Capital received from investors	17,881
Net investment income not yet distributed	18
Net realized capital losses	(379)
Net unrealized capital gains	2,505

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$20,025		1,639		\$12.22

Unless stated, all numbers x 1,000.

The fund paid \$17,568 for these securities.

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

Purchases	\$4,369
Sales/maturities	\$3,527

**Federal Tax Data**

<b>Portfolio Cost</b>	\$17,573
<b>Net unrealized gains and losses:</b>	
Gains	\$2,787
Losses	+ (287)
	<b>\$2,500</b>

**As of October 31, 2003:**

<b>Undistributed earnings:</b>	
Ordinary income	\$119
Long-term capital gains	\$-
<b>Capital losses utilized</b>	<b>\$37</b>

**Unused capital losses:**

Expires 10/31 of:	Loss amount
2010	\$911

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends	<b>\$169</b>
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**Net Realized Gains and Losses**

Net realized gains on investments sold	<b>537</b>
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**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>216</b>
-------------------------------------	------------

**Expenses**

Investment adviser and administrator fees	55
Transfer agent and shareholder service fees	25
Trustees' fees	2
Custodian fees	26
Portfolio accounting fees	1
Professional fees	16
Registration fees	5
Shareholder reports	4
Other expenses	+
	1
Total expenses	135
Expense reduction	-
	23
<b>Net expenses</b>	<b>112</b>

**Increase in Net Assets from Operations**

<b>Total investment income</b>	169
<b>Net expenses</b>	-
	112
<b>Net investment income</b>	<b>57</b>
<b>Net realized gains</b>	537
<b>Net unrealized gains</b>	+
	216
<b>Increase in net assets from operations</b>	<b>\$810</b>

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.

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 28, 2005, to 1.10% 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 \$753.



Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income	\$57	\$176
Net realized gains	537	326
Net unrealized gains	+ 216	3,471
<b>Increase in net assets from operations</b>	<b>810</b>	<b>3,973</b>

**Distributions Paid**

<b>Dividends from net investment income</b>	<b>\$158</b>	<b>\$260</b>
---------------------------------------------	--------------	--------------

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	280	\$3,532	231	\$2,407
Shares reinvested	12	141	25	236
Shares redeemed	+ (220)	(2,750)	(509)	(5,079)
<b>Net transactions in fund shares</b>	<b>72</b>	<b>\$923</b>	<b>(253)</b>	<b>(\$2,436)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	1,567	\$18,450	1,820	\$17,173
Total increase or decrease	+ 72	1,575	(253)	1,277
<b>End of period</b>	<b>1,639</b>	<b>\$20,025</b>	<b>1,567</b>	<b>\$18,450</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary income	\$260
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>	\$3
<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 \$18 and \$119 at the end of the current period and prior period, respectively.

# Health Care Focus Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	8.43	7.12	9.00	10.27	10.00
Income or loss from investment operations:					
Net investment income or loss	(0.03)	0.01	0.03	0.00²	(0.00)²
Net realized and unrealized gains or losses	2.19	1.33	(1.90)	(1.10)	0.27
Total income or loss from investment operations	2.16	1.34	(1.87)	(1.10)	0.27
Less distributions:					
Dividends from net investment income	—	(0.03)	(0.01)	(0.00)²	—
Distributions from net realized gains	—	—	—	(0.17)	—
Total distributions	—	(0.03)	(0.01)	(0.17)	—
Net asset value at end of period	10.59	8.43	7.12	9.00	10.27
Total return (%)	25.62³	18.96	(20.84)	(10.94)	2.70³
<b>Ratios/Supplemental Data (%)</b>					
Ratios to average net assets:					
Net operating expenses	1.08⁴	1.04	0.89	0.89	0.89⁴
Gross operating expenses	1.12⁴	1.34	1.18	1.17	2.04⁴
Net investment income or loss	(0.77)⁴	0.13	0.25	0.06	(0.02)⁴
Portfolio turnover rate	50³	200	99	92	41³
Net assets, end of period (\$ x 1,000,000)	44	25	21	32	28

\* Unaudited.

¹ Commencement of operations.

² Per share amount was less than \$0.01.

³ Not annualized.

⁴ Annualized.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>99.6% Common Stock</b>	37,131	43,755
<b>0.5% Short-Term Investment</b>	230	230
<b>100.1% Total Investments</b>	<b>37,361</b>	<b>43,985</b>
<b>(0.1)% Other Assets and Liabilities, Net</b>		(57)
<b>100.0% Total Net Assets</b>		<b>43,928</b>

<b>Security and Number of Shares</b>	<b>Value</b> (\$ x 1,000)
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### Common Stock 99.6% of net assets

#### Business Services 9.8%

• Allied Healthcare International, Inc.	20,000	122
• Gentiva Health Services, Inc.	76,000	1,110
② IMS Health, Inc.	65,900	1,665
• Sequenom, Inc.	125,000	248
• Ventiv Health, Inc.	82,400	1,159
		<b>4,304</b>

#### Healthcare / Drugs & Medicine 83.1%

• Align Technology, Inc.	68,200	1,181
• AMERIGROUP Corp.	31,300	1,299
• Arqule, Inc.	60,700	403
• Arrow International, Inc.	20,100	601
⑥ Bausch & Lomb, Inc.	23,200	1,458
• Becton Dickinson & Co.	20,300	1,026
⑦ C.R. Bard, Inc.	13,800	1,466
• Community Health Systems, Inc.	40,400	1,042
• Coventry Health Care, Inc.	37,600	1,573
⑩ Cytac Corp.	65,100	1,393
• DaVita, Inc.	24,200	1,237

#### Security and Number of Shares

• DJ Orthopedics, Inc.	38,600	889
• Express Scripts, Inc.	17,500	1,353
• First Horizon Pharmaceutical Corp.	24,800	385
• Haemonetics Corp.	36,000	1,016
④ Health Net, Inc.	62,600	1,592
• Henry Schein, Inc.	13,200	930
• Humana, Inc.	46,000	749
③ King Pharmaceuticals, Inc.	93,500	1,613
• Laboratory Corp. of America Holdings	30,800	1,224
• Manor Care, Inc.	28,600	928
• Merck & Co., Inc.	21,700	1,020
• Osteotech, Inc.	65,000	432
① Oxford Health Plans, Inc.	34,000	1,851
• Pacificare Health Systems, Inc.	34,400	1,230
⑨ Pediatrix Medical Group, Inc.	20,000	1,430
• PSS World Medical, Inc.	55,300	619
• Quest Diagnostics	12,800	1,080
⑥ Sierra Health Services, Inc.	41,200	1,531
• Sybron Dental Specialties, Inc.	37,600	1,100
• Third Wave Technologies, Inc.	102,600	498
• UnitedHealth Group, Inc.	21,400	1,316
• Visx, Inc.	47,000	1,029
		<b>36,494</b>

#### Insurance 3.6%

Aetna, Inc.	16,800	1,390
Hooper Holmes, Inc.	36,500	201
		<b>1,591</b>

#### Non-Durables & Entertainment 3.1%

• Service Corp. International	184,800	<b>1,366</b>
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<b>Security</b> <b>Rate, Maturity Date</b>	<b>Face Amount</b> (\$ x 1,000)
-----------------------------------------------	------------------------------------

#### Short-Term Investment

0.5% of net assets

Brown Brothers Harriman, Grand Cayman Time Deposit	0.50%, 05/03/04	230	<b>230</b>
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**End of investments.**

## Statement of

**Assets and Liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$43,985
Receivables:	
Fund shares sold	162
Dividends	5
Investments sold	3,516
Prepaid expenses	+ 14
<b>Total assets</b>	<b>47,682</b>

**Liabilities**

Payables:	
Fund shares redeemed	17
Investments bought	3,706
Investment adviser and administrator fees	1
Transfer agent and shareholder service fees	1
Accrued expenses	+ 29
<b>Total liabilities</b>	<b>3,754</b>

**Net Assets**

<b>Total assets</b>	47,682
<b>Total liabilities</b>	– 3,754
<b>Net assets</b>	<b>\$43,928</b>

**Net Assets by Source**

Capital received from investors	43,483
Net investment loss	(126)
Net realized capital losses	(6,053)
Net unrealized capital gains	6,624

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>+</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$43,928		4,146		\$10.59

Unless stated, all numbers x 1,000.

The fund paid \$37,361 for these securities.

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

Purchases	\$28,285
Sales/maturities	\$16,371

**Federal Tax Data**

<b>Portfolio Cost</b>	\$37,370
<b>Net unrealized gains and losses:</b>	
Gains	\$7,847
Losses	+ (1,232)
	<b>\$6,615</b>

**As of October 31, 2003:****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
	<b>\$9,095</b>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

**Investment Income**

Dividends		\$49
Interest	+	1
<b>Total investment income</b>		<b>50</b>

**Net Realized Gains and Losses**

Net realized gains on investments sold	<b>3,052</b>
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**Net Unrealized Gains and Losses**

Net unrealized gains on investments	<b>3,759</b>
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**Expenses**

Investment adviser and administrator fees	89	
Transfer agent and shareholder service fees	41	
Trustees' fees	3	
Custodian fees	20	
Portfolio accounting fees	2	
Professional fees	16	
Registration fees	6	
Shareholder reports	+	7
Total expenses		184
Expense reduction	-	8
<b>Net expenses</b>		<b>176</b>

**Increase in Net Assets from Operations**

Total investment income	50
Net expenses	— 176
Net investment loss	<u>(126)</u>
Net realized gains	3,052
Net unrealized gains	+ 3,759
Increase in net assets from operations	<u>\$6,685</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.

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 28, 2005, to 1.10% 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 \$6,811.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment income or loss	(\$126)	\$29
Net realized gains or losses	3,052	(2,899)
Net unrealized gains	+ 3,759	6,783
<b>Increase in net assets from operations</b>	<b>6,685</b>	<b>3,913</b>

**Distributions paid**

Dividends from net investment income	\$—	\$99
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**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	1,562	\$16,011	612	\$4,654
Shares reinvested	—	—	13	90
Shares redeemed	+ (383)	(3,772)	(672)	(5,019)
<b>Net transactions in fund shares</b>	<b>1,179</b>	<b>\$12,239</b>	<b>(47)</b>	<b>(\$275)</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	2,967	\$25,004	3,014	\$21,465
Total increase or decrease	+ 1,179	18,924	(47)	3,539
<b>End of period</b>	<b>4,146</b>	<b>\$43,928</b>	<b>2,967</b>	<b>\$25,004</b>

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 10/31/03 are:

Ordinary Income	\$99
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>	\$6
<b>Prior period</b>	\$5

Dollar amounts are net of the redemption proceeds.

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

Includes net investment loss in the amount of \$126 at the end of the current period.

# Technology Focus Fund

## Financial Statements

### Financial Highlights

	11/1/03– 4/30/04*	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	4.32	2.90	3.86	8.52	10.00
Income or loss from investment operations:					
Net investment loss	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)
Net realized and unrealized gains or losses	0.14	1.44	(0.94)	(4.63)	(1.46)
Total income or loss from investment operations	0.12	1.42	(0.96)	(4.66)	(1.48)
Net asset value at end of period	4.44	4.32	2.90	3.86	8.52
Total return (%)	2.78 <sup>2</sup>	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 <sup>3</sup>	1.04	0.89	0.89	0.89 <sup>3</sup>
Gross operating expenses	1.04 <sup>3</sup>	1.25	1.15	1.16	1.52 <sup>3</sup>
Net investment loss	(0.86) <sup>3</sup>	(0.65)	(0.57)	(0.65)	(0.63) <sup>3</sup>
Portfolio turnover rate	41 <sup>2</sup>	165	117	120	37 <sup>2</sup>
Net assets, end of period (\$ x 1,000,000)	52	43	26	39	48

\* Unaudited.

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

<sup>2</sup> Not annualized.

<sup>3</sup> Annualized.

**Portfolio Holdings** as of April 30, 2004, unaudited

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

<b>Holdings by Category</b>	<b>Cost</b> (\$x1,000)	<b>Value</b> (\$x1,000)
<b>100.0% Common Stock</b>	48,636	52,018
<b>100.0% Total Investments</b>	<b>48,636</b>	<b>52,018</b>
<b>0.0% Other Assets and Liabilities, Net</b>		13
<b>100.0% Total Net Assets</b>		<b>52,031</b>

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

**Common Stock** 100.0% of net assets

**Aerospace / Defense 6.9%**

Lockheed Martin Corp.	23,900	1,140
<b>6</b> Rockwell Collins, Inc.	41,100	1,325
United Technologies Corp.	12,700	1,096
		<b>3,561</b>

**Business Machines & Software 24.4%**

Adobe Systems, Inc.	19,900	823
<b>3</b> Autodesk, Inc.	47,000	1,575
• Cisco Systems, Inc.	52,260	1,091
• Digi International, Inc.	107,000	1,040
<b>1</b> International Business Machines Corp.	20,000	1,763
• Lexmark International, Inc., Class A	12,900	1,167
<b>7</b> NCR Corp.	29,500	1,318
• Oracle Corp.	62,148	697
• Storage Technology Corp.	41,000	1,077
• Sybase, Inc.	56,400	965
<b>9</b> Xerox Corp.	89,200	1,198
		<b>12,714</b>

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

**Business Services 22.2%**

• Amdocs Ltd.	40,000	1,062
• Checkfree Corp.	30,000	901
• Citrix Systems, Inc.	39,800	758
• Covansys Corp.	20,000	280
• Forrester Research, Inc.	26,000	451
• Hewitt Associates, Inc., Class A	20,000	618
• infoUSA, Inc.	64,000	582
• Intuit, Inc.	14,600	620
• MRO Software, Inc.	35,900	478
• National Processing, Inc.	20,000	496
• Polycom, Inc.	47,000	897
• Progress Software Corp.	28,000	574
<b>8</b> SS&C Technologies, Inc.	52,500	1,212
• SYKES Enterprises, Inc.	48,500	265
• Synopsys, Inc.	33,000	882
<b>5</b> Transaction Systems Architects, Inc., Class A	70,000	1,486
		<b>11,562</b>

**Electronics 35.8%**

• Amkor Technology, Inc.	36,900	298
• Arrow Electronics, Inc.	44,200	1,117
• Aspect Communications Corp.	72,000	852
• Atmel Corp.	181,400	1,059
• Avnet, Inc.	47,000	1,017
• Benchmark Electronics, Inc.	33,000	892
• C-COR.net Corp.	93,500	849
• Checkpoint Systems, Inc.	56,900	914
• Cypress Semiconductor Corp.	54,000	754
• Intel Corp.	37,260	959
• Komag, Inc.	45,000	572
• Littelfuse, Inc.	29,500	1,133
<b>4</b> Motorola, Inc.	83,200	1,518
• MTS Systems Corp.	29,000	683
<b>10</b> National Semiconductor Corp.	29,000	1,183
• PerkinElmer, Inc.	59,000	1,136
• Plantronics, Inc.	30,000	1,139
• Scientific-Atlanta, Inc.	36,000	1,166
• Tektronix, Inc.	35,000	1,036
• Viasat, Inc.	15,000	330
		<b>18,607</b>



Security and Number of Shares	Value (\$ x 1,000)
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**Non-Durables & Entertainment 3.0%**

• Activision, Inc. 105,000	1,581
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**Optical & Photo 1.5%**

• Ingram Micro, Inc., Class A 65,000	777
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**Producer Goods & Manufacturing 3.8%**

Ametek, Inc. 40,800	1,081
• Catalyst Semiconductor, Inc. 62,000	453
• Tyler Technologies, Inc. 45,500	430
	<b>1,964</b>

**Telephone 2.4%**

• Avaya, Inc. 72,100	986
• Inet Technologies, Inc. 27,000	266
	<b>1,252</b>

**End of investments.**

Statement of

**Assets and liabilities**

As of April 30, 2004; unaudited. All numbers x 1,000 except NAV.

**Assets**

Investments, at market value	\$52,018
Receivables:	
Fund shares sold	160
Dividends	4
Investments sold	1,940
Prepaid expenses	+ 15
<b>Total assets</b>	<b>54,137</b>

**Liabilities**

Cash overdraft	323
Payables:	
Fund shares redeemed	148
Investments bought	1,593
Investment adviser and administrator fees	1
Transfer agent and shareholder service fees	1
Accrued expenses	+ 40
<b>Total liabilities</b>	<b>2,106</b>

**Net Assets**

<b>Total assets</b>	54,137
<b>Total liabilities</b>	− 2,106
<b>Net assets</b>	<b>\$52,031</b>

**Net Assets by Source**

Capital received from investors	89,040
Net investment loss	(228)
Net realized capital losses	(40,163)
Net unrealized capital gains	3,382

**Net Asset Value (NAV)**

<b>Net Assets</b>	<b>÷</b>	<b>Shares Outstanding</b>	<b>=</b>	<b>NAV</b>
\$52,031		11,712		\$4.44

Unless stated, all numbers x 1,000.

The fund paid \$48,636 for these securities.

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

Purchases	\$29,992
Sales/maturities	\$21,327

**Federal Tax Data**

<b>Portfolio Cost</b>	\$48,737
<b>Net unrealized gains and losses:</b>	
Gains	\$6,827
Losses	+ (3,546)
	<b>\$3,281</b>

**As of October 31, 2003:****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>

## Statement of

**Operations**

For November 1, 2003 through April 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

**Investment Income**

Dividends		\$45
Interest		1
Securities on loan	+	1
<b>Total investment income</b>		<u>47</u>

**Net Realized Gains and Losses**

Net realized gains on investments sold	<b>3,637</b>
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**Net Unrealized Gains and Losses**

Net unrealized losses on investments	<b>(3,302)</b>
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**Expenses**

Investment adviser and administrator fees	143
Transfer agent and shareholder service fees	66
Trustees' fees	3
Custodian fees	24
Portfolio accounting fees	4
Professional fees	17
Registration fees	6
Shareholder reports	12
Other expenses	+ 1
Total expenses	<u>276</u>
Expense reduction	- 1
<b>Net expenses</b>	<u><b>275</b></u>

**Increase in Net Assets from Operations**

Total investment income	47
Net expenses	— 275
Net investment loss	<b>(228)</b>
Net realized gains	3,637
Net unrealized losses	+ (3,302)
Increase in net assets from operations	<b>\$107</b>

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.

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 28, 2005, to 1.10% 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 \$335.

Statements of

**Changes in Net Assets**

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

**Operations**

	11/1/03-4/30/04	11/1/02-10/31/03
Net investment loss	(\$228)	(\$200)
Net realized gains or losses	3,637	(3,310)
Net unrealized gains or losses	+ (3,302)	16,615
<b>Increase in net assets from operations</b>	<b>\$107</b>	<b>\$13,105</b>

**Transactions in Fund Shares**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	3,737	\$18,410	3,313	\$11,831
Shares redeemed	+ (1,988)	(9,522)	(2,226)	(7,601)
<b>Net transactions in fund shares</b>	<b>1,749</b>	<b>\$8,888</b>	<b>1,087</b>	<b>\$4,230</b>

**Shares Outstanding and Net Assets**

	11/1/03-4/30/04		11/1/02-10/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	9,963	\$43,036	8,876	\$25,701
Total increase	+ 1,749	8,995	1,087	17,335
<b>End of period</b>	<b>11,712</b>	<b>\$52,031</b>	<b>9,963</b>	<b>\$43,036</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>	\$31
<b>Prior period</b>	\$17

Dollar amounts are net of the redemption proceeds.

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

Includes net investment loss in the amount of \$228 at the end of the current period.

# Financial Notes unaudited

## Business Structure of the Funds

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

### **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 04/30/04 (\$ x 1,000)	Average borrowing* (\$ x 1,000)	Weighted average interest rate* (%)
<b>Schwab Core Equity Fund</b>	—	1,518	1.38
<b>Schwab Hedged Equity Fund</b>	—	84	1.38
<b>Communications Focus Fund</b>	52	48	1.45
<b>Financial Services Focus Fund</b>	—	43	1.48
<b>Health Care Focus Fund</b>	—	40	1.50
<b>Technology Focus Fund</b>	323	173	1.48

\* 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.



# 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 4/30/04) 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., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; 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.

**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	2003 (all trusts).	Vice Chair, 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>1,2</sup> 2/22/55	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.; SVP, 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.

<sup>2</sup> Effective June 8, 2004, Jeffrey Lyons resigned as trustee from each of the trusts.

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, 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, Laudus Trust, Laudus Variable Insurance Trust. <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 (corporate 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, Apton Corp. (bio-pharmaceuticals). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <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); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
<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 investment trust).
<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

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

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

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

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

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

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

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

**capital gain, capital loss** The difference between the amount paid for an investment and its value at a later time. If the investment has been sold, the capital gain or loss is considered a realized gain or loss. If the investment is still held, the gain or loss is still "on paper" and is considered unrealized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 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. 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. An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-800-435-4000 for a prospectus and brochure for any 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.

## Proxy Voting Policies and Procedures

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

## The SchwabFunds Family®

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Schwab 1000 Fund®  
Schwab Small-Cap Index Fund®  
Schwab Total Stock Market Index Fund®  
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Schwab Core Equity Fund™  
Schwab Dividend Equity Fund™  
Schwab Small-Cap Equity Fund™  
Schwab Hedged Equity Fund™  
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    Schwab MarketTrack Conservative Portfolio™

### Bond Funds

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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, subject to availability, when you're between investments. Or, for your larger cash reserves, choose one of our Value Advantage Investments®.

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

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

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

**Investment Adviser**

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

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