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Supplement Dated
June 13, 1995
to the Prospectus dated June 6, 1995 for the
SCHWAB CALIFORNIA TAX-EXEMPT MONEY FUND -- SWEEP SHARES

While the Sweep Shares of the Schwab California Tax-Exempt Money Fund (the "Fund") are available for purchase by the public, as of the date of this Supplement, the Value Advantage Shares of the Fund are not being offered to the public.

TF-3569 (6/95) CRS 3830.

SCHWAB CALIFORNIA TAX-EXEMPT MONEY FUND--SWEEP SHARES

PROSPECTUS June 6, 1995

TO PLACE ORDERS AND FOR ACCOUNT INFORMATION: Contact your local Charles Schwab & Co., Inc. ("Schwab") office or call 800-2 NO-LOAD.

THE SCHWAB CALIFORNIA TAX-EXEMPT MONEY FUND (the "Fund") is designed for investors who seek maximum current income that is exempt from federal income and State of California personal income taxes to the extent consistent with liquidity and stability of capital. The Fund is a non-diversified investment portfolio of The Charles Schwab Family of Funds (the "Schwab Fund Family"), a no-load, open-end, management investment company. Shares of the Fund are offered to California residents and the residents of selected other states. This Prospectus describes the Sweep Shares of the Fund, one of the two classes of shares of the Fund (the "Sweep Shares") offered by Schwab. Prior to the date of this Prospectus, the Fund was not offered in two classes of shares. The existing Shares of the Fund are redesignated as Sweep Shares. For a prospectus describing the other class of shares of the Fund (the "Value Advantage Shares"), call your local Schwab office or 800-2 NO-LOAD.

ABOUT THIS PROSPECTUS: THIS PROSPECTUS CONCISELY PRESENTS IMPORTANT INFORMATION YOU SHOULD KNOW BEFORE INVESTING IN THE FUND. PLEASE READ IT CAREFULLY AND RETAIN IT FOR FUTURE REFERENCE. This Prospectus may be available via electronic mail. For a free paper copy of this Prospectus call 800-2 NO-LOAD. You can find more detailed information pertaining to this Fund in the Statement of Additional Information, dated June 6, 1995 (as may be amended from time to time), and filed with the Securities and Exchange Commission. The Statement of Additional Information is incorporated by reference into this Prospectus, and may be obtained without charge by contacting Schwab at 800-2 NO-LOAD or 101 Montgomery Street, San Francisco, CA 94104.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

AN INVESTMENT IN THE FUND IS NEITHER INSURED NOR GUARANTEED BY THE U.S.

GOVERNMENT. THERE CAN BE NO ASSURANCE THAT THE FUND WILL BE ABLE TO
MAINTAIN A STABLE NET ASSET VALUE OF \$1.00 PER SHARE.

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KEY FEATURES OF THE FUND

MAXIMUM DOUBLE TAX-EXEMPT INCOME AND SAFETY. The Schwab California Tax-Exempt Money Fund is designed for investors who seek maximum after-tax current income consistent with liquidity and stability of capital. The Fund invests in high quality, short-term debt securities the interest on which is exempt from federal income and State of California personal income taxes. The Fund attempts to maintain a stable net asset value of \$1.00 per share. (See "Investment Objective and Policies.")

AUTOMATIC INVESTMENT/REDEMPTION FEATURE. If you elect, free credit balances in your Schwab brokerage account (including your Schwab One(R) account) will be automatically invested or "swept" into the Fund, subject to the terms and conditions of your brokerage account agreement. Shares will also be sold as necessary to settle securities transactions, collateralize margin obligations or cover debit balances. This feature keeps your money working and saves you the time and trouble of withdrawing and redepositing funds. (See "How to Purchase Shares" and "How to Redeem Shares.")

LIQUIDITY. You can conveniently place orders to redeem your investment in the Fund at any time. (See "How to Redeem Shares.")

LOW COST INVESTING. The Fund imposes no sales or transaction fees on purchases or redemptions of shares of the Fund. (See "Summary of Expenses.") In addition, the total fund operating expenses of the Sweep Shares of the Fund will not exceed 0.65% through at least August 31, 1995, as guaranteed by Charles Schwab Investment Management, Inc. (See "Matching the Fund to Your Investment Needs," and "Management of the Fund.")

PROFESSIONAL MANAGEMENT. Charles Schwab Investment Management, Inc. (the "Investment Manager") currently provides investment management services to the SchwabFunds(R), a family of 19 mutual funds with over \$26 billion in assets as of June 3, 1995. (See "Management of the Fund.")

SHAREHOLDER SERVICE. Schwab's professional representatives are available toll-free 24 hours a day to receive your Fund orders. Call your local Schwab office during business hours or 800-2 NO-LOAD. As a discount broker, Schwab gives you investment choices and lets you make your own decisions. Schwab has many services that help you make the most informed investment decisions. (See "How to Purchase Shares," "How to Exchange Between Funds" and "How to Redeem Shares.")

CONVENIENT REPORTING. Customers receive regular Schwab statements that combine all their mutual fund investment activity on one report.

SPECIAL RISK CONSIDERATIONS. An investment in the Fund is subject to certain risks arising out of the Fund's investments in California Municipal Securities, municipal leases, participation interests and certain other securities. (See "Municipal Securities and Investment Techniques.")

NATIONWIDE NETWORK OF SCHWAB OFFICES. Schwab has over 200 offices throughout the U.S. where customers can place purchase and redemption orders.

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SUMMARY OF EXPENSES--SWEEP SHARES

SHAREHOLDER TRANSACTION EXPENSES: NONE

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ANNUAL FUND OPERATING EXPENSES

(AS A PERCENTAGE OF AVERAGE NET ASSETS):

Management Fees (after fee reduction) (1).....	0.19%
12b-1 Fees.....	None
Other Expenses (after expense reimbursement) (2).....	0.46%
TOTAL FUND OPERATING EXPENSES (2,3,4).....	0.65%

</TABLE>

(1) This amount reflects a reduction by the Investment Manager, which is guaranteed through at least August 31, 1995. If there were no such reduction, the maximum management fee for the Fund would have been 0.45% for the fiscal year ended December 31, 1994. (See Management of the Fund--Fees and Expenses.)

(2) See "Management of the Fund--Fees and Expenses" for information regarding

the differing expenses for the multiple classes of shares of the Fund.

(3) Schwab currently imposes no fees for opening a standard brokerage account, including a Schwab One(R) account with a minimum of \$5,000 account equity. Schwab One accounts of less than \$5,000 account equity are subject to a fee of \$5 per month if there have been fewer than two commissionable trades within the last twelve months. See "How to Purchase Shares" for information regarding the differing minimum balance and minimum investment requirements of the multiple classes of shares of the Fund.

(4) This amount reflects the Investment Manager's guarantee that, through at least August 31, 1995, the total fund operating expenses of the Sweep Shares of the Fund will not exceed 0.65%. Without a similar guarantee, which was in effect during the fiscal year ended December 31, 1994, total fund operating expenses for the Sweep Shares of the Fund would have been 0.94%.

EXAMPLE. You would pay the following expenses on a \$1,000 investment in the Sweep Shares of the Fund, assuming (1) a 5% annual return and (2) redemption at the end of each period:

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1 YEAR	3 YEARS	5 YEARS	10 YEARS
\$7	\$21	\$36	\$81

</TABLE>

The purpose of the preceding table is to assist investors in understanding the various cost and expenses that an investor in the Sweep Shares of the Fund will bear directly or indirectly. This example reflects the Investment Manager's guarantee that, through at least August 31, 1995, the total fund operating expenses for the Sweep Shares of the Fund will not exceed 0.65%. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. The example assumes a 5% annual rate of return pursuant to requirements of the Securities and Exchange Commission. THIS HYPOTHETICAL RATE OF RETURN IS NOT INTENDED TO BE REPRESENTATIVE OF PAST OR FUTURE PERFORMANCE.

FINANCIAL HIGHLIGHTS

The following information with respect to per share data and ratios has been audited by Price Waterhouse LLP, independent accountants, whose unqualified report covering each of the periods presented is incorporated by reference herein. This information should be read in conjunction with the financial statements and accompanying notes which are also incorporated by reference to the Statement of Additional Information.

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PERIOD ENDED DEC. 31	NET ASSET VALUE BEGINNING OF YEAR	INCOME FROM INVESTMENT OPERATIONS			LESS DISTRIBUTIONS			NET ASSET VALUE END OF YEAR
		NET INVESTMENT INCOME	NET REALIZED & UNREALIZED GAINS (LOSSES) ON INVESTMENT	TOTAL FROM INVESTMENT OPERATION	DIVIDENDS FROM NET INVESTMENT INCOME	DIVIDENDS FROM REALIZED GAIN ON INVESTMENT	TOTAL DISTRIBUTIONS	
1994	\$1.00	\$0.02	--	\$0.02	\$(0.02)	--	\$(0.02)	\$1.00
1993	1.00	0.02	--	0.02	(0.02)	--	(0.02)	1.00
1992	1.00	0.02	--	0.02	(0.02)	--	(0.02)	1.00
1991	1.00	0.04	--	0.04	(0.04)	--	(0.04)	1.00
19901	1.00	0.01	--	0.01	(0.01)	--	(0.01)	1.00

<CAPTION>

PERIOD ENDED DEC. 31	RATIOS/SUPPLEMENTAL DATA			RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS	
	TOTAL RETURN (%)	NET ASSETS END OF YEAR (000'S)	RATIO OF EXPENSES TO AVERAGE NET ASSETS (%)	TOTAL RETURN (%)	RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS (%)
1994	2.26	\$ 1,293,883	0.64	2.25	

1993	1.91	1,062,042	0.63	1.89
1992	2.35	691,176	0.63	2.31
1991	3.77	494,214	0.61	3.70
1990	0.77	339,292	0.28*	5.06*

</TABLE>

(1) For the period from November 6, 1990 (commencement of operations) to December 31, 1990.

The Investment Manager and Schwab have reduced a portion of their fees and absorbed certain expenses of the Fund. Had these fees and expenses not been reduced and absorbed, the ratio of expenses to average net assets for the periods ended December 31, 1994, 1993, 1992, 1991 and 1990 would have been 0.94%, 0.96%, 0.97%, 0.98% and 1.17%*, respectively, and the ratio of net investment income to average net assets would have been 1.95%, 1.56%, 1.97%, 3.33% and 4.17%*, respectively.

Prior to June 6, 1995, the Fund did not offer multiple classes of shares of beneficial interest. The information contained in this table relates to shares which were redesignated as Sweep Shares as of June 6, 1995.

MATCHING THE FUND TO YOUR INVESTMENT NEEDS

The Fund may be appropriate for a variety of investment programs which can be long-term or short-term in nature. While the Fund is not a substitute for building an investment portfolio tailored to an individual's investment needs and risk tolerance, it can be used as a high quality, conveniently liquid money market investment for your brokerage account cash when it is not fully invested in other securities. The Fund would not be an appropriate investment for retirement plans such as IRAs and Keogh plans.

 THE FUND MAY BE ESPECIALLY SUITABLE FOR SHORT-TERM INVESTORS.

Because the Fund is designed to provide liquidity and stability of capital, as well as automatic investment of free credit balances, it may be especially suitable for investors with short-term investment objectives, including those who are awaiting an opportune time to invest in the equity and/or bond markets.

* Annualized

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 THE FUND MAY ALSO BE APPROPRIATE FOR LONG-TERM INVESTORS.

The Fund may also be appropriate for long-term investors seeking a low-risk investment alternative which is designed to provide double tax-free income.

In addition to the Sweep Shares of the Fund, Schwab also offers Value Advantage Shares of the Fund, pursuant to a multiple class plan (the "Plan") adopted by the Board of Trustees of the Schwab Fund Family. Under the Plan, Value Advantage Shares of the Fund, which are not available through automatic ("sweep") investment programs, are subject to lower transfer agency expenses than the Sweep Shares of the Fund. In addition, the minimum investment and minimum account balance requirements of the Value Advantage Shares of the Fund are higher than those applicable to the Sweep Shares. See "Management of the Fund -- Fees and Expenses" and "How to Purchase Shares."

For information regarding Value Advantage Shares, call your local Schwab office or 800-2 NO-LOAD. You may also obtain information about Value Advantage Shares from your Schwab broker.

INVESTMENT OBJECTIVE AND POLICIES

 THE FUND SEEKS MAXIMUM CURRENT INCOME CONSISTENT WITH
 STABILITY OF CAPITAL THAT IS EXEMPT FROM FEDERAL INCOME
 AND STATE OF CALIFORNIA PERSONAL INCOME TAXES.

The investment objective of the Fund is maximum current income that is exempt from federal income and State of California personal income taxes, to the extent consistent with stability of capital. This investment objective is fundamental, and cannot be changed without approval by holders of a majority of the Fund's outstanding voting shares, as defined in the Investment Company Act of 1940 (the "1940 Act"). The Fund pursues its objective primarily by investing in short-term high quality municipal obligations, the income from which is exempt from federal income and California personal income taxes.

Under normal market conditions, the Fund attempts to invest 100%, and will invest at least 80%, of its total assets in debt obligations issued by or on behalf of California and other states, territories and possessions of the United States and the District of Columbia and their political subdivisions, agencies and instrumentalities that generate interest which, in the opinion of bond counsel, is exempt from federal income tax ("Municipal Securities") and will invest at least 65% of its total assets in such obligations which also generate interest which, in the opinion of bond counsel, is exempt from State of California personal income tax ("California Municipal Securities").

Dividends paid to California residents to the extent of interest income received on California Municipal Securities will be exempt from State of California personal income taxes provided that at the end of each quarter of its taxable year at least 50% of the Fund's total assets are invested in California Municipal Securities and obligations of the U.S. Government, its agencies and instrumentalities which are by federal law exempt from local income taxes.

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THE FUND WILL ONLY INVEST IN HIGH QUALITY SECURITIES.

The Fund will invest only in Municipal Securities which at the time of purchase: (a) are rated in one of the two highest rating categories for municipal commercial paper or short-term municipal securities assigned by Moody's Investors Service ("Moody's"), Standard & Poor's Corporation ("S&P") or any other nationally recognized statistical rating organization ("NRSRO"); (b) are guaranteed or insured by the U.S. Government as to the payment of principal and interest; (c) are fully collateralized by an escrow of U.S. Government securities acceptable to the Investment Manager; or (d) are unrated by any NRSRO, if they are determined by the Investment Manager, using guidelines approved by the Board of Trustees, to be at least equal in quality to one or more of the above referenced securities. (For a description of the ratings, see "Appendix--Ratings of Investment Securities" in the Statement of Additional Information.)

After its purchase by the Fund, a Municipal Security may cease to be rated or its rating may be reduced below that required for purchase by the Fund. Neither event would necessarily require the elimination of such an obligation from the Fund's investment portfolio. However, the obligation generally would be retained only if such retention was determined by the Board of Trustees to be in the best interests of the Fund.

With the exception of securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities, the Fund may not:

1. Purchase the securities of any issuer if as a result more than 5% of the value of the Fund's total assets would be invested in the securities of that issuer. However, provided no more than 25% of the value of the Fund's total assets are invested in the securities of any one issuer, up to 50% of the value of the Fund's total assets may be invested without regard to this 5% limitation. For purposes of this limitation, a security is considered to be issued by the governmental entity (or entities) whose assets and revenues back the security, or, with respect to an industrial revenue bond that is backed only by the assets and revenues of a non-governmental user, by such non-governmental user. In certain circumstances, the guarantor of a security may also be considered to be an issuer in connection with such guarantee.
2. Purchase any securities which would cause 25% or more of the value of the Fund's total assets at the time of purchase to be invested in the securities of issuers conducting their principal business activities in the same industry. However, this limitation shall not apply to Municipal Securities.

From time to time, as a defensive measure or under abnormal market conditions, the Fund may invest any or all of its assets in taxable "temporary investments" which include: obligations of the U.S. Government, its agencies or instrumentalities; debt securities (other than Municipal Securities) rated in one of the two highest categories by any NRSRO; commercial paper (other than Municipal Securities) rated in one of the two highest grades by any NRSRO; certificates of deposit of domestic banks having capital, surplus, and undivided profits in excess of \$100 million; and any of the foregoing temporary investments subject to repurchase agreements. While purchases by the Fund of certain temporary investments could cause it to generate dividends taxable to shareholders as ordinary

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income (see "Distributions And Taxes"), it is the Fund's primary intention to produce dividends which are not subject to federal income or State of California personal income taxes.

The investment policies set forth above (except for the policy regarding temporary investments, or as otherwise noted) are fundamental. They, along with certain investment restrictions adopted by the Fund (see "Investment Restrictions" in the Statement of Additional Information), cannot be changed without approval by holders of a majority of the Fund's outstanding voting shares, as defined in the 1940 Act.

MUNICIPAL SECURITIES AND INVESTMENT TECHNIQUES

The two principal classifications of Municipal Securities which may be held by the Fund are "general obligation" securities and "revenue" securities. General obligation securities are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue securities are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as the user of the facility being financed. Revenue securities may include private activity bonds (and industrial development bonds). Such bonds may be issued by or on behalf of public authorities to finance various privately operated facilities, and are not payable from the unrestricted revenues of the issuer. As a result, the credit quality of private activity bonds is frequently related directly to the credit standing of private corporations or other entities. From time to time, the Fund may invest more than 25% of its total assets in industrial development and private activity bonds.

The Fund's portfolio may also include "moral obligation" securities, which are normally issued by special purpose public authorities. If the issuer of moral obligation securities is unable to meet its debt service obligations from current revenues, it may draw on a reserve fund, the restoration of which is a moral commitment but not a legal obligation of the state or municipality which created the issuer.

Municipal Securities purchased by the Fund may include variable rate demand instruments issued by industrial development authorities and other government entities. In the event variable rate demand instruments which the Fund can purchase are not rated by credit rating agencies, such instruments must be determined by the Investment Manager, using guidelines approved by the Board of Trustees, to be of comparable quality at the time of purchase to rated instruments which the Fund can purchase. In some cases, the Fund may require that the issuer's obligation to pay the principal of the note be backed by an unconditional bank letter or line of credit, guarantee or commitment to lend. Although there may be no active secondary market with respect to a particular variable rate demand instrument purchased by the Fund, the Fund may (at any time or during specified periods not exceeding one year, depending upon the instrument involved) demand payment in full of the principal of the instrument and may resell the instrument to a third party. The absence of such an active secondary market, however, could make it difficult for the Fund to dispose of a variable rate demand instrument in the event the issuer defaulted on its payment obligation or during periods that the Fund is not entitled to exercise its demand rights, and the Fund could, for this or other reasons, suffer a loss with respect to such instruments. To the extent that the absence of an active secondary market for such securities causes them to be "illiquid," such securities will be subject to the Fund's restrictions on acquiring and holding illiquid securities.

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Participation interests in Municipal Securities with fixed, floating or variable rates of interest may be purchased by the Fund from financial institutions. The buyer of a participation interest receives an undivided interest in the securities underlying the instrument. The Fund will only purchase a participation interest if: (a) the Municipal Securities subject to it mature in one year or less or the instrument includes a right to demand payment, usually within seven days, from the Seller, (b) the instrument meets the Fund's previously described quality standards for Municipal Securities, and (c) the instrument is issued with an opinion of counsel or is the subject of a ruling of the Internal Revenue Service, stating that the interest earned on the participation interest is exempt from federal income tax.

The Fund may invest in municipal leases, which are obligations issued by state and local governments or authorities to finance the acquisition of equipment and facilities. These obligations may take the form of a lease, an installment purchase contract, a conditional sales contract, or a participation interest in any of the above. Investments in municipal leases may be considered to be illiquid. The Fund will limit its investment in municipal leases to no more than 25% of its total assets (no more than 10% of which may be illiquid municipal

leases). Municipal leases are subject to "nonappropriation risk," which is the risk that the municipality may terminate the lease in the event that the municipality's appropriating body does not allocate the funds necessary to make lease payments. In such circumstances, the lessor is typically entitled to repossess the property. The private sector value of the property is, however, generally less than the value of the property to the municipality. The Investment Manager, pursuant to guidelines established by the Board of Trustees, is responsible for determining the credit quality of unrated municipal leases, on an ongoing basis, including an assessment of the likelihood of whether the lease will be terminated.

The Fund may also invest up to 25% of its assets in synthetic variable rate municipal securities. These securities generally comprise the following elements in a trust: (i) a fixed-rate municipal bond (of any duration); (ii) a right to put the bond at par value on seven days notice or after a specific interval of time depending on the terms of the synthetic security; and (iii) a contractual agreement pursuant to which the investing Fund and the issuer determine the lowest rate that would permit the bond to be remarketed at par, taking into account the put right. The trustee of the trust is generally a bank trust department.

These securities may include tender option bond trust receipts, in which a fixed-rate municipal bond (or group of bonds) is placed into a trust from which two classes of trust receipts are issued, which represent proportionate interests in the underlying bond(s). Interest payments are made on the bond(s) based upon a predetermined rate. Under certain circumstances, the holder of a trust receipt may also participate in any gain or loss on the sale of such bond(s). Tender option bond trust receipts are considered to be Municipal Securities for purposes of the Fund's policy to invest at least 80% of its total assets in Municipal Securities. Tender option bond trust receipts generally are structured as private placements and, accordingly, may be deemed to be restricted securities for purposes of the Fund's investment limitations.

The Fund will limit its investments in tender option bond trust receipts and other synthetic floating rate municipal securities to no more than 25% of its total assets.

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The Fund may purchase securities on a "when-issued" or "delayed delivery" basis. When-issued or delayed delivery securities are securities purchased for future delivery at a stated price and yield. The Fund will generally not pay for such securities or start earning interest on them until they are received. Securities purchased on a when-issued or delayed delivery basis are recorded as an asset and are subject to changes in value based upon changes in the general level of interest rates. The Fund will not invest more than 25% of its assets in when-issued or delayed delivery securities, does not intend to purchase such securities for speculative purposes and will make commitments to purchase securities on a when-issued or delayed delivery basis with the intention of actually acquiring the securities. However, the Fund reserves the right to sell acquired when-issued or delayed delivery securities before their settlement dates if deemed advisable.

The Fund may also acquire "stand-by commitments" with respect to Municipal Securities held in its portfolio. Under a stand-by commitment, a dealer agrees to purchase at the Fund's option specified Municipal Securities at a price equal to their amortized cost value plus accrued interest. The Fund will acquire stand-by commitments solely to facilitate portfolio liquidity and does not intend to exercise its rights thereunder solely for trading purposes.

The Fund may engage in "repurchase agreements." In entering into a repurchase agreement, the Fund acquires ownership of a security from a broker-dealer or bank that agrees to repurchase the security at a mutually agreed upon time and price (which price is higher than the purchase price), thereby determining the yield during the Fund's holding period. Repurchase agreements with broker-dealer firms will be limited to obligations of the U.S. Government, its agencies or instrumentalities. Maturity of the securities subject to repurchase may exceed one year.

As a matter of fundamental policy, the Fund may borrow money for temporary purposes, but not for the purpose of purchasing investments, in an amount up to one-third of the value of the Fund's total assets and may pledge up to 10% of the Fund's net assets to secure borrowings. The Fund will not purchase illiquid securities, including repurchase agreements maturing in more than seven days, if, as a result thereof, more than 10% of the Fund's net assets valued at the time of the transaction would be invested in such securities.

Opinions relating to the validity of Municipal Securities and to the exemption of interest thereon from federal income tax (and, with respect to California Municipal Securities, to the exemption of interest thereon from State of

California personal income taxes) are rendered by bond counsel to the respective issuers at the time of issuance. The Fund and the Investment Manager will not review the proceedings relating to the issuance of Municipal Securities or the bases for such opinions.

SPECIAL RISK CONSIDERATIONS. The Fund intends to follow the diversification standards set forth in the 1940 Act, except to the extent that, in the Investment Manager's judgment, non-diversification is appropriate to maximize the percentage of the Fund's assets that are California Municipal Securities. The investment return on a non-diversified portfolio typically is dependent upon the performance of a smaller number of issuers relative to the number of issuers held in a diversified portfolio. In the event of changes in the financial condition or in the market's assessment of certain issuers, the Fund's policy of acquiring large positions in the obligations of a relatively small number of issuers may affect the value of the Fund's portfolio to a greater extent than that of a diversified portfolio.

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Although the Fund does not presently intend to do so on a regular basis, it may invest more than 25% of its assets in Municipal Securities the interest on which is paid solely from revenues on similar projects if such investment is deemed necessary or appropriate by the Investment Manager. To the extent that the Fund's assets are concentrated in Municipal Securities payable from revenues on similar projects, the Fund will be subject to the particular risks presented by such projects to a greater extent than it would be if the Fund's assets were not so concentrated.

Certain California constitutional amendments, legislative measures, executive orders, administrative regulations and voter initiatives could result in adverse consequences affecting California Municipal Securities. For example, in recent years "Proposition 13" and similar California constitutional and statutory amendments and initiatives have restricted the ability of California taxing entities to increase real property tax revenues. Other initiative measures approved by California voters, through limiting various other taxes, have resulted in a substantial reduction in state revenues. Decreased state revenues may result in reductions in allocations of state revenues to local governments. It is not possible to determine the impact of these initiatives on the ability of California issuers to pay interest or repay principal on their obligations. There is no assurance that any California issuer will make full or timely payments of principal and interest or remain solvent. For example, in December 1994, Orange County filed for bankruptcy. In addition, from time to time, federal legislative proposals have threatened the tax-exempt status or use of municipal securities. (An expanded discussion of the risks associated with municipal securities and California issuers is contained in the Statement of Additional Information.)

Participation interests in Municipal Securities and other derivative securities eligible for purchase by the Fund involve special risks, including a risk that the Internal Revenue Service may characterize some or all of the interest paid on such securities to the Fund as taxable. There is also an increased risk, most typically associated with "municipal lease" obligations, that a municipality will not appropriate the funds necessary to make the scheduled payments on, or may seek to cancel or otherwise avoid its obligations under, the lease that supports the security owned by the Fund.

For more information, see the section of this Prospectus entitled "Share Price Calculation."

MANAGEMENT OF THE FUND

Responsibility for overall management of the Fund rests with the trustees and officers of the Schwab Fund Family. Professional investment management for the Fund is provided by the Investment Manager, Charles Schwab Investment Management, Inc., 101 Montgomery Street, San Francisco, CA 94104. The Investment Manager provides a continuous investment program, including general investment and economic advice regarding the Fund's investment strategies, manages the Fund's investment portfolio and performs expense management, accounting and recordkeeping, and other services necessary to the operation of the Fund and the Schwab Fund Family. The Investment Manager, formed in 1989, is a wholly owned subsidiary of The Charles Schwab Corporation and is the investment adviser and administrator of the SchwabFunds(R) mutual funds. As of June 3, 1995, the Schwab Funds had aggregate net assets in excess of \$26 billion.

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Charles Schwab & Co., Inc. ("Schwab" or the "Transfer Agent"), 101 Montgomery

Street, San Francisco, CA 94104, serves as shareholder services agent and transfer agent for the Fund. Schwab provides information and services to shareholders, which include reporting share ownership, sales and dividend activity (and associated tax consequences), responding to daily inquiries, effecting the transfer of Fund shares and facilitating effective cash management of shareholders' Schwab account balances. It furnishes such office space and equipment, telephone facilities, personnel and informational literature distribution as is necessary or appropriate in providing shareholder and transfer agency information and services. Schwab is also the Fund's distributor, but receives no compensation for its services as such.

Schwab was established in 1971 and is one of America's largest discount brokers. The firm provides low-cost securities brokerage and related financial services to over 2.5 million active customer accounts and has over 200 offices. Schwab also offers convenient access to financial information services and provides products and services that help investors make investment decisions. Schwab is a wholly-owned subsidiary of The Charles Schwab Corporation. Charles R. Schwab is the founder, Chairman and Chief Executive Officer and a director of The Charles Schwab Corporation and, as of March 10, 1995, the beneficial owner of approximately 23.3% of the outstanding shares of that corporation. Mr. Schwab may be deemed to be a controlling person of Schwab and the Investment Manager.

FEES AND EXPENSES. Pursuant to its Investment Advisory and Administration Agreement with the Schwab Fund Family, the Investment Manager receives from the Fund a graduated annual fee, payable monthly, of 0.46% of the Fund's average daily net assets not in excess of \$1 billion, 0.41% of such net assets over \$1 billion but not in excess of \$2 billion and 0.40% of such net assets over \$2 billion. The Investment Manager may reduce its management fee from time to time in the future. Fee reductions lower the Fund's expenses and thus increase the total return it provides shareholders. At least through August 31, 1995, the Investment Manager guarantees that the management fee will not exceed 0.19% of the Fund's average daily net assets and total fund operating expenses will not exceed 0.65% of the average daily net assets of the Sweep Shares of the Fund. The effect of this guarantee is to maintain or lower the expenses of the Sweep Shares of the Fund and thus maintain or increase total return to shareholders. For the fiscal year ended December 31, 1994, the Fund paid investment management fees of 0.18% of its average daily net assets and paid total expenses of 0.64% of its average daily net assets.

For the transfer agency services provided, the Transfer Agent receives an annual fee, payable monthly, of 0.25% of the average daily net assets of the Sweep Shares of the Fund. In addition, for shareholder services provided, Schwab receives an annual fee, payable monthly, of 0.20% of the average daily net assets of the Sweep Shares of the Fund. For the Value Advantage Shares, the Transfer Agent receives an annual fee of 0.05% of the average daily net assets of that class' shares of beneficial interest. PNC Bank is the Fund's Custodian.

The Schwab Fund Family pays the expenses of its operations. These expenses are generally allocated among the Schwab Fund Family's investment portfolios ("Series") on the basis of relative net assets at the time of allocation. However, expenses directly attributable to a particular Series or class of a

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Series are charged to that Series or class, respectively. The differing expenses applicable to the Sweep Shares and the Value Advantage Shares will cause the performance of the two classes of shares of the Fund to differ.

DISTRIBUTIONS AND TAXES

THE FUND DECLARES DAILY DIVIDENDS WHICH ARE PAID MONTHLY.

DIVIDENDS AND OTHER DISTRIBUTIONS. On each day that the net asset value per share of the Fund is determined ("Business Day"), the Fund's net investment income will be declared as of the close of trading on the New York Stock Exchange (the "Exchange") (generally 4:00 p.m. Eastern time) as a dividend to shareholders already of record at the previous net asset value calculation. Dividends are normally paid (and, where applicable, reinvested) on the 15th of each month, if a Business Day, otherwise on the next Business Day.

TAX INFORMATION. The Fund has elected to be treated as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"), qualified as such, and intends to continue to so qualify. In order to so qualify, the Fund will distribute on a current basis substantially all of its investment company taxable income, its net exempt-interest income and its capital gain net income (if any), and will meet certain other requirements. Such qualification relieves the Fund of liability for federal and California income taxes to the extent the Fund's earnings are distributed. In addition, if the Fund does not distribute 98% of its taxable investment income and capital gains,

it will be subject to a non-deductible 4% excise tax on such undistributed amounts.

FEDERAL INCOME TAXES: Dividends derived from exempt-interest on state and local obligations (known as "exempt-interest dividends") may be treated by the Fund's shareholders as items of interest excludable from their federal gross income. A shareholder should consult his or her own tax adviser with respect to whether exempt-interest dividends would be excludable from gross income if the shareholder were treated as a "substantial user" of facilities financed by an obligation held by the Fund or a "related person" to such user under the Code. Any loss on the sale or exchange of any share held for six months or less will be disallowed to the extent of the amount of the exempt-interest dividend received with respect to such share. The U.S. Treasury Department is authorized to issue regulations reducing the period to not less than 31 days for certain regulated investment companies, but no such regulations have been issued as of the date of this Prospectus. To the extent dividends paid to shareholders are derived from taxable interest or short-term or long-term capital gains, such dividends will be subject to federal income tax whether paid in the form of cash or additional shares. Fund dividends derived from interest on U.S. Treasury and agency obligations are subject to federal income tax.

The Fund may at times purchase Municipal Securities or California Municipal Securities at a discount from the price at which they were initially issued. For federal income tax purposes, some or all of this market discount will be included in the Fund's ordinary income and will be taxable to shareholders as such when it is distributed to them.

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If the Fund holds certain "private activity bonds" ("industrial development bonds" under prior law), dividends derived from interest on such obligations will be classified as an item of tax preference which could subject certain shareholders to federal alternative minimum tax liability. Corporate shareholders must also take all exempt-interest dividends into account in determining "adjusted current earnings" for purposes of calculating their alternative minimum tax.

Private activity bonds and industrial development bonds generally are bonds issued by or on behalf of public authorities to obtain funds to provide certain privately owned or operated facilities. Private activity bonds and industrial development bonds also are generally limited obligation (or revenue) securities, which means that they are payable only from the revenues derived from a particular facility or class of facilities, or, in some cases, from some other specific revenue source. (See "Municipal Securities" in the Statement of Additional Information.)

Reinvested distributions will be taxable as if they had been received by shareholders in cash. It is not expected that any portion of the dividends paid by the Fund will be eligible for the corporate dividends received deduction. Shareholders should note that all exempt-interest dividends will be taken into account in determining the taxability of Social Security benefits or Railroad Retirement Act benefits. (See "Distributions and Taxes" in the Statement of Additional Information.)

CALIFORNIA INCOME TAXES: Dividends paid by the Fund to non-corporate shareholders and derived from interest on California Municipal Securities or federal obligations are also exempt from State of California personal income tax. For this purpose, federal obligations are obligations the interest on which is excludable from gross income for state income tax purposes under the Constitution or laws of the United States. However, dividends paid to shareholders that are corporations subject to California franchise tax or corporate income tax will be taxed as ordinary income to such shareholders, notwithstanding that all or a portion of such dividends are exempt from State of California personal income tax. Moreover, to the extent that the Fund's dividends are derived from interest on debt obligations other than California Municipal Securities or federal obligations, such dividends will be subject to State of California personal income tax, even though such dividends may be exempt for federal income tax purposes.

Except as noted with respect to State of California personal income tax, distributions of net investment income may be taxable to investors under state or local law as dividend income even though all or a portion of such distributions may be derived from interest on tax-exempt obligations which, if realized directly, would be exempt from such income taxes. In addition, to the extent, if any, that dividends paid to shareholders are derived from taxable interest or from long-term or short-term capital gains, such dividends will not be exempt from State of California personal income tax whether received in cash or reinvested in shares.

Records of dividends and other distributions, purchases and redemptions will be

reflected on shareholders' regular Schwab brokerage statements. The Fund will notify shareholders at least annually as to the federal income and State of California personal income tax consequences of distributions made each year.

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The foregoing is only a brief summary of some of the federal and State of California income tax considerations affecting the Fund and its shareholders. Accordingly, potential investors should consult their tax advisers with specific reference to their own tax situations.

SHARE PRICE CALCULATION

THERE ARE NO SALES CHARGES OR TRANSACTION FEES TO
PURCHASE OR REDEEM SHARES OF THE FUND.

The price of a Sweep Share of the Fund on any given day is its "net asset value" or "NAV." This figure is computed by dividing total Fund assets allocable to that class, less any liabilities allocable to the class, by the number of shares of the class outstanding. The net asset value per share of the Sweep Shares of the Fund is determined on each day both the Federal Reserve Bank of New York and the Exchange are open for business, first at 10:00 a.m. (Eastern time), then again as of the close of normal trading on the Exchange (generally 4:00 p.m. Eastern time).

The Fund values its portfolio securities at amortized cost, which means that they are valued at their acquisition cost (as adjusted for amortization of premium or discount) rather than at current market value. Calculations are made to compare the value of the Fund's investments using the amortized cost method with market values. Except as described below, market valuations are obtained by using actual quotations provided by third-party pricing services, market makers, estimates of market value, or values obtained from yield data relating to classes of money market instruments published by reputable sources at the mean between the bid and asked prices for the instruments. If a deviation of 1/2 of 1% or more were to occur between the net asset value per share of the Sweep Shares of the Fund calculated by reference to market values and the \$1.00 per share amortized cost value of the Sweep Shares of the Fund, or if there were any other deviation which the Board of Trustees believed would result in a material dilution to shareholders or purchasers, the Board of Trustees would promptly consider what action, if any, should be initiated. While the Fund attempts to maintain a net asset value at a constant \$1.00 per share, Fund shares are not insured against a reduction in net asset value.

The Fund has entered into a transaction with Bank of America National Trust and Savings Association ("Bank of America") pursuant to which the Fund is a beneficiary of an irrevocable Letter of Credit (the "Letter of Credit") issued by Bank of America. The Letter of Credit provides a degree of credit support for certain securities held by the Fund, currently including certain obligations of Orange County, California and issuers that participated in the investment pool maintained by Orange County (each a "Covered Security"). Orange County and the investment pool maintained by the County have filed for protection under Chapter 9 of the federal Bankruptcy Code. Pursuant to the Letter of Credit, Bank of America will make certain payments to the Fund (each a "Payment") upon presentation of a certificate as required under the Letter of Credit in the event that (i) the issuer of a Covered Security defaults on a repayment to the Fund of the principal amount of the Covered Security, or (ii) the proceeds received by the Fund in the disposition of a Covered Security are less than a specified percentage of the Covered Security's par amount. The Fund has no obligation to reimburse Bank of America for any amount drawn under the Letter of Credit. The Letter of Credit,

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however, does not ensure that the Fund will receive Payments equal to the aggregate amount of all Covered Securities. Accordingly, although the Board of Trustees has determined that the Covered Securities subject to the Letter of Credit currently present minimal credit risks, the Fund could incur losses as a result of its holdings of Covered Securities.

The Letter of Credit will continue in effect until the earlier of (i) the date on which Bank of America has made Payments to the Fund equaling the total amount available under the Letter of Credit, or (ii) August 1, 1995, after each Covered Security is scheduled to mature.

The Board of Trustees has approved the payment of fees by the Fund for the availability of the Letter of Credit, as well as revised pricing procedures that take into account the effect of the Letter of Credit on the value of the Covered

Securities (the "Pricing Procedures"). Pursuant to the Pricing Procedures, the value of a Covered Security may be determined in good faith after consideration of the credit support provided by the Letter of Credit in order to cause the calculation of the Fund's market-based net asset value per share to accurately reflect the actual value of all of its assets.

HOW THE FUND SHOWS PERFORMANCE

From time to time the Fund may advertise the yield, effective yield, tax-equivalent yield and tax-equivalent effective yield of the Sweep Shares of the Fund. Performance figures are based upon historical results and are not intended to indicate future performance.

The yield of the Sweep Shares of the Fund refers to the income generated by a hypothetical investment in the Sweep Shares of the Fund over a specific 7-day period. This income is then annualized, which means that the income generated during the 7-day period is assumed to be generated each week over an annual period and is shown as a percentage of the hypothetical investment.

Effective yield is calculated similarly, but the income earned by the investment is assumed to be compounded weekly when annualized. The effective yield will be slightly higher than the yield due to this compounding effect.

Tax-equivalent yield is the yield that a taxable investment must generate in order to equal (after applicable taxes are deducted) the Sweep Share's yield for an investor in stated federal income and State of California tax brackets (normally assumed to be the applicable maximum tax rate). Tax-equivalent yield is based upon, and will be higher than, the portion of the Sweep Share's yield that is tax-exempt. (See "Yield" in the Statement of Additional Information.)

The tax-equivalent effective yield is computed in the same manner as is the tax-equivalent yield, except that the effective yield is substituted for yield in the calculation.

The performance of the Sweep Shares of the Fund may be compared to that of other mutual funds tracked by mutual fund rating services, various indices of investment performance, United States government obligations, bank certificates of deposit, other investments for which reliable performance data is available and the consumer price index.

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Because the Sweep Shares of the Fund are subject to different expenses than the Value Advantage Shares of the Fund, the performance of the two classes of shares will differ.

Additional performance information about the Sweep Shares of the Fund is available in the Fund's Annual Report, which is sent to all shareholders. To request a free copy, call your local Schwab office at 800-2 NO-LOAD.

GENERAL INFORMATION

The Schwab Fund Family was organized as a business trust under the laws of Massachusetts on October 20, 1989 and may issue an unlimited number of shares of beneficial interest or classes of shares in one or more Series. Currently, the Schwab Fund Family offers shares of nine Series which may be organized into one or more classes of shares of beneficial interest. The Board of Trustees may authorize the issuance of shares of additional Series or classes if it deems it desirable to do so. Shares of each Series have equal, noncumulative voting rights, and equal rights as to dividends, assets, and liquidation of such Series, except to the extent such voting rights or rights as to dividends, assets and liquidation vary among classes of a Series. The Schwab California Tax-Exempt Money Fund was formerly known as the Schwab California Tax-Free Money Fund.

The Schwab Fund Family is not required to hold annual shareholders' meetings. It will, however, hold special meetings as required or deemed desirable by the Board of Trustees for such purposes as electing trustees, changing fundamental policies, or approving an investment advisory or sub-advisory agreement. In addition, a Trustee may be elected or removed by shareholders at a special meeting called upon written request of shareholders owning at least 10% of the outstanding shares of the Schwab Fund Family. Shareholders will vote by Series and not in the aggregate (for example, when voting to approve the investment advisory agreement), except when voting in the aggregate is permitted under the 1940 Act, such as for the election of Trustees. In addition, holders of the Sweep Shares will vote exclusively as a class on any matter relating solely to the Sweep Shares' arrangement as a class and on any matter in which the interests of the holders of the Sweep Shares differ from the interests of the holders of Value Advantage Shares.

SHAREHOLDER GUIDE

SCHWAB'S OFFICES ACCEPT ORDERS AND PROVIDE
SHAREHOLDER SERVICE AND INFORMATION.

SHAREHOLDER SERVICE. You may place Fund purchase and redemption orders as well as request exchanges at any one of over 200 Schwab offices nationwide or by calling 800-2 NO-LOAD, where trained representatives are available to answer questions about the Fund and your account. The privilege to initiate transactions by telephone, as discussed below, is automatically available through your Schwab account. The Fund will employ reasonable procedures to confirm that instructions communicated by telephone are genuine. If these procedures are not followed, the Fund may be liable for any losses due to unauthorized or fraudulent instructions. These procedures may include requiring a form of personal identification prior to acting upon instructions received by telephone, providing written confirmation of such instructions and tape recording telephone transactions.

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HOW TO PURCHASE SHARES

YOU MAY PURCHASE SHARES OF THE FUND ONLY THROUGH A
SCHWAB ACCOUNT.

Shares of the Fund are designed for sale to California residents only.

You may purchase shares of the Fund exclusively through an account maintained with Schwab, and payment for shares must be made directly to Schwab. Schwab brokerage accounts are free of maintenance fees. (See "Summary of Expenses.") The Securities Investor Protection Corporation ("SIPC") will provide account protection, in an amount up to \$500,000, for securities, including Fund shares, which you hold in a Schwab brokerage account. Of course, SIPC account protection does not protect shareholders from principal fluctuations.

If you already have a Schwab brokerage account, you may purchase shares in the Fund as described below and need not open a new account.

If you do not presently maintain a Schwab brokerage account and wish to establish one, simply complete a Schwab Brokerage Account Application available at any Schwab office. Corporations and other organizations should contact their local Schwab office to determine which additional forms may be necessary to open a Schwab brokerage account.

You may deposit funds into your Schwab brokerage account by check or wire. All deposit checks should be made payable to Charles Schwab & Co., Inc. If you would like to wire funds into your Schwab brokerage account, please contact your local Schwab office for instructions.

WHEN AND AT WHAT PRICE SHARES WILL BE PURCHASED. You must have funds in your Schwab brokerage account in order to purchase Fund shares. If funds (including those transmitted by wire) are received by Schwab before 4:00 p.m. (Eastern time), they will be available for investment on the day of receipt. If funds arrive after that time, they will be available for investment the next Business Day.

Orders to purchase shares will be executed at the next determined net asset value after receipt by Schwab's Mutual Fund Transfer Agency Department. (See "Share Price Calculation.")

THE FUND MAY BE USED TO "SWEEP" FREE CREDIT BALANCES
IN YOUR SCHWAB BROKERAGE ACCOUNT.

METHODS OF PURCHASING SHARES. Automatic Investment: When opening a Schwab brokerage account, an investor will be asked to select a SchwabFunds(R) class or series with sweep privileges as a "primary fund." (If a selection is not made, the Schwab Money Market Fund will automatically become then investor's primary fund.) An initial purchase of shares of the primary fund selected will be made automatically pursuant to the procedures described below when the free credit balance in the investor's Schwab brokerage account (including deposits, proceeds of sales of securities, and miscellaneous cash dividends and interest, but not amounts held by Schwab as collateral for margin obligations to Schwab) exceeds \$1,000 on the last Business Day of the week. Thereafter, free credit balances in the investor's Schwab brokerage account which, in total, equal or exceed \$100 on the last Business Day of any week will be automatically invested in the primary fund on the first Business Day

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of the following week. If an investor's free credit balance is less than \$100, it will not be invested in the primary fund, but will remain a credit to the investor's Schwab brokerage account. In certain limited circumstances, free credit balances in certain accounts may be automatically invested at different times. Upon request, a free credit balance in a Schwab brokerage account totalling \$20,000 or more may be invested in the appropriate primary fund on the Business Day following receipt by the Transfer Agent of investor instructions.

An investor with an existing Schwab brokerage account may add the automatic investment feature to his or her account by completing the appropriate section of the Schwab brokerage account application available at any Schwab office. A shareholder may change primary funds by calling or writing his or her local Schwab office or writing Schwab at the above address. Note that the automatic investment feature is not available for Value Advantage Shares of any Fund.

 SHARES OF THE FUND MAY ALSO BE PURCHASED DIRECTLY.

DIRECT PURCHASE: A Schwab brokerage account holder may buy shares of the Fund (if it is not his or her primary fund) by placing an order directly with a Schwab registered representative. The minimum initial investment for such "secondary fund" purchase is \$1,000, and subsequent investments must be at least \$100. The minimum initial investment for the Value Advantage Shares is \$25,000 and the minimum account balance for the Value Advantage Shares is \$20,000.

 TWO DISTRIBUTION OPTIONS ARE AVAILABLE.

DISTRIBUTION OPTIONS. The brokerage account standing instructions that you selected in your Schwab Brokerage Account Application will determine which of the two distribution options listed below will apply to you. Fund distributions will be automatically reinvested, unless the Transfer Agent has received instructions that distributions be mailed to you as they are paid. Please contact your local Schwab office if you already have a Schwab brokerage account and wish to change your brokerage account standing instructions.

1. AUTOMATIC REINVESTMENT: All distributions will be reinvested in additional full Sweep Shares of the Fund at the net asset value next determined after their payable date.
2. RECEIVE DIVIDENDS BY MAIL: All distributions will be credited to your Schwab account as of the payable date. If your account is coded to have dividends mailed immediately, checks will normally be mailed the Business Day after distributions are credited.

For information on how to wire funds from your Schwab brokerage account to your bank, see "Other Important Information--Wire Transfers to Your Bank."

OTHER PURCHASE INFORMATION. The minimum amounts required for automatic investment/direct purchase may be reduced or waived on certain occasions. (See "Purchase and Redemption of Shares" in the Statement of Additional Information.) Free credit balances in accounts of certain categories of investors, such as holders of Schwab custodial accounts, may be invested automatically irrespective of amount. The Fund reserves the right, in its sole discretion and without prior notice to shareholders, to withdraw or suspend all or any part of the offering made by this Prospectus, to reject

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purchase orders or to change the minimum investment requirements. All orders to purchase shares of the Fund are subject to acceptance by the Fund and are not binding until confirmed or accepted. Schwab will charge a \$15 service fee against an investor's Schwab brokerage account should his or her check be returned because of insufficient or uncollected funds or a stop payment order.

HOW TO EXCHANGE SHARES

SHARES OF THE FUND MAY BE EXCHANGED FOR SHARES OF
 OTHER FUNDS SPONSORED BY SCHWAB WITHOUT CHARGE.

The exchange privilege allows you to exchange your SchwabFunds(R) shares for shares of any other SchwabFunds class or series available to investors in your state. Thus, you can conveniently modify your investments if your goals or market conditions change. An exchange will involve the redemption of shares at

the net asset value next determined after receipt by the Transfer Agent of an exchange request (on the same day as the Transfer Agent received the request, if it was received by 4:00 p.m. (Eastern time) and on the next Business Day if the request was received after that time) and the purchase of shares at their net asset value next determined after sale of the shares involved in the exchange (on the same day as the Transfer Agent received the request, if it was received by 4:00 p.m. (Eastern time) and on the next Business Day if the request was received after that time). An exchange of shares will be treated as a sale of the shares for federal income tax purposes. Note that you must meet the minimum initial or subsequent investment requirements applicable to the shares you wish to receive in an exchange. The Fund reserves the right on 60 days' written notice to modify, limit or terminate the exchange privilege.

METHODS OF EXCHANGING SHARES.

BY PHONE:

To exchange between funds by telephone, please call your local Schwab office during regular business hours or 800-2 NO-LOAD. Investors should be aware that telephone exchanges may be difficult to implement during periods of drastic economic or market changes.

To properly process your telephone exchange request, we will need the following information:

- your Schwab brokerage account number;
- the name of the fund into which shares are to be exchanged; and
- the number of shares of the Fund to be exchanged.

BY MAIL:

You may also request an exchange by writing your local Schwab office or Schwab at the address listed on the Prospectus cover page.

To properly process your mailed exchange request, we will need a letter from you which:

- references your Schwab brokerage account number;
- specifies that you would like to exchange shares from the Fund;
- indicates the fund into which shares are to be exchanged;

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- describes the number of shares of the Fund to be exchanged; and
- is signed by at least one of the registered Schwab account holders, in the exact form specified in the account.

IN PERSON AT A SCHWAB OFFICE:

You can also place your exchange request in person at your local Schwab office.

HOW TO REDEEM SHARES

THE PRICE AT WHICH SHARES WILL BE REDEEMED. Sweep Shares will be redeemed at the net asset value per share next determined after receipt by the Transfer Agent of proper redemption instructions, as set forth below. Investors will receive dividends declared for the day on which shares are redeemed.

AUTOMATIC REDEMPTION: Redemptions will be automatically effected by the Transfer Agent to satisfy debit balances in an investor's Schwab brokerage account or to provide necessary cash collateral for an investor's margin obligation to Schwab. Redemptions will also be automatically effected to settle securities transactions with Schwab if an investor's free credit balance on the day before settlement is insufficient to settle the transactions. Each Schwab brokerage account will, as of the close of business each Business Day, be automatically scanned for debits and pending securities settlements, and, after application of any free credit balances in the account to such debits, a sufficient number of shares of the primary fund and, to the extent necessary, any other Schwab Money Fund(s) in the account, will be redeemed the following Business Day to satisfy any remaining debits.

DIRECT REDEMPTION: Shareholders may also place redemption orders directly by contacting their local Schwab office by telephone, mail or in person, or by mailing written instructions to Schwab (at the address listed on the Prospectus cover page). Investors should be aware that telephone redemption may be difficult to implement during periods of drastic economic or market changes. Shareholders who experience difficulties in redeeming by telephone can utilize one of the above-noted alternatives to place their redemption orders.

Telephone redemption orders received prior to 6:00 p.m. (Eastern time) on any Business Day, once they have been verified as to the caller's identity and account ownership, will be deemed to be received by Schwab's Mutual Fund Transfer Agency Department prior to the next net asset value determination. All subsequent telephone redemption orders received prior to the first net asset value determination on the following day will be deemed received prior to that day's second net asset value determination.

Normally a check for a shareholder's redemption proceeds will be available at the investor's local Schwab office on the Business Day after the Transfer Agent receives proper redemption instructions. Checks will normally be mailed to investors who specifically request such mailing on the Business Day following share redemption. If you purchased shares by check, your redemption proceeds may be held in your Schwab brokerage account until your check clears (which may take up to 15 days). Depending on the type of Schwab brokerage account you have, your money may earn interest during any holding period.

The Fund may suspend redemption rights or postpone payments at times when trading on the Exchange is restricted, the Exchange is closed for any reason other than its customary weekend or

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holiday closings, emergency circumstances as determined by the Securities and Exchange Commission exist, or for such other circumstances as the Commission may permit.

OTHER IMPORTANT INFORMATION

MINIMUM BALANCE AND BROKERAGE ACCOUNT REQUIREMENTS. Due to the relatively high cost of maintaining smaller holdings, the Fund reserves the right to redeem a shareholder's shares if, as a result of redemptions, their aggregate value drops below the \$100 minimum balance requirement for the Sweep Shares of the Fund. The Fund will notify shareholders in writing 30 days before taking such action to allow them to increase their holdings to at least the minimum level. Also note that, because they can only be held in Schwab brokerage accounts, Fund shares will be automatically redeemed should the Schwab brokerage account in which they are carried be closed.

CONSOLIDATED MAILINGS. In an effort to reduce the Fund's mailing costs, the Fund consolidates shareholder mailings by household. This consolidation means that a household having multiple accounts with the identical address of record will receive a single package during each shareholder mailing. If you do not wish this consolidation to apply to your account(s), please write to SchwabFunds at 101 Montgomery Street, San Francisco, CA 94104 to that effect.

WIRE TRANSFERS TO YOUR BANK. If you so instruct your local Schwab office, funds can be wired from your Schwab brokerage account to your bank account. Call your local Schwab office for additional information. A \$15 service fee will be charged against your Schwab brokerage account for each wire sent.

SCHWAB ONE(R) ACCOUNT FEATURES. Shareholders who hold shares of the Fund in Schwab One accounts are entitled to redeem Fund shares through debit cards and checks. Investors should contact Schwab if they are interested in the benefits and requirements of a Schwab One account.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND OR ITS DISTRIBUTOR. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFERING BY THE FUND OR BY THE DISTRIBUTOR IN ANY JURISDICTION IN WHICH SUCH OFFERING MAY NOT BE LAWFULLY MADE.

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THIS SPACE RESERVED FOR YOUR COMMENTS AND QUESTIONS.
A SCHWAB REPRESENTATIVE WILL BE HAPPY TO ASSIST YOU.

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SCHWAB CALIFORNIA
TAX-EXEMPT
MONEY FUND-
Sweep Shares

PROSPECTUS JUNE 6, 1995

[SchwabFunds Logo]

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101 Montgomery Street
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