

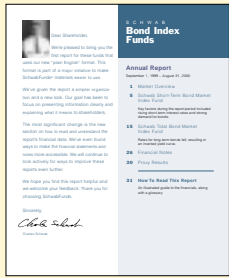


DESIGN AND TEXT EXAMPLE

The following four pages are pulled from a document that outlines many of the improvements in organization, language, and design that Firehouse made in the course of simplifying the shareholder reports for SchwabFunds.

SchwabFunds® Shareholder Report Redesign Highlights

Intro/TOC

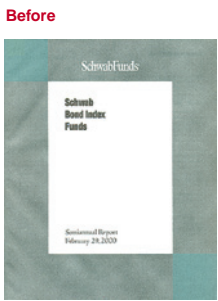


Market Overview



Front Cover

Covers are built on SchwabFunds design standards and use the same colors and photos as other materials for each fund.



Market Overview

The Market Overview is divided top and bottom, with a "text track" and a "data track." Each chart includes educational language about its traditional significance to investors. The text section focuses on presenting overall concepts and analysis.

Table of Contents

Includes a summary of factors that affected performance and shows how the report is organized, with all fund-specific information in one section (rather than in five sections throughout the report) and general financial notes that apply to all funds in the back.

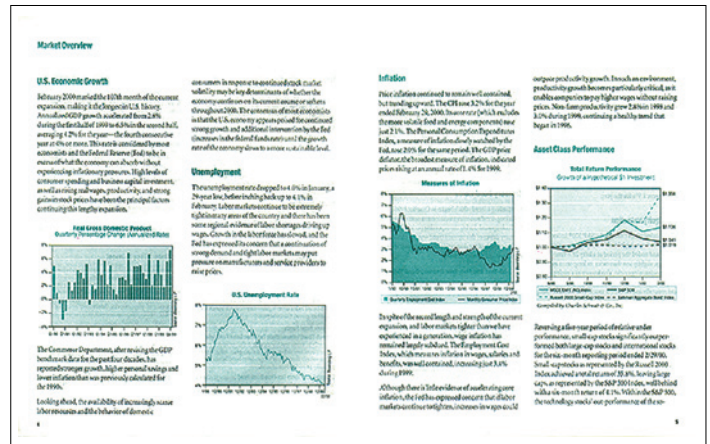
Before

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After

Annual Report	
September 1, 1999 – August 31, 2000	
1 Market Overview	
5 Schwab Short-Term Bond Market Index Fund	
Key factors during the report period include rising short-term interest rates and strong demand for bonds.	
15 Schwab Total Bond Market Index Fund	
Rates for long-term bonds fell, resulting in an inverted yield curve.	
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An illustrated guide to the financials, along with a glossary.	

Before



After



Fund Module

Performance

Fund performance is shown graphically, including tracking differential (for index funds) and after-tax performance (for equity index funds). Wherever possible, each fund's performance is shown next to one or more indices as well as a peer group.

Before

Schwab S&P 500 Fund—Investor Shares and e.Shares® Fund Performance

Average Annual Total Returns for the Periods Ended 4/30/00

	Six Months ¹	One Year	Since Inception (5/1/96)
Schwab S&P 500 Fund—Investor Shares ²	7.06%	9.75%	23.47%
Schwab S&P 500 Fund—e.Shares ²	7.03%	9.83%	23.59%
S&P 500 [®] Index	7.19%	10.13%	24.05%
Index Tracking Differential—Investor Shares	(0.14)%	(0.39)%	(0.58)%
Index Tracking Differential—e.Shares	(0.16)%	(0.30)%	(0.46)%

Average Annual Returns: Pre-Tax and After-Tax

	Period Ended 4/30/00 Three Years		
	Pre Tax	After Tax ³	% Lost to Taxes
Schwab S&P 500 Fund—Investor Shares ⁴	23.26%	22.76%	(1.30)%
Average Large-Cap Fund ⁴	22.04%	19.45%	(11.75)%

¹ A portion of the fund's expenses was reduced during the reporting period. Without such reductions, the fund's average annual returns would have been lower.
² After-tax returns assume the maximum federal income rate of 38.6% on dividends and 20% on capital gains distributions. Tax advisory and may be higher or lower than those shown. State and local taxes have not been considered. After-tax returns are not applicable to non-residents in tax-deferred accounts such as IRAs or 401(k)s. Past after-tax information is not a prediction of future tax efficiency. These after-tax returns do not reflect any taxes you may have to pay as a result of selling your shares.
³ Returns are unmanaged and do not reflect advisory fees and other expenses associated with an investment in the fund. Investors cannot invest in an index fund.
⁴ Source: Morningstar, Inc. The large-cap fund category contains 832 funds with three-year track records as of 4/30/00. These funds may or may not follow a tax-efficient strategy similar to that followed by the Schwab S&P 500 Fund.

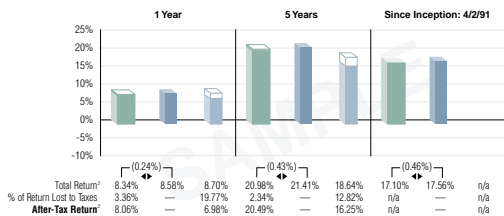
After

Performance: Investor Shares

Average Annual Total Returns (%) as of 10/31/00

This chart compares performance of the fund's Investor Shares with the index and the Morningstar Large-Cap Blend Fund category.

Investor Shares % of return lost to taxes
 Tracking differential between share class and index
 Schwab 1000 Index® % of return lost to taxes
 Peer Group Average® % of return lost to taxes



The after-tax figures above reflect several assumptions:
 • federal income tax was deducted from distributions before reinvestment
 • the tax rates used were the highest in effect at the time the distribution was made—currently 39.6% on dividends and short-term capital gains and 20.0% on long-term capital gains
 • no allowance was made for the effects of any state or local taxes, or of any shareholder activities (such as selling fund shares)
 Your own tax rates may be different. Keep in mind that after-tax returns aren't a factor for shares held in tax-deferred accounts such as an IRA or 401(k).
¹ Source: Morningstar, Inc. As of 10/31/00, there were 2,620 funds in the Large-Cap Blend Fund category that had track records of at least one year. These funds may or may not use tax-efficient strategies.
² Fund returns reflect expense reductions by the fund's investment adviser (CSIM) and Schwab. Without these reductions, the funds' yield and returns would have been lower.

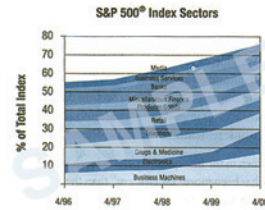
Fund Facts

The new reports use graphics for information that can be communicated more effectively that way, and generally avoid repeating this information in the text.

Before

Q. How have the industry sectors in the S&P 500 Index changed over the last five years?

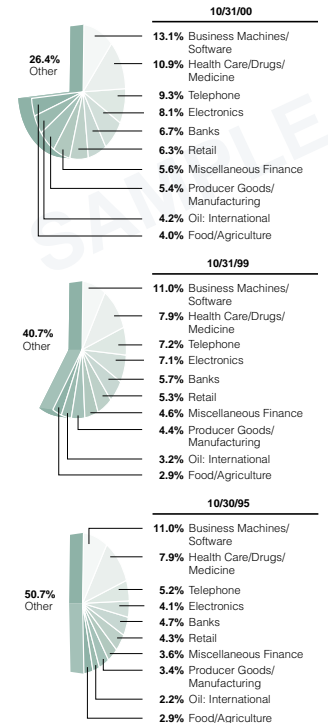
A. The graph on the next page shows the top ten industry sectors of the S&P 500 Index as of 4/30/00 as well as the historical weightings of these sectors since 4/30/96. Since 1996, the Index has become more concentrated, with the top ten sectors currently representing approximately 76% of the total versus approximately 55% in 1996. The sectors with the largest gains during the period were Business Machines (from 5.9% to 16.5%) and Electronics (from 4.8% to 12.2%). The sectors with the largest declines during the period were International Oil (from 6.6% to 3.8%) and Banks (from 7.1% to 4.7%).



After

Index Composition by Industry

These charts show the size of the ten largest industries in the index. As the charts show, the aggregate portion represented by these industries has been growing over the past five years.



Financial Tables

Financial Highlights

	2003	2002	2001	2000
Assets	100	100	100	100
Liabilities	100	100	100	100
Net Assets	100	100	100	100

Portfolio Holdings

As of August 31, 2000.

Security	Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Corporate Bonds		44.4%	
Collateralized Mortgage Obligations		39.0%	
Commercial Paper & Other Corporate Obligations		12.9%	
Preferred Stock		3.6%	
U.S. Government Securities & Other Investment Companies		0.1%	
Total Investments		100.0%	

Assets and Liabilities

As of August 31, 2000.

Category	Value
Assets	306,654
Liabilities	(87,855)
Net Assets	218,799

Changes in Net Assets

Component	2003	2002	2001	2000
Net Assets	100	100	100	100

Financials— Now Simplified

Formerly called the "Schedule of Investments," this table has a new Plain-English name as well as introductory copy for first-time readers.

A key to symbols is provided at the beginning of each fund's holdings. Formerly, the key was up to 70 pages after the symbols were first used.

Subtotals by investment type are gathered together and graphed.

Schwab YieldPlus Fund™ — Financials

Portfolio Holdings
As of August 31, 2000.

This table 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.

Top ten holding

- Delayed-delivery security
- Collateral for open futures contracts

For fixed-rate obligations, the rate shown is the coupon or discount 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 coupon rate as of the report date, and the maturity shown is the date of the next rate reset (or the demand date, for securities that have a demand date that's later than the reset date).

The pie chart below shows the fund's major asset categories and the market value and cost of the securities in each category.

All dollar values are in thousands.

Security	Rate, Maturity Date	Face Value (\$ x 1,000)	Mkt. Value (\$ x 1,000)
Corporate Bonds 44.4% of investments			
FIXED-RATE OBLIGATIONS 21.9%			
Case Credit Corp.	7.95%, 03/01/02	9,320	9,171
Cemex, S.A.	8.63%, 07/18/03	2,500	2,531
CIT Group, Inc.	7.38%, 03/15/03	5,000	5,008
Comcast Corp.	10.25%, 10/15/01	4,000	4,100
Comsat Corp.	8.95%, 05/15/01	2,000	2,023
Finova Capital Corp.	7.25%, 04/01/01	3,600	3,599
Georgia-Pacific Corp.	9.88%, 11/01/21	2,500	2,596
Korea Development Bank		5,000	5,018
Lehman Brothers Holdings, Inc.	6.63%, 12/27/02	5,000	4,917
MCI Worldcom, Inc.	6.13%, 04/15/02	5,000	4,914
PSEG Capital Corp.	6.94%, 07/02/02	2,000	1,984
Skandinaviska Enskilda	6.63%, 03/15/00	5,000	4,966
Starwood Hotels & Resorts Worldwide, Inc.	6.25%, 11/15/00	5,000	4,981
Tyco International Group, S.A.	6.13%, 06/15/01	5,000	4,947
US West Capital Funding, Inc.	6.13%, 07/15/02	2,000	1,962
Total		62,717	
VARIABLE-RATE OBLIGATIONS 22.5%			
BankBoston Capital III	7.56%, 09/15/00	5,000	4,792
ERP Operating L.P.	7.34%, 11/21/00	5,000	5,006
Föreningsparbanken AB	7.93%, 11/13/00	5,000	5,007

12 See the Financial Notes, which are integral to this information.

All information in securities descriptions is labeled, using Plain English terms where possible (such as "face value" rather than "par value").

Instead of showing holdings as a percentage of net assets, then converting to percentage of investments, the new reports show all holdings directly as a percentage of investments.

Top ten holdings are called out here as well as being listed earlier in the report.

Each fund's financials are now part of the fund module. Financials are grouped together and indicated by a page-top color band.

Math signs show the relationships among numbers in the tables.

Schwab Short-Term Bond Market Index Fund™ — Financials

Statement of Assets and Liabilities
As of August 31, 2000. All numbers x 1,000 except NAV.

Category	Value
ASSETS	
Investments, at market value	\$216,206
Collateral for securities on loan	70,139
Receivables:	
Fund shares sold	105
Interest	3,573
Investments sold	16,612
Prepaid expenses	19
Total assets	306,654
LIABILITIES	
Collateral for securities on loan	70,139
Payables:	
Fund shares redeemed	98
Dividends to shareholders	219
Investments bought	17,346
Investment adviser and administrator fees	9
Transfer agent and shareholder service fees	7
Accrued expenses	37
Total liabilities	87,855
NET ASSETS	
Total assets	306,654
Total liabilities	(87,855)
Net assets	\$218,799
NET ASSETS BY SOURCE	
Capital received from investors	231,745
Distributions in excess of net investment income	(68)
Net realized capital losses	(12,463)
Net unrealized capital losses	(417)
NET ASSET VALUE (NAV)	
Net assets	218,799
Shares outstanding	22,663
NAV	\$9.65

The fund's amortized cost for these securities was \$216,623. Not counting short-term obligations and government securities, the fund paid \$62,042 for securities during the report period, and received \$37,820 from securities it sold or that matured. For long-term government securities, the fund paid \$182,887 during the report period and received \$227,348 for securities it sold or that matured. This includes \$1,464 in transactions with other SchwabFunds.

Market value of securities loaned: \$69,253.

Federal Tax Data

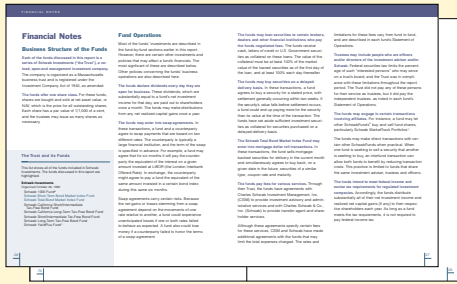
Cost basis of portfolio	\$216,627
Net unrealized depreciation:	
Appreciated securities	\$836
Depreciated securities	(1,457)
	(\$621)
Deferred capital losses	\$1,551
Unused capital losses:	
Expires 08/31 of:	Loss amount
2003	\$7,078
2004	2,216
2005	174
2008	1,241
	\$10,709

12 See the Financial Notes, which are integral to this information.

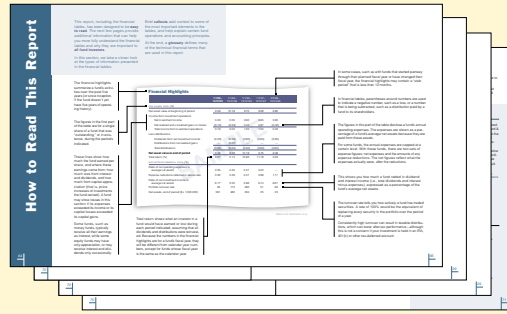
Fund-specific information that used to be included in the Notes to Financial Statements now appears in "sidenotes" that tie directly to their source with pointer lines.

Tax data is collected in a table within the fund module rather than being presented as running text in several different places in the Notes.

Financial Notes



How to Read



New Section: "How to Read"

A nine- to ten-page section at the end of each report walks investors through the financials, explaining basic accounting and fund management concepts. The section also has an extensive glossary. The content of this section is tailored to the asset class represented in each report.

The Statement of Operations tells you how much money a fund earned and spent over the course of the report period, and how much it gained and lost on its investments.

These are the capital gains or losses resulting from securities a fund sold during the report period.

These represent the change in unrealized gains or losses over the report period.

To safeguard the interests of shareholders, mutual funds must keep their portfolio securities in accounts at a financial institution, whose tasks include maintaining records of a fund's holdings.

Covers most activities related to managing a fund's portfolio.

Covers most activities associated with shareholders, including processing transactions in fund shares and providing services such as account statements and information.

This section gathers the totals from the first four sections in order to compute the net earnings or losses that resulted from a fund's operations during the report period. These figures also appear, in summary form, on the Statement of Changes in Net Assets.

Table is for illustration only.

Examples of "Plain English"

Before
Accumulated net realized gain on investments sold, futures contracts and foreign currency transactions

After
Net realized capital gains

Before
Variation margin

After
Most recent daily change in value of futures

Before
Both classes represent interest in the same portfolio of investments and are substantially the same in all respects, except that the classes are subject to different shareholder services fees (see Note 3) and investment minimums.

After
Shares of each class represent interests in the same portfolio, but each class has its own costs and investment minimums.