SECURITIES AND EXCHANGE COMMISSION

FORM 497

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FILER

SCHWAB CHARLES FAMILY OF FUNDS

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STATEMENT OF ADDITIONAL INFORMATION

THE CHARLES SCHWAB FAMILY OF FUNDS
101 Montgomery Street, San Francisco, CA 94104

THE SCHWAB MONEY FUNDS: VALUE ADVANTAGE SHARES

SCHWAB TAX-EXEMPT MONEY FUND -- VALUE ADVANTAGE SHARES(TM)
SCHWAB CALIFORNIA TAX-EXEMPT MONEY FUND -- VALUE ADVANTAGE SHARES(TM)
SCHWAB NEW YORK TAX-EXEMPT MONEY FUND -- VALUE ADVANTAGE SHARES(TM)

JUNE 6, 1995, AS AMENDED JUNE 13, 1995

This Statement of Additional Information is not a prospectus. It should be read in conjunction with the Prospectus dated June 6, 1995, which may be amended from time to time, for the Value Advantage Shares of the Schwab Tax-Exempt Money Fund, Schwab California Tax-Exempt Money Fund, and Schwab New York Tax-Exempt Money Fund (each a "Fund" and collectively, the "Funds"), three separately managed investment portfolios of The Charles Schwab Family of Funds (the "Trust"). This Statement of Additional Information relates to the Value Advantage Shares of the Funds. As of the date of this Statement of Additional Information, the Value Advantage Shares of the Schwab California Tax-Exempt Money Fund are not being offered to the public. To obtain a copy of the above-referenced Prospectus, please contact Charles Schwab & Co., Inc. ("Schwab") at 800-2 NO-LOAD (800-266-5623), 24 hours a day or 101 Montgomery Street, San Francisco, CA 94104.

SCHWABFunds(R)
800-2 NO-LOAD
(800-266-5623)

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MUNICIPAL SECURITIES

"Municipal Securities" are debt securities issued by a state, its political subdivisions, agencies, authorities and corporations. Municipal Securities issued by or on behalf of the State of California, its subdivisions, agencies or authorities are referred to herein as "California Municipal Securities." Municipal Securities issued by or on behalf of the State of New York, its subdivisions, agencies or instrumentalities are referred to herein as "New York Municipal Securities."

Municipal Securities that the Funds may purchase include, without limitation, debt obligations issued to obtain funds for various public purposes, including the construction of a wide range of public facilities such as airports, bridges, highways, housing, hospitals, mass transportation, public utilities, schools, streets, and water and sewer works. Other public purposes for which Municipal Securities may be issued include refunding outstanding obligations, obtaining funds for general operating expenses and obtaining funds to loan to other public institutions and facilities.

Municipal Securities include securities issued to finance various private activities, including certain types of private activity bonds ("industrial development bonds" under prior law). These securities may be issued by or on behalf of public authorities to obtain funds to provide certain privately owned or operated facilities. The Funds may not be desirable investments for "substantial users" of facilities financed by private activity bonds or industrial development bonds or for "related persons" of substantial users for whom dividends attributable to interest on such bonds may not be tax-exempt. Shareholders should consult their own tax advisers regarding the potential effect on them (if any) of any investment in these Funds.

Municipal Securities generally are classified as "general obligation" or "revenue." General obligation bonds are secured by the issuer's pledge of its full credit and taxing power for the payment of principal and interest. Revenue bonds 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 or other specific revenue source. Private activity bonds and industrial development bonds that are Municipal Securities are in most cases revenue bonds and generally do not constitute the pledge of the credit of the issuer of such bonds.

Examples of Municipal Securities that are issued with original maturities of one year or less are short-term tax anticipation notes, bond anticipation notes, revenue anticipation notes, construction loan notes, pre-refunded municipal bonds and tax-free commercial paper. Tax anticipation notes typically are sold to finance working capital needs of municipalities in anticipation of receiving property taxes on a future date. Bond anticipation notes are sold on an interim basis in anticipation of a municipality issuing a longer term bond in the future. Revenue anticipation notes are issued in expectation of receipt of other types of revenue such as those available under the Federal Revenue Sharing Program. Construction loan notes are instruments insured by the Federal Housing Administration with permanent financing by "Fannie Mae" (the Federal National Mortgage Association) or "Ginnie Mae" (the Government National Mortgage Association) at the end of the project construction period. Pre-refunded municipal bonds are bonds that are not yet refundable, but for which securities have been placed in escrow to refund an original municipal bond issue when it becomes refundable. Tax-free commercial paper is an unsecured promissory obligation issued or

guaranteed by a municipal issuer. The Funds may purchase other Municipal Securities similar to the foregoing, which are or may become available, including securities issued to pre-refund other outstanding obligations of municipal issuers.

The federal bankruptcy statutes relating to the adjustments of debts of political subdivisions and authorities of states of the United States provide that, in certain circumstances, such subdivisions or authorities may be authorized to initiate bankruptcy proceedings without prior notice to or consent of creditors, which proceedings could result in material adverse changes in the rights of holders of obligations issued by such subdivisions or authorities.

Litigation challenging the validity under the state constitutions of present systems of financing public education has been initiated or adjudicated in a number of states, and legislation has been introduced to effect changes in public school finances in some states. In other instances there has been litigation challenging the issuance of pollution control revenue bonds or the validity of their issuance under state or federal law which ultimately could affect the validity of those Municipal Securities or the tax-free nature of the interest thereon.

RISK FACTORS

The Schwab California Tax-Exempt Money Fund and the Schwab New York Tax-Exempt Money Fund's concentration in securities issued by a single state and its political subdivisions provides a greater level of risk than does a fund that is diversified across numerous states and municipal entities. The ability of a single state and its municipalities to meet their obligations will depend on the availability of tax and other revenues, economic, political, and demographic conditions within the state, and the underlying fiscal condition of the state and its municipalities.

CALIFORNIA MUNICIPAL SECURITIES

In addition to general economic pressures which affect the State of California's ability to raise revenues to meet its financial obligations, certain California constitutional amendments, legislative measures, executive orders, administrative regulations and voter initiatives could also result in the adverse effects described below. The following information constitutes only a brief summary, does not purport to be a complete description and is based on information drawn from official statements and prospectuses relating to securities offerings of the State of California that have come to the attention of the Trust and were available prior to the date of this Statement of Additional Information. The accuracy and completeness of the information contained in such official statements and prospectuses has not been independently verified by the Trust.

As used in this section, "California Municipal Security" includes not only issues which are secured by a direct payment obligation of the State, but also obligations of issuers that rely in whole or in part on State revenues for payment of their obligations. A portion of the State's General Fund surplus are distributed to counties, cities and their various taxing entities; whether and to what extent a portion of the State's General Fund will be distributed in the future to them is unclear.

Overview. From mid-1990 to late 1993, the State suffered a recession with the worst economic, fiscal and budget conditions since the 1930's. Construction, manufacturing (especially aerospace), exports and financial services, among others, all have been severely affected. Job losses were the worst of any post-war recession.

The recession seriously affected State tax revenues and caused an increase in expenditures for health and welfare programs. As a result, the State has experienced recurring budget deficits. The State Controller reports that expenditures exceeded revenues for four of the five fiscal years ending with 1991-92. Revenues and expenditures were essentially equal in 1992-93. The State General Fund ended the 1993-94 fiscal year with an estimated accumulated deficit of about $1.8 billion. A further consequence of the large budget imbalances has been that the State depleted its available cash resources and has had to use a series of external borrowings to meet its cash needs.

As a result of the deterioration in the State's budget and cash situation, the State's credit ratings have been reduced. Since October, 1992, all three major nationally recognized statistical rating organizations have lowered the State's general obligation bond rating from the highest ranking of "AAA" to "A" by Standard and Poor's Corporation, "A1" by Moody's Investors Service, Inc. and "A" by Fitch Investors Service, Inc.

State Appropriations Limit. Subject to certain exceptions, the State is subject to an annual appropriations limit imposed by Article XIII B of the State Constitution on "proceeds of taxes." Various expenditures, including but not limited to debt service on certain bonds and appropriations for qualified capital outlay projects, are not included in the appropriations limit.

1994-95 FISCAL YEAR

Revenues. The 1994-95 Budget Act projected General Fund revenues and transfers in 1994-95 of $41.9 billion, or about $2.1 billion more than 1993-94, as revised. This projection includes the receipt of approximately $360 million in new federal aid to reimburse the State for certain costs related to undocumented foreign immigrants. The State's initial analysis of the federal 1995 fiscal year budget indicates that about $98 million was appropriated to the State for certain of those costs, but that only about $33 million of that amount will be received by the State during its 1994-95 fiscal year, with the remainder to be received in its 1995-96 fiscal year. The 1994-95 Budget Act also projected Special Fund revenues of $12.1 billion, a decrease of 2.4 percent from 1993-94.

Expenditures. The 1994-95 Budget Act projected General Fund expenditures of $40.9 billion (a 1.6 percent increase from projected 1993-94 expenditures), in order to keep a balanced budget which pays off the accumulated deficit, within available revenues. The 1994-95 Budget Act also projected Special Fund expenditures of $12.3 billion, a 4.7 percent decrease from 1993-94. The 1994-95 Budget Act balanced the budget with a number of major adjustments, including the receipt of about $1.1 billion in health and welfare costs, and an increase of about $526 million in Proposition 98 General Fund support for K-14 schools.

Cash resources at the beginning of the 1994-95 fiscal year were insufficient to meet all obligations without external borrowing, such as occurred in 1992. The 1994-95 Budget Act assumed that the State would use a cash flow borrowing program in 1994-95 which combined one-year notes and two-year warrants, which have now been issued. Issuance of the warrants allows the State to defer repayment of about $1 billion of its accumulated budget deficit into the 1995-96 fiscal year. Additional legislation was passed with the 1994-95 Budget Act designed to ensure that the warrants will be repaid in the 1995-96 fiscal year.

The 1995-96 Governor's proposed Budget contains a reforecast of revenues and expenditures for the 1994-95 fiscal year. The reforecast estimates that General Fund revenues

and transfers will increase from the 1994-95 Budget Act estimate of $41.9 billion to over $42.3 billion, but also estimates that General Fund expenditures will increase to $41.7 billion from the 1994-95 Budget Act estimate of $40.9 billion.

1995-96 FISCAL YEAR

Revenues. The Governor's proposed budget for 1995-96 estimates General Fund revenues and transfers of $42.5 billion, a slight increase over 1994-95, as revised. This slight increase reflects a proposal to shift to the counties greater responsibility for welfare and social services (including a transfer of about $1 billion in State revenues to counties) and the first year of a proposal to cut personal and corporate income tax rates by 15 percent. Without these two proposals, General Fund revenues and transfers would be projected at approximately $43.8 billion. Special Fund revenues are estimated at $13.5 billion, an increase of 10.7 percent from 1994-95 revenues.

Expenditures. The Governor's proposed budget for 1995-96 estimates General Fund expenditures of $41.7 billion. Special Fund expenditures are estimated at $13.8 billion, an increase of 12.2 percent from 1994-95. The proposed budget projects that the General Fund will end the 1995-96 fiscal year with a slight surplus, and that all of the accumulated budget deficits will have been repaid. A report issued in February 1995 by the California Legislative Analyst, however, notes that the Governor's proposed budget for 1995-96 is subject to a number of major risks, including receipt of expected federal immigration aid and other federal actions that would allow State health and welfare cuts.

The foregoing discussions of the 1994-95 Budget and the proposed 1995-96 Budget are based upon the Budget Act for 1994-95 and the Governor's proposed 1995-96 Budget, respectively, and should not be construed as a statement of fact. The assumptions used to construct a budget, which include estimates and projections of revenues and expenditures, may be affected by numerous factors, including future economic conditions in the State and the nation. There can be no assurances that any estimates will be achieved.

ISSUES AFFECTING LOCAL GOVERNMENTS AND SPECIAL DISTRICTS

Proposition 13. Certain California Municipal Securities may be obligations of issuers that rely in whole or in part on ad valorem real property taxes as a source of revenue. In 1978, California voters approved Proposition 13, which limits ad valorem taxes on real property and restricts the ability of taxing entities to increase property tax revenues.

With certain exceptions, the maximum ad valorem tax on real property is limited to 1% of the full cash value to be collected by the counties and apportioned according to law. One exception is for debt service on bonded indebtedness if approved by two-thirds of the votes cast by voters voting on the proposition. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable local data, or reduced in the event of declining property value caused by substantial damage, destruction or other factors or adjusted when there is a "change in ownership " or "new construction".

The State, in response to the significant reduction in local property tax revenues as a result of the passage of Proposition 13, enacted legislation to provide local government with increased expenditures from the General Fund.

This post-proposition 13 fiscal relief has ended.

Proposition 62. This initiative, approved by voters in 1986, placed further restrictions on the ability of local governments to raise taxes and allocate approved tax receipts. Several recent decisions of the California Courts of Appeal have held that parts of Proposition 62 are unconstitutional, however.

Propositions 98 and 111. These initiatives changed the State appropriations limit and State funding of public education below the university level by guaranteeing K-14 schools a minimum share of General Fund revenues. The initiatives require that the State establish a prudent state reserve fund for public education.

Appropriations Limit. Local governmental bodies are also subject to annual appropriations limits. If a local government's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned to the public through a revision of tax rates or fee schedules over the subsequent two years.

Conclusion. The effect of these constitutional and statutory changes and of budget developments on the ability of California issuers to pay interest and principal on their obligations remains unclear, and may depend on whether a particular bond is a general obligation or limited obligation bond (limited obligation bonds being generally less affected). There is no assurance that any California issuer will make full or timely payments of principal or interest or remain solvent. For example, in December 1994, Orange County filed for bankruptcy. The California Tax-Exempt Money Fund's concentration in California municipal securities provides a greater level of risk than a fund that is diversified across numerous states and municipal entities.

ADDITIONAL ISSUES

Mortgages and Deeds of Trust. The California Tax-Exempt Money Fund may invest in issues which are secured in whole or in part by a mortgage or deed of trust on real property. California law limits the remedies of a creditor secured by a mortgage or deed of trust, which may result in delays in the flow of revenues to an issuer.

Lease Financings. Some local governments and districts finance certain activities through lease arrangements. It is uncertain whether such lease financings are debt that require voter approval.

Seismic Risk. It is impossible to predict the time, magnitude or location of a major earthquake or its effect on the California economy. In January 1994, a major earthquake struck Los Angeles, causing significant damage to structures and facilities in a four county area. The possibility exists that another such earthquake could create a major dislocation of the California economy.

NEW YORK MUNICIPAL SECURITIES

The State of New York has experienced fiscal problems for several years as a result of negligible growth, increased human service needs and the lingering recession that hit the State harder than others. Though the State enjoyed good growth throughout the early to mid-1980's, unemployment has risen drastically and over 250,000 jobs have been lost in the past four years. The State's economy is highly developed with a large emphasis in service, trade, financial services, and real estate. While very diverse, extensive job losses in each of these areas has placed a burden on the State to maintain employment, company development and a stable tax base.

As reflected in its financial results, the State has a large accumulated deficit. The overall wealth of the State's population as reflected by the per capita income offers a positive credit enhancement and is among the highest in the nation. The debt per capita, though, is also among the highest and poses a large burden on its residents.

The importance of New York City to the State's economy is also an important consideration since it represents a significant portion of the overall economy of the State. The City has struggled to maintain fiscal stability and has performed adequately in contrast to the difficult economic conditions in the

New York/New Jersey metropolitan area. Any major changes to the financial condition of the City would ultimately have an effect on the State. The overall financial condition of the State can also be illustrated by the changes of its debt ratings. During the last several years during which the State experienced its financial difficulties, its general obligation long-term debt ratings as determined by Moody's declined from A1 to A in 1990 while S&P downgraded the State's debt from A to A- in early 1992. The State has the second lowest long term debt rating among those states with outstanding general obligation ratings. The short-term debt ratings are within the top two rating categories: MIG-2 for Moody's and SP-1 for S&P. In February 1991, Moody's lowered its rating on New York City general obligation bonds from A to Baa1.

The Schwab New York Tax-Exempt Money Fund's concentration in securities issued by the State of New York and its political subdivisions provides a greater level of risk than a fund which is diversified across numerous states and municipal entities. The ability of the State of New York or its municipalities to meet their obligations will depend on the availability of tax and other revenues; economic, political, and demographic conditions within the state; and the underlying fiscal condition of the state and its municipalities.

INVESTMENT RESTRICTIONS

EXCEPT AS OTHERWISE NOTED, THE RESTRICTIONS BELOW ARE FUNDAMENTAL AND CANNOT BE CHANGED WITHOUT APPROVAL OF THE HOLDERS OF A MAJORITY OF THE OUTSTANDING VOTING SECURITIES (AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, HEREINAFTER THE "1940 ACT") OF THE FUND TO WHICH THEY APPLY. THE FUNDS MAY NOT:

(1) Purchase securities or make investments other than in accordance with its investment objectives and policies.

(2) Purchase securities of any issuer (other than obligations of, or guaranteed by, the U.S. Government, its agencies or instrumentalities) if as a result more than 5% of the value of its assets would be invested in the securities of that issuer, except that, with respect to the Schwab California Tax-Exempt Money Fund and the Schwab New York Tax-Exempt Money Fund, provided no more than 25% of the Fund's total assets would be invested in the securities of a single issuer, up to 50% of the value of the Fund's assets may be invested without regard to this 5% limitation. For purposes of this limitation, the Fund will regard the entity which has the primary responsibility for the payment of interest and principal as the issuer.

(3) Purchase securities (other than securities of the U.S. Government, its agencies or instrumentalities) if as a result of such purchase 25% or more of its total assets would be invested in any industry

(although securities issued by governments or political subdivisions of governments are not considered to be securities subject to this industry concentration restriction) or in any one state (although the limitation as to investments in a state or its political subdivision shall not apply to the Schwab California Tax-Exempt Money Fund or the Schwab New York Tax-Exempt Money Fund), nor may it enter into a repurchase agreement if more than 10% of its net assets would be subject to repurchase agreements maturing in more than seven days.

(4) Invest more than 5% of its total assets in industrial development bonds sponsored by companies which with their predecessors have less than three years continuous operation, although each Fund may invest more than 25% of its total net assets in industrial development bonds.

(5) Invest more than 5% of its total assets in securities restricted as to disposition under the federal securities laws, although this limitation shall be 10% with respect to the Schwab California Tax-Exempt Money Fund and the Schwab New York Tax-Exempt Money Fund.

(6) Purchase or retain securities of an issuer if any of the officers, trustees or directors of the Trust or of its Investment Manager individually owns beneficially more than 1/2 of 1% of the securities of such issuer and together own more than 5% of the securities of such issuer.

(7) Invest in commodities or commodity futures contracts or in real estate except that each Fund may invest in Municipal Securities secured by real estate or interests therein.

(8) Invest for the purpose of exercising control or management of another issuer.

(9) Purchase securities of other investment companies, except in connection with a merger, consolidation, reorganization or acquisition of assets.*

(10) Make loans to others (except through the purchase of debt obligations or repurchase agreements in accordance with its investment objective and policies).

(11) Borrow money except from banks for temporary purposes (but not for the purpose of purchase of investments) and then only in an amount not to exceed one-third of the value of its total assets (including the amount borrowed) in order to meet redemption requests which otherwise might result in the untimely disposition of securities; or pledge its securities or receivables or transfer or assign or otherwise encumber them in an amount to exceed 10% of the Fund's net assets to secure borrowings. Reverse repurchase agreements entered into by the Fund are permitted within the limitations of this paragraph. No such Fund will purchase securities or make investments while reverse repurchase agreements or borrowings are outstanding.

(12) Write, purchase or sell puts, calls or combinations thereof, although it may purchase Municipal Securities subject to standby commitments, variable rate demand notes or repurchase agreements in accordance with its investment objective and policies.

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* See the description of the Trustees' deferred compensation plan under "Management of the Trust" in this Statement of Additional Information for an exception to this investment restriction.

(13) Make short sales of securities or purchase securities on margin, except to obtain such short-term credits as may be necessary for the clearance of transactions.

(14) Invest in interests in oil, gas or other mineral exploration or development programs, although it may invest in Municipal Securities of issuers which invest in or sponsor such programs.

(15) Underwrite securities issued by others except to the extent it may be deemed to be an underwriter, under the federal securities laws, in connection with the disposition of securities from its investment portfolio.

(16) Issue senior securities as defined in the 1940 Act.

Except for restrictions (6) and (11), if a percentage restriction is adhered to at the time of investment, a later increase in percentage resulting from a change in values or net assets will not be considered a violation. None of the Funds has a present intention of borrowing during the coming year and, in any event, each Fund would limit borrowings as required by the restrictions previously stated.

Each Fund will only purchase securities that present minimal credit risks and which are First Tier or Second Tier Securities (otherwise referred to as "Eligible Securities")*. An Eligible Security is:

(1) a security with a remaining maturity of 397 days or less: (a) that is rated by the requisite nationally recognized statistical rating organizations ("NRSROs") designated by the Securities and Exchange Commission (the "SEC") (currently Moody's Investors Service, Standard & Poor's Corporation, Duff and Phelps, Inc., Fitch Investors Services, Inc., Thomson Bankwatch, and, with respect to debt issued by banks, bank holding companies, United Kingdom building societies, broker-dealers and broker-dealers' parent companies, and bank-supported debt, IBCA Limited and its affiliate, IBCA, Inc.) in one of the two highest rating categories for short-term debt obligations (the requisite NRSROs being any two or, if rated by one, that one NRSRO), or (b) that itself was unrated by any NRSRO, but was issued by an issuer that has outstanding a class of short-term debt obligations (or any security within that class) meeting the requirements of subparagraph 1(a) above that is of comparable priority and security;

(2) a security that at the time of issuance was a long-term security but has a remaining maturity of 397 days or less and (a) whose issuer received a rating within one of the two highest rating categories from the requisite NRSROs for short-term debt obligations with respect to a class of short-term debt obligations (or any security within that class) that is now comparable in priority and security with the subject security; or (b) that has long-term ratings from the requisite NRSROs that are in one of the two highest categories; or

(3) a security not rated by an NRSRO but deemed by the Investment Manager, pursuant to guidelines adopted by the Board of Trustees, to be of comparable quality to securities described in (1) and (2) and to represent minimal credit risks.

A First Tier Security is any Eligible Security that carries (or other relevant securities issued by its issuer carry) top NRSRO ratings from at least two NRSROs (a single top rating is sufficient if only one NRSRO rates the security) or has been determined by the Investment Manager, pursuant to guidelines adopted by

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* See the description of the Trustees' deferred compensation plan under "Management of the Trust" in this Statement of Additional Information for an exception to this investment restriction.

the Board of Trustees, to be of comparable quality to such a security. A Second Tier Security is any other Eligible Security.

MANAGEMENT OF THE TRUST

Officers and Trustees. The officers and trustees of the Trust, their principal occupations over the past five years and their affiliations, if any, with The Charles Schwab Corporation, Schwab, and Charles Schwab Investment Management, Inc., are as follows:

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NAME	POSITION WITH THE TRUST	PRINCIPAL OCCUPATION
<S>	<C>	<C>
CHARLES R. SCHWAB* Age: 57	Chairman and Trustee	Founder, Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation; Founder, Chairman and Director, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc.; Chairman and Director, The Charles Schwab Trust Company and Mayer & Schweitzer, Inc. (a securities brokerage subsidiary of The Charles Schwab Corporation); Director, The Gap, Inc. (a clothing retailer); Transamerica Corporation (a financial services organization) and AirTouch Communications (a telecommunications company).
ELIZABETH G. SAWI* Age: 43	President and Trustee	Executive Vice President - Mutual Funds, Charles Schwab & Co., Inc. and The Charles Schwab Corporation; President, Charles Schwab Investment Management, Inc. Prior to April 1994, Ms. Sawi was Executive Vice President - Marketing and Advertising for Charles Schwab & Co., Inc. and The Charles Schwab Corporation.
DONALD F. DORWARD Age: 63	Trustee	President and Chief Executive Officer, Dorward & Associates (advertising and marketing/consulting).
ROBERT G. HOLMES Age: 63	Trustee	Chairman, Chief Executive Officer and Director, Semloh Financial, Inc. (international financial services).
DONALD R. STEPHENS Age: 56	Trustee	Managing Partner, D.R. Stephens & Co. (real estate investment). Prior to 1993, Chairman and Chief Executive Officer, Bank of San Francisco.

MICHAEL W. WILSEY Age: 51	Trustee	Chairman, Chief Executive Officer and Director, Wilsey Bennett, Inc. (truck and air transportation, real estate investment and management, investments).

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* Mr. Schwab is an "interested person" of the Trust.

* Ms. Sawi is an "interested person" of the Trust.

<TABLE>

<S>	<C>	<C>
A. JOHN GAMBS Age: 49	Treasurer and Principal Financial Officer	Executive Vice President - Finance and Chief Financial Officer, The Charles Schwab Corporation; Executive Vice President, Chief Financial Officer and Director, Charles Schwab & Co., Inc.; Chief Financial Officer and Director, Charles Schwab Investment Management, Inc.; and Chief Financial Officer, The Charles Schwab Trust Company.
WILLIAM J. KLIPP* Age: 39	Senior Vice President, Chief Operating Officer and Trustee	Senior Vice President, Charles Schwab & Co., Inc., Chief Operating Officer, Charles Schwab Investment Management, Inc. Prior to 1993, Mr. Klipp was Treasurer of Charles Schwab & Co., Inc. and Mayer & Schweitzer, Inc. Prior to 1990, he was Vice President, Director Funding, Merrill Lynch & Co., Inc.
STEPHEN B. WARD Age: 39	Senior Vice President & Chief Investment Officer	Senior Vice President, Charles Schwab Investment Management, Inc. Prior to 1991, Mr. Ward was Vice President and Portfolio Manager for Federated Investors.
FRANCES COLE Age: 39	Secretary	Chief Counsel and Compliance Officer, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. Prior to 1991, Ms. Cole was Senior Counsel for Equitec Securities Company.
TIMOTHY B. PAWLOSKI Age: 36	Assistant Treasurer	Vice President of Finance- SchwabFunds(R), 1991 to 1993, Mr. Pawloski was Director of Finance for Charles Schwab & Co., Inc. and from 1987 to 1991, Mr. Pawloski served as a Senior Manager at Price Waterhouse.
PAMELA E. HERLICH Age: 41	Assistant Secretary	Assistant Corporate Secretary, The Charles Schwab Corporation and Charles Schwab & Co., Inc.; Corporate Secretary, Charles Schwab Investment Management, Inc., Mayer & Schweitzer and The Charles Schwab Trust Company. Prior to 1993, Ms. Herlich was Assistant Corporate Secretary for Mayer & Schweitzer, Inc. and The Charles Schwab Trust Company.
DAVID H. LUI Age: 34	Assistant Secretary	Senior Counsel - Charles Schwab Investment Management, Inc.; from 1991 to 1992, Assistant Secretary and Assistant Corporate Counsel, Franklin Group of Mutual Funds. Prior to 1991, Mr. Lui was an Associate for Thelen, Marrin, Johnson & Bridges, a San Francisco law firm.
CHRISTINA M. PERRINO Age: 33	Assistant Secretary	Senior Counsel - Charles Schwab Investment Management, Inc. Prior to 1994, Ms. Perrino was Counsel and Assistant Secretary for North American Security Life Insurance Company and Secretary for North American Funds.

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* Mr. Klipp is an "interested person" of the Trust.

Each of the above-referenced Officers and/or Trustees also serves in the same capacity as described for the Trust for Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, and Schwab Advantage Trust (which has not commenced operations). The address of each Officer and/or Trustee listed above is 101 Montgomery Street, San Francisco, California 94104.

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COMPENSATION TABLE(1)

Name of Person, Position	Aggregate Compensation from the Trust	Pension or Retirement Benefits Accrued as Part of Fund Expenses from the Fund Complex(2)	Estimated Annual Benefits Upon Retirement from the Fund Complex(2)	Total Compensation from the Fund Complex(2)
<S>	<C>	<C>	<C>	<C>
Charles R. Schwab, Chairman and Trustee	0	N/A	N/A	0
Elizabeth G. Sawi, President and Trustee	0	N/A	N/A	0
William J. Klipp, Senior Vice President, Chief Operating Officer, and Trustee	0	N/A	N/A	0
Donald F. Dorward, Trustee	26,000	N/A	N/A	58,000
Robert G. Holmes, Trustee	26,000	N/A	N/A	58,000
Donald R. Stephens, Trustee	26,000	N/A	N/A	58,000
Michael W. Wilsey, Trustee	26,000	N/A	N/A	58,000

</TABLE>

1. Figures are for the Trust's fiscal year ended December 31, 1994.

2. "Fund Complex" comprises all 19 funds of the Trust, Schwab Investments, Schwab Capital Trust, and Schwab Annuity Portfolios.

TRUSTEE DEFERRED COMPENSATION PLAN

Pursuant to exemptive relief received by the Trust from the SEC, the Trust may enter into deferred fee arrangements (the "Fee Deferral Plan" or the "Plan") with the Trust's trustees who are not "interested persons" of any of the Funds of the Trust (the "Independent Trustees" or the "Trustees").

As of the date of this Statement of Additional Information, none of the Independent Trustees has elected to participate in the Fee Deferral Plan. In the event an Independent Trustee does elect to participate in the Plan, the Plan would operate as described below.

Under the Plan, deferred Trustee's fees will be credited to a book reserve account established by the Trust (the "Deferred Fee Account"), as of the date such fees would have been paid to such Trustee. The value of the Deferred Fee Account as of any date will be equal to the value the Account would have had as of that date if the amounts credited to the Account had been invested and reinvested in the securities of the SchwabFund or SchwabFunds selected by the participating Trustee (the "Selected SchwabFund Securities"). "SchwabFunds" include certain series of beneficial interest of the Trust, Schwab Investments, Schwab Capital Trust, and Schwab Advantage Trust (which has not yet commenced operations).

Pursuant to the exemptive relief granted to the Trust, each Fund will purchase and maintain the Selected SchwabFund Securities in an amount equal to the deemed investments in that Fund of the Deferred Fee Accounts of the Independent Trustees. These transactions would otherwise be limited or prohibited by the investment policies and/or restrictions of the Funds. See "Investment Restrictions."

INVESTMENT MANAGER

Charles Schwab Investment Management, Inc. (the "Investment Manager"), a wholly-owned subsidiary of The Charles Schwab Corporation, serves as the Funds' investment adviser and administrator pursuant to two separate yet otherwise substantially similar Investment Advisory and Administration Agreements (the "Advisory Agreements") between it and the Trust. The Investment Manager is registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and 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. The Investment Manager is an affiliate of Schwab, the Trust's distributor and shareholder services and transfer agent.

Each Advisory Agreement will continue in effect for one-year terms for each Fund to which it relates, subject to annual approval by: (1) the Trust's Board of Trustees or (2) a vote of the majority (as defined in the 1940 Act) of the outstanding voting securities of each Fund subject thereto. In either event, the continuance must also be approved by a majority of the Trust's Board of Trustees who are not parties to the Agreement or interested persons (as defined in the 1940 Act) of any such party by vote cast in person at a meeting called for the purpose of voting on such approval. Each Advisory Agreement may be terminated at any time upon 60 days notice by either party, or by a majority vote of the outstanding shares of a Fund subject thereto, and will terminate automatically upon assignment.

Pursuant to an Advisory Agreement dated June 15, 1994, as may be amended from time to time, the Investment Manager is entitled to receive an annual fee, payable monthly, of 0.46% of the Schwab Tax-Exempt 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.

Pursuant to a separate Advisory Agreement dated June 15, 1994, as may be amended from time to time, the Investment Manager is entitled to an annual fee, payable monthly from the Schwab California Tax-Exempt Money Fund and the Schwab New York Tax-Exempt Money Fund of 0.46% of each 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.

No investment advisory fees were paid by the Value Advantage Shares of each Fund as of the date of this Statement of Additional Information because the Shares had not yet been offered.

EXPENSES

The Trust pays the expenses of its operations, including the fees and expenses of independent accountants, counsel, custodian and the cost of reports and notices to shareholders, costs of calculating net asset value, brokerage commissions or transaction costs, taxes, registration fees, the fees and expenses of qualifying the Trust and its shares for distribution under federal and state securities laws and membership dues in the Investment Company Institute or any similar organization. The Trust's expenses generally are allocated among the Funds on the basis of relative net assets at the time of allocation, except that expenses directly attributable to a particular Fund or class of shares are charged to that Fund or class, respectively.

DISTRIBUTOR

Pursuant to a Distribution Agreement, Schwab is the principal underwriter for shares of the Trust and is the Trust's agent for the purpose of the continuous offering of the Funds' shares. Each Fund pays the cost for the prospectuses and shareholder reports to be prepared and delivered to existing shareholders. Schwab pays such costs when the described materials are used in connection with the offering of shares to prospective investors and for supplementary sales literature and advertising. Schwab receives no fee under the Distribution Agreement. Terms of continuation, termination and assignment under the Distribution Agreement are identical to those described above with respect to the Advisory Agreements.

CUSTODIAN AND FUND ACCOUNTANT

PNC Bank, National Association, at the Airport Business Center, 200 Stevens Drive, Suite 440, Lester, Pennsylvania 19113, serves as Custodian for the Trust.

PFPC, Inc., at 103 Bellevue Parkway Wilmington, Delaware 19809, serves as Fund Accountant for the Trust.

ACCOUNTANTS AND REPORTS TO SHAREHOLDERS

The Trust's independent accountants, Price Waterhouse LLP, audit and report on the annual financial statements of each series of the Trust and review certain regulatory reports and the Trust's federal income tax return. Price Waterhouse LLP also performs other professional accounting, auditing, tax and advisory services when engaged to do so by the Trust. Shareholders will be sent audited annual and unaudited semi-annual financial statements. The address of Price Waterhouse LLP is 555 California Street, San Francisco, California 94104.

LEGAL COUNSEL

Ropes & Gray, 1001 Pennsylvania Avenue, N.W., Suite 1200 South, Washington, D.C. 20004, is counsel to the Trust.

PORTFOLIO TRANSACTIONS AND TURNOVER

PORTFOLIO TRANSACTIONS

Portfolio transactions are undertaken principally to pursue the objective of each Fund in relation to movements in the general level of interest rates, to invest money obtained from the sale of Fund shares, to reinvest proceeds from maturing portfolio securities and to meet redemptions of Fund shares. Portfolio transactions may increase or decrease the yield of a Fund depending upon management's ability to correctly time and execute them.

The Investment Manager, in effecting purchases and sales of portfolio securities for the account of each Fund, seeks to obtain best price and execution. Subject to the supervision of the Board of Trustees, the Investment Manager generally selects broker-dealers for the Funds primarily on the basis of the quality and reliability of services provided, including execution capability and financial responsibility.

When the execution and price offered by two or more broker-dealers are comparable, the Investment Manager may, in its discretion, utilize the services of broker-dealers that provide it with investment information and other research resources. Such resources may also be used by the Investment Manager when providing advisory services to other investment advisory clients, including mutual funds.

The Trust expects that purchases and sales of portfolio securities will usually be principal transactions. Securities will normally be purchased directly from the issuer or from an underwriter or market maker for the securities.

Purchases from underwriters will include a commission or concession paid by the issuer to the underwriter, and purchases from dealers serving as market makers will include the spread between the bid and asked prices.

The investment decisions for each Fund are reached independently from those for other accounts managed by the Investment Manager. Such other accounts may also make investments in instruments or securities at the same time as a Fund. When two or more accounts managed by the Investment Manager have funds available for investment in similar instruments, available instruments are allocated as to amount in a manner considered equitable to each account. In some cases this procedure may affect the size or price of the position obtainable for a Fund. However, it is the opinion of the Board of Trustees that the benefits conferred by the Investment Manager outweigh any disadvantages that may arise from exposure to simultaneous transactions.

PORTFOLIO TURNOVER

Because securities with maturities of less than one year are excluded from required portfolio turnover rate calculations, each Fund's portfolio turnover rate for reporting purposes is expected to be zero.

DISTRIBUTIONS AND TAXES

DISTRIBUTIONS

On each day that the net asset value per share of the Value Advantage Shares of a Fund is determined ("Business Day"), such Shares' net investment income will be declared as of the close of trading on the New York Stock Exchange (normally 4:00 p.m. Eastern time) as a daily dividend to shareholders of record as of the last calculation of net asset value prior to the declaration. For the Value Advantage Shares of each Fund, dividends will normally be reinvested monthly in full and fractional Value Advantage Shares of the Fund at the net asset value on the fifteenth day of each month, if a Business Day, otherwise on the next Business Day. If cash payment is requested, checks will normally be mailed on the Business Day following the reinvestment date. Each Fund will pay shareholders, who redeem all of their shares, all dividends accrued to the time of the redemption within seven days.

Each Fund calculates its dividends based on its daily net investment income. For this purpose, the net investment income of the Value Advantage Shares of a Fund consists of: (1) accrued interest income, plus or minus amortized discount or premium, excluding market discount, minus (2) accrued expenses allocated to the Value Advantage Shares of that Fund. If a Fund realizes any capital gains, such gains will be distributed at least once during the year as determined by the Board of Trustees. Any realized short-term capital losses to the extent not offset by realized capital gains will be carried forward. It is not anticipated that a Fund will realize any long-term capital gains, but if it does so, these gains will be distributed annually. Expenses of the Trust are accrued each day. Should the net asset value of the Value Advantage Share of a Fund deviate significantly from market value, the Board of Trustees could decide to value the investments at market value and any unrealized gains and losses could affect the amount of the Fund's distributions to holders of Value Advantage Shares.

FEDERAL INCOME TAXES

It is the policy of each Fund to qualify for taxation as a "regulated investment company" by meeting the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). By following this policy, each Fund expects to eliminate or reduce to a nominal amount the federal income tax to which it is subject.

In order to qualify as a regulated investment company, each of the Funds must, among other things, (1) derive at least 90% of its gross income from dividends, interest, payments with respect to securities loans and gains from the sale or other disposition of stocks, securities, foreign currencies or other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in stocks, securities or currencies; (2) derive less than 30% of its gross income from gains from the sale or other disposition of certain assets (including stocks and securities) held for less than three months; and (3) diversify its holdings so that at the end of each quarter of its taxable year (i) at least 50% of the market value of the Fund's total assets is represented by cash or cash items, United States Government securities, securities of other regulated investment companies and other securities limited, in respect of any one issuer, to a value not greater than 5% of the value of the Fund's total assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities of any one issuer (other than United States Government securities or securities of any other regulated investment company) or of two or more issuers that the Fund controls, within the meaning of the Code, and that are engaged in the same, similar or related trades or businesses. These requirements may restrict the degree to which a Fund may engage in short-term trading and certain hedging transactions and may limit the range of the Fund's investments. If a Fund qualifies as a regulated investment company, it will not be subject to federal income tax on the part of its net investment income and net realized capital gains, if any, which it distributes to shareholders, provided that the Fund meets certain minimum distribution requirements. To comply with these requirements, a Fund must distribute at least (a) 90% of its "investment company taxable income" (as that term is defined in the Code) and (b) 90% of the excess of its (i) tax-exempt interest income over (ii) certain deductions attributable to that income (with certain exceptions), for its taxable year. Each Fund intends to make sufficient distributions to shareholders to meet these requirements.

If a Fund fails to distribute in a calendar year (regardless of whether it has a non-calendar taxable year) substantially all of its (i) ordinary income for such year; and (ii) capital gain net income for the year ending October 31 (or later if the Fund is permitted so to elect and so elects), plus any retained amount from the prior year, the Fund will be subject to a nondeductible 4% excise tax on the undistributed amounts. Each Fund intends generally to make distributions sufficient to avoid imposition of this excise tax.

Any distributions declared by the Funds in October, November or December to shareholders of record during those months and paid during the following January are treated, for tax purposes, as if they were received by each shareholder on December 31 of the year declared. A Fund may adjust its schedule for the reinvestment of distributions for the month of December to assist in complying with the reporting and minimum distribution requirements of the Code.

The Funds do not expect to realize any significant amount of long-term capital gain. However, any distributions of long-term capital gain will be taxable to the shareholders as long-term capital gain, regardless of how long a shareholder has held the Fund's shares. If a shareholder disposes of shares at a loss before holding such shares for longer than six months, the loss will be treated as a long-term capital loss to the extent the shareholder received a capital gain dividend on the shares.

A Fund will be required in certain cases to withhold and remit to the United States Treasury 31% of taxable dividends paid to any shareholder (1) who fails to provide a correct taxpayer identification number certified under penalty of perjury; (2) who provides an incorrect taxpayer identification number; (3) who is subject to withholding by the Internal Revenue Service for failure to properly report all payments of interest or dividends; or (4) who fails to provide a certified statement that he or she is not subject to "backup withholding." This "backup withholding" is not an additional tax and any amounts withheld may be credited against the shareholder's ultimate U.S. tax liability.

The Funds may engage in investment techniques that may alter the timing and character of the Funds' income. The Funds may be restricted in their use of these techniques by rules relating to their qualification as regulated investment companies.

The foregoing discussion relates only to federal income tax law as applicable to U.S. citizens or residents. Foreign shareholders (i.e., nonresident alien individuals and foreign corporations, partnerships, trusts and estates) generally are subject to U.S. withholding tax at the rate of 30% (or a lower tax treaty rate) on

distributions derived from net investment income and short-term capital gains. Distributions to foreign shareholders of long-term capital gains generally are not subject to U.S. taxation, unless the recipient is an individual who meets the Code's definition of "resident alien." Different tax consequences may result if the foreign shareholder is engaged in a trade or business within the United States. In addition, the tax consequences to a foreign shareholder entitled to claim the benefits of a tax treaty may be different than those described above. Distributions by a Fund may also be subject to state, local and foreign taxes, and their treatment under applicable tax laws may differ from the federal income tax treatment.

The Code permits a regulated investment company that invests at least

50% of its assets at the close of each quarter in Municipal Securities to pass through to its investors, on a tax-exempt basis, net Municipal Securities interest income. An exempt-interest dividend is any dividend or part thereof (other than a capital gain dividend) paid by any Fund and designated as an exempt-interest dividend in a written notice mailed to shareholders after the close of such Fund's taxable year, but not to exceed in the aggregate the net Municipal Securities interest income received by each such Fund during the taxable year. The percentage of the total dividends paid for any taxable year that qualified as exempt-interest dividends will be the same for all shareholders receiving dividends from each Fund during such year, regardless of the period for which the Shares were held. If for any taxable year any Fund does not qualify for the special federal tax treatment afforded regulated investment companies, all of its taxable income will be subject to federal tax at regular corporate rates (without any deduction for distributions to its shareholders) when distributed, and Municipal Securities interest income, although not taxed to the Funds, would be taxable to shareholders.

This discussion of federal income taxation presented above only summarizes some of the important federal tax considerations generally affecting purchasers of Fund shares. No attempt has been made to present a detailed explanation of the federal income tax treatment of a Fund and its shareholders, and the discussion is not intended as a substitute for careful tax planning. Accordingly, prospective investors (particularly those not residing or domiciled in the United States) should consult their own tax advisers regarding the consequences of investing in a Fund.

STATE TAXES

With respect to the Schwab California Tax-Exempt Money Fund, if, at the close of each quarter of its taxable year, at least 50% of the value of the total assets of the Fund consists of obligations the interest on which is exempt from California personal income taxation under the Constitution or laws of California or of the United States ("California Exempt Obligations"), then the Fund will be qualified to pay dividends exempt from State of California personal income tax to its non-corporate shareholders (hereinafter referred to as "California exempt-interest dividends"). The Schwab California Tax-Exempt Money Fund intends to qualify under the above requirement so that it can pay California exempt-interest dividends. If the Schwab California Tax-Exempt Money Fund fails to so qualify, no part of its dividends will be exempt from State of California personal income tax.

With respect to the Schwab New York Tax-Exempt Money Fund, there is no analogous requirement, so all dividends representing interest on New York Municipal Securities that is exempt from New York personal income taxation will be exempt from New York personal income taxes in the hands of non-corporate shareholders ("New York exempt-interest dividends").

Not later than 60 days after the close of its taxable year, the Schwab California and New York Tax-Exempt Money Funds will notify each shareholder of the portion of the dividends paid by it to the shareholder with respect to such taxable year which is exempt from State of California personal income tax or New York personal income tax, respectively.

The total amount of California exempt-interest dividends paid by the Schwab California Tax-Exempt Money Fund to all of its shareholders with respect to any taxable year cannot exceed the amount of interest received by the Fund during such year on California Exempt Obligations, less any expenses or expenditures (including any expenditures attributable to the acquisition of additional securities for the Schwab California Tax-Exempt Money Fund) that are deemed to have been paid from such interest. Dividends paid by the Schwab California Tax-Exempt Money Fund in excess of this limitation will be treated as ordinary dividends subject to State of California personal income tax at ordinary rates. For purposes of this limitation, expenses or other expenditures paid during any year generally will be deemed to have been paid with funds attributable to interest received by the Fund from California Exempt Obligations for such year in the same ratio as such interest from California Exempt Obligations for such year bears to the total gross income earned by the Fund for the year. The effect of this accounting convention is that amounts of interest from California Exempt Obligations received by the Schwab California Tax-Exempt Money Fund that would otherwise be available for distribution as California exempt-interest dividends will be reduced by the expenses and expenditures deemed to have been paid from such amounts.

To the extent, if any, dividends paid to shareholders by the Schwab California Tax-Exempt Money Fund or New York Tax-Exempt Money Fund are derived from long-term and short-term capital gains, such dividends will not constitute

California or New York exempt-interest dividends. Rules similar to those regarding the treatment of such dividends for federal income tax purposes are also applicable for State of California and New York personal income tax purposes. Moreover, interest on indebtedness incurred by a shareholder to purchase or carry shares of the Schwab California Tax-Exempt Money Fund or New York Tax-Exempt Money Fund is not deductible for state personal income tax purposes if the Fund distributes California or New York exempt-interest dividends to the shareholder during his or her taxable year.

The foregoing is only a summary of some of the important state personal income tax considerations generally affecting the Schwab California Tax-Exempt and New York Tax-Exempt Money Funds and their shareholders. No attempt is made to present a detailed explanation of the state personal income tax treatment of the Schwab California Tax-Exempt and New York Tax-Exempt Money Funds or their shareholders, and this discussion is not intended as a substitute for careful planning. Further, it should be noted that the portion of the Schwab California Tax-Exempt and New York Tax-Exempt Money Funds' dividends constituting California or New York exempt-interest dividends, respectively, is excludable from income for State of California or State of New York personal income tax purposes only.

Any dividends paid to shareholders of the Funds subject to state franchise tax will be taxed as ordinary dividends to such shareholders, notwithstanding that all or a portion of such dividends is exempt from state personal income tax. Accordingly, potential investors in the Schwab California Tax-Exempt or New York Tax-Exempt Money Funds, including, in particular, corporate investors which may be subject to California or New York franchise tax, should consult their tax advisers with respect to the application of such tax to the receipt of dividends from the Funds and as to their own state tax situation, in general.

SHARE PRICE CALCULATION

Each Fund values its portfolio instruments 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 a Fund's investments at amortized cost with market values. Market valuations are obtained by using actual quotations provided by 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. The amortized cost method of valuation seeks to maintain a stable $1.00 per share net asset value even where there are fluctuations in interest rates that affect the value of portfolio instruments. Accordingly, this method of valuation can in certain circumstances lead to a dilution of a shareholder's interest. If a deviation of 1/2 of 1% or more were to occur between the net asset value per share calculated by reference to market values and a Fund's $1.00 per share net asset value for its Value Advantage Shares, or if there were any other deviation that the Board of Trustees of the Trust 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. If the net asset value per share for a Fund's Value Advantage Shares (computed using market values) declined, or were expected to decline, below $1.00 (computed using amortized cost), the Board of Trustees might temporarily reduce or suspend dividend payments in an effort to maintain the net asset value at $1.00 per share for a Fund's Value Advantage Shares. As a result of such reduction or suspension of dividends or other action by the Board of Trustees, an investor would receive less income during a given period than if such a reduction or suspension had not taken place. Such action could result in investors receiving no dividend for the period during which they hold their shares and receiving, upon redemption, a price per share lower than that which they paid. On the other hand, if a Fund's net asset value per share for its Value Advantage Shares (computed using market values) were to increase, or were anticipated to increase above $1.00 (computed using amortized cost), the Board of Trustees might supplement dividends in an effort to maintain the net asset value at $1.00 per share for its Value Advantage Shares.

YIELD

The historical performance of the Value Advantage Shares of each Fund may be shown in the form of yield, effective yield, tax- equivalent yield and tax-equivalent effective yield. These measures of performance are described below.

YIELD

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

EFFECTIVE YIELD

Effective yield is calculated similarly, but the net investment 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 AND
TAX-EQUIVALENT EFFECTIVE YIELD

The tax-equivalent yield of the Value Advantage Share of the Schwab Tax-Exempt Fund is computed by dividing that portion of the Value Advantage Shares' yield (computed as described above) that is tax-exempt by an amount equal to one minus the stated federal income tax rate (normally assumed to be the maximum applicable marginal tax bracket rate) and adding the result to that portion, if any, of the yield of the Value Advantage Shares that is not tax-exempt. The tax-equivalent yield of the Value Advantage Shares of the Schwab California Tax-Exempt Money Fund is calculated by dividing that portion of the Value Advantage Shares' yield (computed as described above) which is tax-exempt by an amount equal to one minus the stated combined State of California and federal income tax rate (normally assumed to be the maximum federal marginal rate of 39.6% and the California marginal rate of 11.0%, although other rates may be used at times), and adding the result to that portion, if any, of the Value Advantage Shares' yield that is not tax-exempt. The tax-equivalent yield of the Value Advantage Shares of the Schwab New York Tax-Exempt Money Fund is calculated by dividing that portion of the Value Advantage Shares' yield (computed as described above) which is tax-exempt by an amount equal to one minus the stated combined New York municipal, State of New York and federal income tax rate (normally assumed to be the maximum federal marginal rate of 39.6%, the State of New York marginal rate of 7.875% and the New York municipal marginal rate of 4.46%, although other rates may be used at times), and adding the result to that portion, if any, of the Value Advantage Shares' yield that is not tax-exempt.

Tax-equivalent effective yields are computed in the same manner as tax-equivalent yields, except that effective yield is substituted for yield in the calculation. In calculating tax-equivalent yields and effective yields, the Schwab Tax-Exempt Money Fund generally assumes an effective tax rate of 39.6%, the Schwab California Tax-Exempt Money Fund generally assumes an effective tax rate (combining the federal 39.6% rate and the California 11.0% rate, and assuming the taxpayer deducts California state taxes paid) of 46.24%, and the Schwab New York Tax-Exempt Money Fund generally assumes an effective tax rate (combining the federal 39.6% rate, the New York state 7.875% rate and the New York municipal 4.46% rate, and assuming the taxpayer deducts New York state and municipal taxes paid) of 47.05%. Investors in the Schwab New York Tax-Exempt Money Fund should understand that, under legislation enacted in New York State and New York City, the maximum effective tax rate for 1995 will be 46.88%, and the rates for 1996 and 1997 will be 45.25% and 44.85%, respectively. The tax

rate cuts reflected herein are subject to postponement or elimination. The effective tax rates used in determining such yields do not reflect the tax costs resulting from the full or partial loss of the benefits of personal exemptions, itemized deductions and California exemption credits that may result from the receipt of additional taxable income by taxpayers with adjusted gross incomes exceeding $114,700 (for joint returns) or $57,350 (for separate returns) in 1995. Actual tax-equivalent yields and tax-equivalent effective yields may be higher for taxpayers subject to the loss of these benefits than the rates reported by the Funds.

TAX-EXEMPT VERSUS TAXABLE YIELD

Investors may want to determine which investment--tax exempt or taxable--will provide a higher after-tax return. To determine the tax-equivalent yield, or tax-equivalent effective yield, simply divide the yield or effective yield of the Value Advantage Shares of the Fund by 1 minus your marginal federal tax rate (or combined state and federal tax rate in the case of the Schwab California Tax-Exempt Money Fund, or combined municipal, state, and federal tax rate in the case of the Schwab New York Tax-Exempt Money Fund). Note, however, that as discussed above full or partial loss by certain investors of the described federal tax benefits could cause the resulting figure to understate the after-tax return produced by the Value Advantage Shares of the Fund in question.

GENERAL INFORMATION

The Trust is generally not required to hold shareholder meetings. However, as provided in its Agreement and Declaration of Trust and Bylaws, shareholder meetings will be held in connection with the following matters: (1) election or removal of trustees if a meeting is requested in writing by a shareholder or shareholders who beneficially own(s) 10% or more of the Trust's shares; (2) adoption of any contract for which shareholder approval is required by the 1940 Act; (3) any termination of the Trust to the extent and as provided in the Declaration of Trust; (4) any amendment of the Declaration of Trust (other than amendments changing the name of the Trust or any of its investment portfolios, supplying any omission, curing any ambiguity or curing, correcting or supplementing any defective or inconsistent provision thereof); (5) determining whether a court action, proceeding or claim should or should not be brought or maintained derivatively or as a class action on behalf of the Trust or the shareholders, to the same extent as the stockholders of a Massachusetts business corporation; and (6) such additional matters as may be required by law, the Declaration of Trust, the Bylaws or any registration of the Trust with the SEC or any state or as the Board of Trustees may consider desirable. The shareholders also would vote upon changes to a Fund's fundamental investment objective, policies or restrictions.

Each Trustee serves until the next meeting of shareholders, if any, called for the purpose of electing trustees and until the election and qualification of his or her successor or until death, resignation, retirement or removal by a majority vote of the shares entitled to vote (as described below) or of a majority of the Trustees. In accordance with the 1940 Act (i) the Trust will hold a shareholder meeting for the election of trustees when less than a majority of the trustees have been elected by shareholders, and (ii) if, as a result of a vacancy in the Board of Trustees, less than two-thirds of the trustees have been elected by the shareholders, that vacancy will be filled by a vote of the shareholders.

Upon the written request of 10 or more shareholders who have been such for at least six months and who hold shares constituting at least 1% of the Trust's outstanding shares stating that

they wish to communicate with the other shareholders for the purpose of obtaining signatures necessary to demand a meeting to consider removal of one or more trustees, the Trust has undertaken to disseminate appropriate materials at the expense of the requesting shareholders.

The Bylaws provide that the presence at a shareholder meeting in person or by proxy of at least 30% of the shares entitled to vote on a matter shall constitute a quorum, unless otherwise provided by the 1940 Act or other applicable law. Thus, even if less than a majority of shareholders were represented, a meeting of the Trust's shareholders could occur. Attending shareholders would in such case be permitted to take action not requiring the vote of more than a majority of a quorum. Some matters requiring a larger vote under the Declaration of Trust, such as termination or reorganization of the Trust, and certain amendments of the Declaration of Trust, could not be decided at such a meeting, nor could matters which under the 1940 Act require the vote of a "majority of the outstanding voting securities," as defined in the 1940 Act. The Declaration of Trust specifically authorizes the Board of Trustees to terminate the Trust (or any of its investment portfolios) by notice to the shareholders without shareholder approval.

Under Massachusetts law, shareholders of a Massachusetts business trust could, under certain circumstances, be held personally liable for the Trust's obligations. The Declaration of Trust, however, disclaims shareholder liability for the Trust's acts or obligations and requires that notice of such disclaimer be given in each agreement, obligation or instrument entered into or executed by the Trust or the trustees. In addition, the Declaration of Trust provides for indemnification out of the property of an investment portfolio in which a shareholder owns or owned shares for all losses and expenses of such shareholder or former shareholder if he or she is held personally liable for the obligations of the Trust solely by reason of being or having been a shareholder. Moreover, the Trust will be covered by insurance which the trustees consider adequate to cover foreseeable tort claims. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is considered remote, because it is limited to circumstances in which a disclaimer is inoperative and the Trust itself is unable to meet its obligations.

For further information, please refer to the registration statement and exhibits for the Trust on file with the SEC in Washington, D.C. and available upon payment of a copying fee. The statements in the Prospectus and this Statement of Additional Information concerning the contents of contracts or other documents, copies of which are filed as exhibits to the registration statement, are qualified by reference to such contracts or documents.

PRINCIPAL HOLDERS OF SECURITIES

As of June 6, 1995, Charles Schwab & Co., Inc., 101 Montgomery Street, San Francisco, Ca 94104, directly or beneficially owned 100% of each Fund's Value Advantage Shares.

PURCHASE AND REDEMPTION OF SHARES

The minimum initial investment for the Value Advantage Shares of each Fund is $25,000 and subsequent investments of $5,000 or more may be made. These minimum requirements may be changed at any time and are not applicable to certain types of investors. The Trust may waive the minimums for purchases by trustees, directors, officers or employees of the Trust, Schwab or the Investment Manager. The Trust has made an election with the SEC to pay

in cash all redemptions requested by any shareholder of record limited in amount during any 90-day period to the lesser of $250,000 or 1% of its net assets at the beginning of such period. This election is irrevocable without the SEC's prior approval. Redemption requests in excess of the stated limits may be paid, in whole or in part, in investment securities or in cash, as the Trust's Board of Trustees may deem advisable; however, payment will be made wholly in cash unless the Board of Trustees believes that economic or market conditions exist that would make such a practice detrimental to the best interests of the Fund. If redemption proceeds are paid in investment securities, such securities will be valued as set forth in the Prospectus of the Fund affected under "Share Price Calculation" and a redeeming shareholder would normally incur brokerage expenses if he or she converted the securities to cash.

OTHER INFORMATION

The Prospectus of the Funds and this Statement of Additional Information do not contain all the information included in the Registration Statement filed with the SEC under the Securities Act of 1933 with respect to the securities offered by the Prospectus. Certain portions of the Registration Statement have been omitted from the Prospectus and this Statement of Additional Information pursuant to the rules and regulations of the SEC. The Registration

Statement including the exhibits filed therewith may be examined at the office of the SEC in Washington, D.C.

Statements contained in the Prospectus or in this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement of which the Prospectus and this Statement of Additional Information form a part, each such statement being qualified in all respects by such reference.

THIS STATEMENT OF ADDITIONAL INFORMATION DOES NOT CONSTITUTE AN OFFERING BY THE TRUST, ANY SERIES THEREOF, OR BY THE DISTRIBUTOR IN ANY JURISDICTION IN WHICH SUCH OFFERING MAY NOT BE LAWFULLY MADE.

APPENDIX - RATINGS OF INVESTMENT SECURITIES

COMMERCIAL PAPER

MOODY'S INVESTORS SERVICE

Prime-1 is the highest commercial paper rating assigned by Moody's Investors Service ("Moody's"). Issuers (or related supporting institutions) of commercial paper with this rating are considered to have a superior ability to repay short-term promissory obligations. Issuers (or related supporting institutions) of securities rated Prime-2 are viewed as having a strong capacity to repay short-term promissory obligations. This capacity will normally be evidenced by many of the characteristics of issuers whose commercial paper is rated Prime-1 but to a lesser degree.

STANDARD & POOR'S CORPORATION

A Standard & Poor's Corporation ("S&P") A-1 commercial paper rating indicates either an overwhelming or very strong degree of safety regarding timely payment of principal and interest. Issues determined to possess overwhelming safety characteristics are denoted A-1+. Capacity for timely payment on commercial paper rated A-2 is strong, but the relative degree of safety is not as high as for issues designated A-1.

DUFF & PHELPS CREDIT RATING CO.

Duff-1 is the highest commercial paper rating assigned by Duff & Phelps Credit Rating Co. ("Duff"). Three gradations exist within this rating category: a Duff-1+ rating indicates the highest certainty of timely payment (issuer short-term liquidity is found to be outstanding and safety is deemed to be just below that of risk-free short-term United States Treasury obligations), a Duff-1 rating signifies a very high certainty of timely payment (issuer liquidity is determined to be excellent and risk factors are considered minor) and a Duff-1- rating denotes high certainty of timely payment (issuer liquidity factors are strong and risk is very small). A Duff-2 rating indicates a good certainty of timely payment; liquidity factors and company fundamentals are sound and risk factors are small.

FITCH INVESTORS SERVICE, INC.

F-1+ is the highest category, and indicates the strongest degree of assurance for timely payment. Issues rated F-1 reflect an assurance of timely payment only slightly less than issues rated F-1+. Issues assigned an F-2 rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as for issues in the first two rating categories.

SHORT-TERM NOTES AND VARIABLE RATE DEMAND OBLIGATIONS

MOODY'S INVESTORS SERVICE

Short-term notes/variable rate demand obligations bearing the designations MIG-1/VMIG-1 are considered to be of the best quality, enjoying strong protection from established cash flows, superior liquidity support or demonstrated broad-based access to the market for refinancing. Obligations rated MIG-2/VMIG-2 are of high quality and enjoy ample margins of protection although not as large as those of the top rated securities.

STANDARD & POOR'S CORPORATION

An S&P SP-1 rating indicates that the subject securities' issuer has a very strong capacity to pay principal and interest. Issues determined to possess overwhelming safety characteristics are given a plus (+) designation. S&P's determination that an issuer has a satisfactory capacity to pay principal and interest is denoted by an SP-2 rating.

IBCA

Obligations supported by the highest capacity for timely repayment are rated A1+. An A1 rating indicates that the obligation is supported by a very strong capacity for timely repayment. Obligations rated A2 are supported by a strong capacity for timely repayment, although adverse changes in business, economic, or financial conditions may affect this capacity.

BONDS

MOODY'S INVESTORS SERVICE

Moody's rates the bonds it judges to be of the best quality Aaa. These bonds carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or extraordinarily stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of these issues. Bonds carrying an Aa designation are deemed to be of high quality by all standards. Together with Aaa rated bonds, they comprise what are generally known as high grade bonds. Aa bonds are rated lower than the best bonds because they may enjoy relatively lower margins of protection, fluctuations of protective elements may be of greater amplitude or there may be other factors present which make them appear to be subject to somewhat greater long-term risks.

STANDARD & POOR'S CORPORATION

AAA is the highest rating assigned by S&P to a bond and indicates the issuer's extremely strong capacity to pay interest and repay principal. An AA rating denotes a bond whose issuer has a very strong capacity to pay interest and repay principal and differs from an AAA rating only in small degree.

DUFF & PHELPS CREDIT RATING CO.

Duff confers an AAA designation to bonds of issuers with the highest credit quality. The risk factors associated with these bonds are negligible, being only slightly more than for risk-free United States Treasury debt. AA rated bonds are of high credit quality and have strong protection factors. The risks associated with them are modest but may vary slightly from time to time because of economic conditions.

COMMERCIAL PAPER, SHORT-TERM OBLIGATIONS AND DEPOSIT OBLIGATIONS ISSUED BY BANKS

THOMSON BANKWATCH (TBW)

TBW-1 is the highest category and indicates the degree of safety regarding timely repayment of principal and interest is very

strong. TBW-2 is the second highest category and while the degree of safety regarding timely repayment of principal and interest is strong, the relative degree of safety is not as high as for issues rated TBW-1.