

*This annual performance summary is a supplement to the enclosed **Investment Pools Performance Report** which details the investment performance for each of Schwab Charitable Fund's investment pools over Q4'08 and historic time horizons.* The information below is intended to provide you with a better understanding of each respective investment pool performance in the context of 2008's underlying market conditions.*

MARKET OVERVIEW

2008 was a year that most investors would prefer to forget. From the Bear Stearns collapse in March, through the collapse of the credit markets in the fall, to the Bernard Madoff scandal in December, investors watched as their portfolio values fell substantially. Risk became the latest thing to avoid, as capital fled to the relative safety of U.S. Treasury securities. In fact, these investments proved so popular that on some days late in the year their prices were so high they provided no return for their investors. It appears, that for some investors, the return of their money outweighs any return on their money.

By the time the dust settled on 2008, U.S. Treasury securities led all others, with the 90-day T-bills returning about 1.5% and longer-dated Treasuries providing returns in the 15-20% range. Other fixed income categories came next, with most gaining about 5%. The best of the fixed income indexes outside of U.S. Treasuries were those with maturities longer than 10 years, which returned about 9% during the year. Equity indexes' performance was much worse. Most U.S. equity indexes lost nearly 40% during the year, while many international indexes were down more than 40%, some losing more than 50%.

Given its central role in the market's losses, the Financials Sector's weak returns were no surprise. This group of equities lost more than 50% around the globe during the year. U.S. and European Financial firms were the worst performers, but those in other regions also lost more than 40%. The best-performing equity positions around the world in 2008 were those generally considered defensive in nature: Consumer Staples, Health Care, and Utilities. But even these groups lost 20% or more in most geographic areas.

In response to donor feedback, Schwab Charitable plans to expand and improve investment options in mid-2009. We will continue to offer both index style and actively managed strategies, and look forward to sharing these with you over the coming months.

POOL-SPECIFIC PERFORMANCE

Money Market Pool

This pool, invested in the Schwab Value Advantage Money Fund®, Institutional Shares, performed nicely, slightly better than the general U.S. money market average. As the U.S. Federal Reserve's Open Market Committee reduced interest rates to nearly zero in the second half of the year, returns moderated, but the pool still finished up nearly 2.2% for the year.

Ultra-Short Bond Pool (retired March 11, 2008)

The Schwab YieldPlus Fund®, Select Shares underlies this pool. The Fund significantly underperformed its benchmark for the period from January 1 – March 11, 2008, losing approximately 9% versus a gain of about 2% for its benchmark. As a result, the Pool was removed from Schwab Charitable Fund's investment line-up by March 11, 2008, with all charitable assets then reinvested in the more conservative Money Market Pool.

* When comparing historic investment pool performance to corresponding benchmarks, it is important to realize that shown benchmarks are not adjusted for fees, while the pool performance results are net of all fees, including an assumed .6% Fund administration fee, and do not reflect the reduced administrative fee schedule for Charitable Gift Accounts with balances over \$250,000.

POOL-SPECIFIC PERFORMANCE *(continued)*

Intermediate Income Pool

The Schwab Total Bond Market Fund™ makes up the underlying investment in this pool. The Total Bond Market Fund returned approximately -5.1% in 2008, underperforming its benchmark's return of about 5%. Particularly in the first half of the year, the Fund was underweighted in the U.S. Treasury area versus the benchmark. As noted above in the Market Summary, U.S. Treasuries were by far the top-performing asset class in the fixed income markets, and the Fund's underweight held back its relative return. As the credit markets froze up in the September – November period, the underweight to U.S. Treasuries, while reduced from early in the year, continued to hurt the Fund's return.

Balanced Pool

This pool is invested in the Schwab MarketTrack Conservative Portfolio™ Preferred Shares, which lost approximately 18.6% in 2008. The pool's return was strongly influenced by its weightings. About 55% was invested in the Schwab Total Bond Market Fund, which lost close to 5% during the year. Equity market returns of about -37% in the S&P 500 Index, about 15% of the Fund, -42% for the Schwab International Index, about 11% of the Fund, and -35% for the Schwab Small-Cap Index Fund, an 11% allocation, combined to further reduce the Fund's return. As small-cap stocks outperformed large-caps slightly in 2008, the Fund's allocation to this area helped its return somewhat.

Equity Income Pool

This pool is invested in the Schwab MarketTrack Growth Portfolio™ Preferred Shares. The Equity Income Pool's return of -31.6% was strongly influenced by its weightings. The bond and cash allocation of approximately 23% returned about -3%. The international allocation of 24% returned much worse, about -42%, but this loss was somewhat balanced by a return of -35% for the U.S. small-cap allocation of similar size. The U.S. large-cap allocation to the S&P 500 Index, over 25% of the Fund, returned -37%. As small-cap stocks outperformed large-caps slightly in 2008, the Fund's allocation to this area helped its return somewhat.

Equity Value Pool

The Equity Value Pool is invested in the Schwab Dividend Equity Fund™, which lost about 30.7% for the year. While this loss is certainly significant, the Fund's dividend orientation helped, as some equity investors were interested in owning the higher dividend-paying stocks the Fund seeks out. Versus the S&P 500 Index, which lost 37% for the year, the Fund was particularly successful in avoiding the worst-performing Financial stocks. Very good stock selection in the Information Technology and Industrials Sectors also helped.

Equity Index Pool

The Equity Index Pool is invested in the Schwab Institutional Select® S&P 500 Index Fund, which lost about 37.2% in 2007. This index went through an interesting year, from strong returns in the first half, led by Energy and Materials, through strong volatility and much weaker returns in the second half of the year. The Financial Sector was the weakest stock group for the year, losing about 55%, as many major financial firms reported losses, especially in the third quarter. Information Technology and Materials stocks were also particularly weak, due to concerns about slowing consumer spending as a result of the downturn in the U.S. housing markets. Consumer Staples firms performed the best, losing about 15%. Energy companies, which certainly declined precipitously in the second half of the year, did fairly well for the year overall due to their strong first half performance.

International Pool

The International Pool is invested in the Schwab Fundamental International Large Company Index Fund™ Select Shares. The Fund seeks to track an international index which ranks stocks by fundamental financial measures of sales, cash flows, book value and dividends. For the entire year, the pool returned approximately -43.4%, very similar to the return of the widely followed MSCI EAFE Index.

Prospectuses for the registered mutual funds underlying the investment pools are available from the Fund upon request. Please read them carefully before selecting an investment pool to recommend. The highlighted performance for the pools and the underlying funds represent a relatively short time period. Past performance is no guarantee of future results.

The pool returns are based on the total returns of the underlying mutual funds in each pool, minus the operating expenses of Schwab Charitable Fund. Principal value and investment return will fluctuate with changes in market conditions, and an account in the pool may be worth more or less than the original amount contributed to the account. During the period, the pools' holdings may have deviated from their target allocations, because of changing market conditions. The portfolio managers rebalance the pools' holdings as needed to limit significant variances.

Schwab Charitable Fund is an independent nonprofit organization. Schwab Charitable Fund has entered into service agreements with certain affiliates of The Charles Schwab Corporation (Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc.) to perform administrative, record keeping, and investment management services. Charles Schwab & Co., Inc. is a member SIPC.