

charles SCHWAB

Large Blend

**Schwab S&P 500
Portfolio**

Large-Cap

For the period ended June 30, 2004

Inception Date: November 1, 1996

An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-888-311-4887 for a prospectus. Please read the prospectus carefully before you invest.

Proxy Voting Policies and Procedures

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

Management's Discussion for the six months ended June 30, 2004



Geri Hom, a vice president and senior portfolio manager of the investment adviser, has overall responsibility for the management of the portfolio. Prior to joining the firm in 1995, she worked for nearly 15 years in equity management.

Effective July 19, 2004, Geri Hom retired. Jeff Mortimer, senior vice president and Chief Investment Officer, Equities of Charles Schwab Investment Management, Inc., is responsible for the overall management of the portfolio.

The encouraging economic climate that was reported in late 2003 continued to improve into 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise, despite a pause in the upward trend in consumer confidence. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. The only big piece missing was job growth, which remained sluggish through the beginning of first quarter.

Amid this benign inflationary environment, the Federal Reserve (the Fed) elected to hold the Fed funds rate at a 45-year low in March to provide liquidity necessary to maintain economic growth. Job growth picked up strongly in March and continued into the second quarter. With the economic recovery now broad-based, investors, who only a year ago feared deflation, now started to worry about inflation.

Inflationary concerns were based on surging oil prices, which hit a 13-year high amid tight supplies. And while commodity prices moderated somewhat during the report period, previous increases started to show up in broad measures of inflation. Labor costs also were beginning to rise.

Most market watchers expected the Fed to raise interest rates, and it did at the end of June. At that time the Federal Open Market Committee increased the Fed funds target 0.25% to 1.25%, the first rate hike since May 2000, when the Fed funds target was raised to 6.50%.

The Schwab S&P 500 Fund was up 3.30% for the period, closely tracking its benchmark, the S&P 500® Index, which was up 3.44%. The best performing sector was energy, which was up 13.13%. The worst performing sector was information technology, which was up 3.10%.

Past performance does not indicate future results.

All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The portfolio's share price and principal values change and when you sell your shares they may be worth more or less than what you paid for them.

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

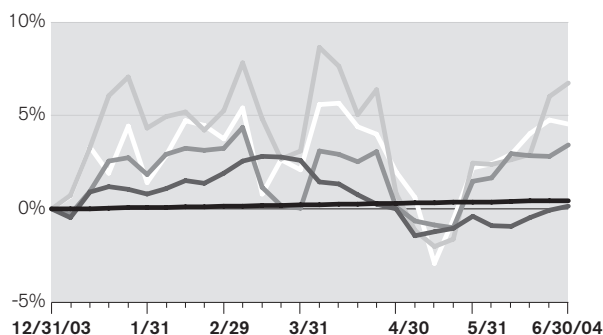
Portfolio returns do not reflect the additional fees and expenses imposed by the insurance company under the variable insurance product contract.

Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower.

Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 0.45% **Three-Month U.S. Treasury Bills (T-Bills):** measures short-term U.S. Treasury obligations
- 0.15% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 3.44% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.76% **Russell 2000® Index:** measures U.S. small-cap stocks
- 4.56% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East



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

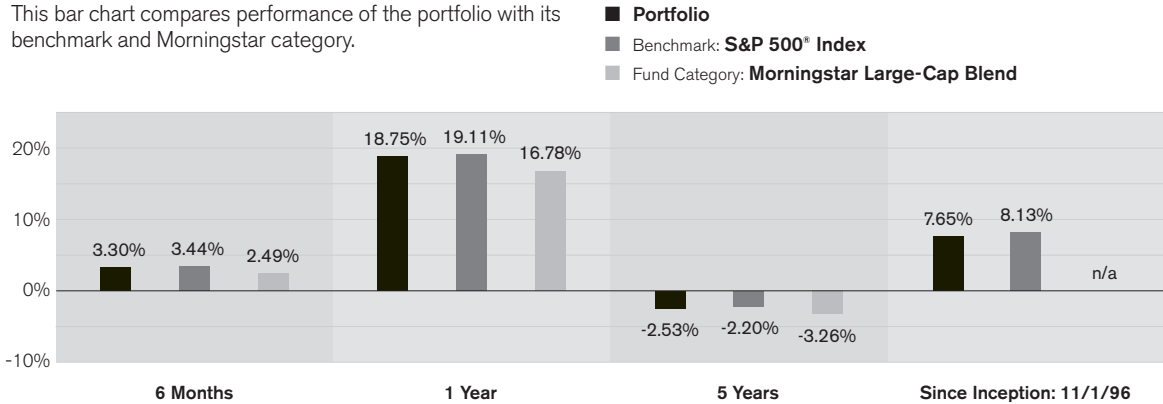
Data source: Charles Schwab & Co., Inc.

Schwab S&P 500 Portfolio

Performance as of 6/30/04

Average Annual Total Returns^{1, 2, 3}

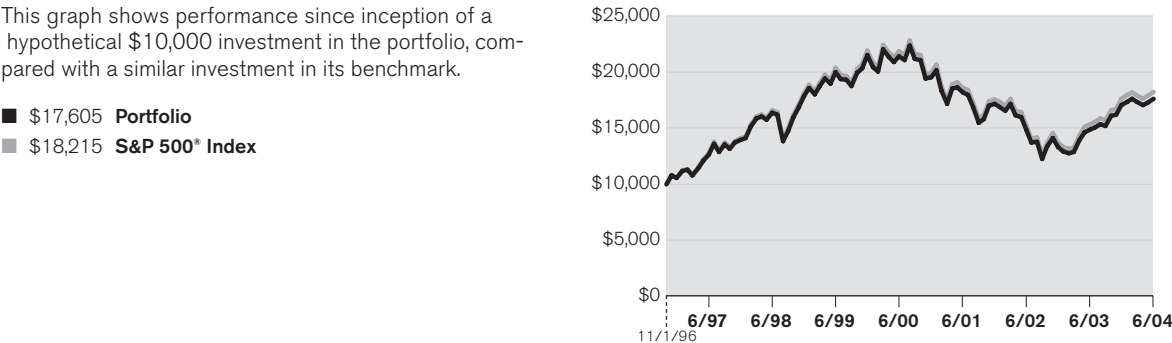
This bar chart compares performance of the portfolio with its benchmark and Morningstar category.



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

Performance of a Hypothetical \$10,000 Investment^{1, 2}

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



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

¹ Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower. Portfolio returns do not reflect the additional fees and expenses imposed by the insurance company under the variable insurance product contract. If those contract fees and expenses were included, the returns would be less than those shown. Please refer to the variable insurance product prospectus for a complete listing of these expenses.

² Standard & Poor's®, S&P®, S&P 500®, Standard & Poor's 500® and 500® are trademarks of The McGraw-Hill Companies, Inc. and have been licensed for use by the portfolio. The portfolio is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of investing in the portfolio.

³ Source for category information: Morningstar, Inc.

Portfolio Facts as of 6/30/04

Style Assessment¹

Statistics

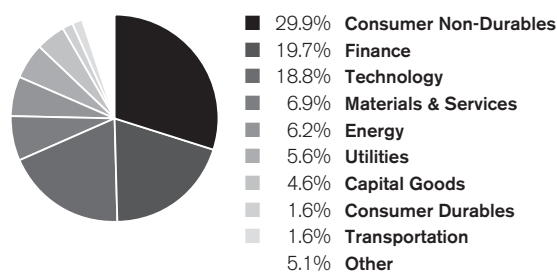
Number of Holdings	505
Weighted Average Market Cap (\$ x 1,000,000)	\$91,328
Price/Earnings Ratio (P/E)	3.1
Price/Book Ratio (P/B)	20.5
Portfolio Turnover Rate ²	3%

Top Holdings³

Security	% of Net Assets
1 General Electric Co.	3.0
2 Microsoft Corp.	2.8
3 Exxon Mobil Corp.	2.6
4 Pfizer, Inc.	2.3
5 Citigroup, Inc.	2.1
6 Wal-Mart Stores, Inc.	2.0
7 American International Group, Inc.	1.7
8 Intel Corp.	1.6
9 Bank of America Corp.	1.5
10 Johnson & Johnson	1.5
Total	21.1

Sector Weightings % of Portfolio

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



Portfolio holdings may have changed since the report date.

¹ Source: Morningstar, Inc. This style assessment is the result of evaluating the portfolio based on a ten-factor model for value and growth characteristics. The portfolio's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the portfolio as of 6/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Not annualized.

³ This list is not a recommendation of any security by the investment adviser.

Schwab S&P 500 Portfolio

Financial Statements

Financial Highlights

	1/1/04– 6/30/04*	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00	1/1/99– 12/31/99
Per-Share Data (\$)						
Net asset value at beginning of period	16.06	12.66	16.54	19.02	21.26	17.78
Income or loss from investment operations:						
Net investment income	0.10	0.17	0.19	0.15	0.18	0.16
Net realized and unrealized gains or losses	0.43	3.40	(3.90)	(2.46)	(2.17)	3.47
Total income or loss from investment operations	0.53	3.57	(3.71)	(2.31)	(1.99)	3.63
Less distributions:						
Dividends from net investment income	—	(0.17)	(0.17)	(0.17)	(0.19)	(0.14)
Distributions from net realized gains	—	—	—	—	(0.06)	(0.01)
Total distributions	—	(0.17)	(0.17)	(0.17)	(0.25)	(0.15)
Net asset value at end of period	16.59	16.06	12.66	16.54	19.02	21.26
Total return (%)	3.30 ¹	28.22	(22.43)	(12.16)	(9.34)	20.47
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses	0.28 ²	0.28	0.28	0.28	0.29 ³	0.28
Gross operating expenses	0.30 ²	0.32	0.35	0.33	0.31	0.34
Net investment income	1.34 ²	1.50	1.33	1.09	0.99	1.14
Portfolio turnover rate	3 ¹	2	11	5	10	7
Net assets, end of period (\$ x 1,000,000)	158	146	98	128	126	130

* Unaudited.

¹ Not annualized.

² Annualized.

³ The ratio of net operating expenses would have been 0.28% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2004, unaudited

This section shows all the securities in the fund's portfolio by industry classification and their market value, as of the report date.

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
- Non-income producing security
- ▲ Collateral for open futures contracts
- Issuer is related to the fund's adviser

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
94.9% Common Stock	134,259	150,315
4.7% Short-Term Investments	7,477	7,477
0.4% U.S. Treasury Obligations	593	593
100.0% Total Investments	142,329	158,385
10.3% Collateral Invested for Securities on Loan	16,272	16,272
(10.3)% Other Assets and Liabilities, Net		(16,246)
100.0% Total Net Assets		158,411

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

Common Stock 94.9% of net assets**Aerospace / Defense 1.8%**

The Boeing Co.	11,996	613
Crane Co.	700	22
General Dynamics Corp.	2,800	278
Goodrich Corp.	1,700	55
Lockheed Martin Corp.	6,500	339
Northrop Grumman Corp.	5,314	285
Raytheon Co.	5,800	207
Rockwell Automation, Inc.	2,700	101
Rockwell Collins, Inc.	2,500	83
Textron, Inc.	1,900	113
United Technologies Corp.	7,300	669
		2,765

Air Transportation 1.1%

Delta Air Lines, Inc.	1,400	10
FedEx Corp.	4,220	345

Sabre Holdings Corp.	1,883	52
Southwest Airlines Co.	11,218	188
United Parcel Service, Inc., Class B	15,945	1,199
		1,794

Alcoholic Beverages 0.5%

Adolph Coors Co., Class B	600	44
Anheuser-Busch Cos., Inc.	11,600	626
Brown-Forman Corp., Class B	1,804	87
		757

Apparel 0.3%

Jones Apparel Group, Inc.	1,800	71
Liz Claiborne, Inc.	1,600	57
Nike, Inc., Class B	3,800	288
Reebok International Ltd.	800	29
VF Corp.	1,600	78
		523

Automotive Products / Motor Vehicles 1.1%

Cooper Tire & Rubber Co.	1,000	23
Cummins, Inc.	700	44
Dana Corp.	2,178	43
Danaher Corp.	4,400	228
Delphi Corp.	7,563	81
Eaton Corp.	2,200	142
Ford Motor Co.	25,852	405
General Motors Corp.	8,000	373
Genuine Parts Co.	2,500	99
• Goodyear Tire & Rubber Co.	2,500	23
Harley-Davidson, Inc.	4,400	272
• Navistar International Corp.	1,000	39
Visteon Corp.	1,584	18
		1,790

Banks 7.1%

AmSouth Bancorp.	5,050	129
① Bank of America Corp.	28,792	2,436
The Bank of New York Co., Inc.	10,900	321
Bank One Corp.	15,906	811
BB&T Corp.	7,800	288
Comerica, Inc.	2,550	140
Fifth Third Bancorp.	7,905	425
First Horizon National Corp.	1,700	77
Huntington Bancshares, Inc.	3,256	75

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
J.P. Morgan Chase & Co. 29,010	1,125	Business Services 4.3%	
KeyCorp, Inc. 5,900	176	• Affiliated Computer Services, Inc., Class A 1,981	105
M&T Bank Corp. 1,700	149	• Allied Waste Industries, Inc. 4,300	57
Marshall & Ilsley Corp. 3,278	128	• Apollo Group, Inc., Class A 2,400	212
Mellon Financial Corp. 6,000	176	Automatic Data Processing, Inc. 8,400	352
National City Corp. 8,600	301	Cendant Corp. 14,502	355
North Fork Bancorp., Inc. 2,200	84	Cintas Corp. 2,492	119
Northern Trust Corp. 3,100	131	• Citrix Systems, Inc. 2,400	49
PNC Financial Services Group, Inc. 4,000	212	Computer Associates International, Inc. 8,200	230
Regions Financial Corp. 3,100	113	• Computer Sciences Corp. 2,700	125
SouthTrust Corp. 4,700	182	• Convergys Corp. 2,054	32
State Street Corp. 4,800	235	Deluxe Corp. 800	35
SunTrust Banks, Inc. 4,000	260	• eBay, Inc. 9,194	845
Synovus Financial Corp. 4,300	109	Electronic Data Systems Corp. 6,900	132
U.S. Bancorp 27,130	748	Equifax, Inc. 2,000	49
Union Planters Corp. 2,600	78	First Data Corp. 12,599	561
Wachovia Corp. 18,544	825	• Fiserv, Inc. 2,700	105
Wells Fargo & Co. 23,899	1,368	H&R Block, Inc. 2,600	124
Zions Bancorp. 1,200	74	IMS Health, Inc. 3,300	77
	11,176	• Interpublic Group of Cos., Inc. 5,700	78
Business Machines & Software 8.7%		• Intuit, Inc. 2,820	109
Adobe Systems, Inc. 3,400	158	• Mercury Interactive Corp. 1,200	60
• Apple Computer, Inc. 5,200	169	• Monster Worldwide, Inc. 1,644	42
Autodesk, Inc. 1,500	64	• Omnicom Group, Inc. 2,600	197
• BMC Software, Inc. 3,200	59	• Parametric Technology Corp. 3,800	19
• Cisco Systems, Inc. 96,100	2,278	Paychex, Inc. 5,250	178
• Compuware Corp. 5,100	34	• PeopleSoft, Inc. 5,400	100
• Comverse Technology, Inc. 2,700	54	• Robert Half International, Inc. 2,400	71
• Dell, Inc. 35,800	1,282	• Sungard Data Systems, Inc. 4,031	105
• EMC Corp. 34,012	388	• Symantec Corp. 4,398	193
• Gateway, Inc. 4,600	21	Tyco International Ltd. 28,419	942
Hewlett-Packard Co. 43,437	917	• Veritas Software Corp. 6,000	166
International Business Machines Corp. 23,900	2,107	Waste Management, Inc. 8,157	250
• Lexmark International, Inc., Class A 1,800	174	• Yahoo!, Inc. 18,800	683
▲② Microsoft Corp. 152,600	4,358		6,757
• NCR Corp. 1,400	69	Chemicals 1.4%	
• Network Appliance, Inc. 4,800	103	Air Products & Chemicals, Inc. 3,300	173
• Novell, Inc. 5,200	44	Dow Chemical Co. 13,155	535
• Oracle Corp. 74,300	886	E.I. du Pont de Nemours & Co. 14,254	633
Pitney Bowes, Inc. 3,400	150	Eastman Chemical Co. 1,000	46
• Siebel Systems, Inc. 7,000	75	Ecolab, Inc. 3,700	117
• Sun Microsystems, Inc. 45,800	199	Great Lakes Chemical Corp. 700	19
• Unisys Corp. 4,700	65	• Hercules, Inc. 1,500	18
• Xerox Corp. 11,000	159		
	13,813		

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Monsanto Co. 3,725	144	• Jabil Circuit, Inc. 2,727	69
PPG Industries, Inc. 2,500	156	• JDS Uniphase Corp. 20,155	76
Praxair, Inc. 4,600	184	• KLA-Tencor Corp. 2,700	133
Rohm & Haas Co. 3,205	133	Linear Technology Corp. 4,400	174
Sigma-Aldrich Corp. 1,000	60	• LSI Logic Corp. 5,300	40
	2,218	• Lucent Technologies, Inc. 58,795	222
Construction 0.4%		Maxim Integrated Products, Inc. 4,700	246
Centex Corp. 1,800	82	• Micron Technology, Inc. 8,800	135
Fluor Corp. 1,100	53	Molex, Inc. 2,700	87
KB Home 700	48	Motorola, Inc. 33,205	606
Masco Corp. 6,600	206	• National Semiconductor Corp. 5,000	110
Pulte Homes, Inc. 1,800	94	• Novellus Systems, Inc. 2,200	69
The Sherwin-Williams Co. 2,000	83	• Nvidia Corp. 2,400	49
The Stanley Works 1,100	50	PerkinElmer, Inc. 1,700	34
Vulcan Materials Co. 1,500	71	• PMC – Sierra, Inc. 2,500	36
	687	• Power-One, Inc. 1,200	13
Consumer Durables 0.2%		• QLogic Corp. 1,295	35
Black & Decker Corp. 1,100	68	Qualcomm, Inc. 11,400	832
Leggett & Platt, Inc. 2,800	75	• Sanmina-SCI Corp. 7,400	67
Maytag Corp. 1,000	25	Scientific-Atlanta, Inc. 2,200	76
Newell Rubbermaid, Inc. 3,924	92	• Solectron Corp. 11,500	74
Whirlpool Corp. 900	62	Symbol Technologies, Inc. 3,052	45
	322	Tektronix, Inc. 1,100	37
Containers 0.1%		• Tellabs, Inc. 5,900	52
Ball Corp. 800	58	• Teradyne, Inc. 2,700	61
Bemis Co. 1,400	39	Texas Instruments, Inc. 24,700	597
• Pactiv Corp. 2,300	57	• Thermo Electron Corp. 2,200	68
• Sealed Air Corp. 1,214	65	• Thomas & Betts Corp. 900	25
	219	• Waters Corp. 1,700	81
Electronics 5.3%		• Xilinx, Inc. 4,800	160
• ADC Telecommunications, Inc. 10,300	29		8,427
• Advanced Micro Devices, Inc. 4,900	78	Energy: Raw Materials 1.5%	
• Agilent Technologies, Inc. 6,737	197	Anadarko Petroleum Corp. 3,537	207
• Altera Corp. 5,480	122	Apache Corp. 4,684	204
American Power Conversion Corp. 2,825	56	Baker Hughes, Inc. 4,780	180
Analog Devices, Inc. 5,200	245	• BJ Services Co. 2,300	106
• Andrew Corp. 1,950	39	Burlington Resources, Inc. 5,704	206
• Applied Materials, Inc. 23,600	463	Devon Energy Corp. 3,400	224
• Applied Micro Circuits Corp. 4,082	22	EOG Resources, Inc. 1,607	96
• Broadcom Corp., Class A 4,400	206	Halliburton Co. 6,200	188
• CIENA Corp. 6,700	25	• Noble Corp. 1,800	68
• Intel Corp. 91,600	2,528	Occidental Petroleum Corp. 5,400	262
ITT Industries, Inc. 1,300	108	• Rowan Cos., Inc. 1,400	34
		Schlumberger Ltd. 8,300	527
		Valero Energy Corp. 1,800	133
			2,435

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
Food & Agriculture 3.6%	
Archer-Daniels-Midland Co. 9,200	154
Campbell Soup Co. 5,700	153
The Coca-Cola Co. 34,500	1,742
Coca-Cola Enterprises, Inc. 6,500	188
ConAgra Foods, Inc. 7,600	206
General Mills, Inc. 5,300	252
H.J. Heinz Co. 5,000	196
Hershey Foods Corp. 3,800	176
Kellogg Co. 5,900	247
McCormick & Co., Inc. 2,000	68
The Pepsi Bottling Group, Inc. 3,602	110
PepsiCo, Inc. 24,080	1,297
Sara Lee Corp. 11,100	255
Supervalu, Inc. 1,900	58
Sysco Corp. 9,300	334
Wm. Wrigley Jr. Co. 3,100	196
	5,632
Gold 0.2%	
Newmont Mining Corp. 6,086	236
Healthcare / Drugs & Medicine 12.4%	
Abbott Laboratories 22,100	901
Allergan, Inc. 1,800	161
AmerisourceBergen Corp. 1,600	96
• Amgen, Inc. 18,204	993
• Anthem, Inc. 1,901	170
Applied Biosystems Group – Applera Corp. 2,800	61
Bausch & Lomb, Inc. 800	52
Baxter International, Inc. 8,600	297
Becton Dickinson & Co. 3,600	186
• Biogen Idec, Inc. 4,600	291
Biomet, Inc. 3,725	166
• Boston Scientific Corp. 11,600	496
Bristol-Myers Squibb Co. 27,600	676
C.R. Bard, Inc. 1,400	79
Cardinal Health, Inc. 6,175	433
• Caremark Rx, Inc. 6,413	211
• Chiron Corp. 2,700	121
Eli Lilly & Co. 15,800	1,105
• Express Scripts, Inc. 1,100	87
• Forest Laboratories, Inc. 5,200	294
• Genzyme Corp. 3,200	151

Security and Number of Shares	Value (\$ x 1,000)
• Gilead Sciences, Inc. 2,600	174
Guidant Corp. 4,500	251
HCA, Inc. 7,000	291
Health Management Associates, Inc., Class A 3,300	74
• Hospira, Inc. 2,210	61
• Humana, Inc. 2,100	36
⑩ Johnson & Johnson 41,948	2,337
• King Pharmaceuticals, Inc. 3,466	40
Manor Care, Inc. 1,300	43
McKesson Corp. 4,106	141
• Medco Health Solutions, Inc. 3,888	146
• Medimmune, Inc. 3,400	80
Medtronic, Inc. 17,200	838
Merck & Co., Inc. 31,400	1,492
Mylan Laboratories, Inc. 3,800	77
▲ Pfizer, Inc. 107,789	3,695
Quest Diagnostics 1,380	117
Schering-Plough Corp. 20,800	384
• St. Jude Medical, Inc. 2,500	189
Stryker Corp. 5,670	312
• Tenet Healthcare Corp. 6,500	87
UnitedHealth Group, Inc. 8,900	554
• Watson Pharmaceuticals, Inc. 1,500	40
• WellPoint Health Networks, Inc. 2,100	235
Wyeth 19,000	687
• Zimmer Holdings, Inc. 3,500	309
	19,717
Household Products 2.3%	
Alberto-Culver Co., Class B 1,200	60
Avon Products, Inc. 6,600	305
Clorox Co. 3,000	161
Colgate-Palmolive Co. 7,600	444
The Gillette Co. 14,200	602
International Flavors & Fragrances, Inc. 1,400	52
▲ Procter & Gamble Co. 36,400	1,982
	3,606
Insurance 4.8%	
ACE Ltd. 3,900	165
Aetna, Inc. 2,100	178
AFLAC, Inc. 7,200	294
The Allstate Corp. 10,000	466
AMBAC Financial Group, Inc. 1,592	117

Security and Number of Shares	Value (\$ x 1,000)
7 American International Group, Inc. 36,848	2,627
AON Corp. 4,550	130
Chubb Corp. 2,600	177
CIGNA Corp. 2,000	138
Cincinnati Financial Corp. 2,415	105
Hartford Financial Services Group, Inc. 4,200	289
Jefferson-Pilot Corp. 2,050	104
Lincoln National Corp. 2,600	123
Loews Corp. 2,700	162
Marsh & McLennan Cos., Inc. 7,500	340
MBIA, Inc. 2,150	123
Metlife, Inc. 10,767	386
MGIC Investment Corp. 1,400	106
• Principal Financial Group, Inc. 4,574	159
The Progressive Corp. 3,100	264
Prudential Financial, Inc. 7,600	353
Safeco Corp. 1,900	84
St. Paul Cos., Inc. 9,459	383
Torchmark Corp. 1,700	91
UnumProvident Corp. 4,276	68
XL Capital Ltd., Class A 1,900	143
	7,575
Media 3.3%	
Clear Channel Communications, Inc. 8,676	321
• Comcast Corp., Class A 31,759	890
Dow Jones & Co., Inc. 1,100	50
Gannett Co., Inc. 3,900	331
Knight-Ridder, Inc. 1,200	86
The McGraw-Hill Cos., Inc. 2,700	207
Meredith Corp. 700	38
New York Times Co., Class A 2,200	98
R.R. Donnelley & Sons Co. 3,000	99
• Time Warner, Inc. 64,350	1,131
Tribune Co. 4,700	214
• Univision Communications, Inc., Class A 4,595	147
Viacom, Inc., Class B 24,681	882
The Walt Disney Co. 29,000	739
	5,233

Security and Number of Shares	Value (\$ x 1,000)
Miscellaneous 0.6%	
3M Co. 11,000	990
Miscellaneous Finance 7.3%	
American Express Co. 18,100	930
The Bear Stearns Cos., Inc. 1,512	127
Capital One Financial Corp. 3,300	226
■ The Charles Schwab Corp. 19,042	183
Charter One Financial, Inc. 3,145	139
▲ 6 Citigroup, Inc. 72,736	3,382
Countrywide Financial Corp. 3,850	270
• E*TRADE Group, Inc. 5,200	58
Fannie Mae 13,700	978
Federated Investors, Inc., Class B 1,500	46
Franklin Resources, Inc. 3,600	180
Freddie Mac 9,700	614
Golden West Financial Corp. 2,100	223
Goldman Sachs Group, Inc. 6,897	649
Janus Capital Group, Inc. 3,300	54
Lehman Brothers Holdings, Inc. 3,900	293
MBNA Corp. 18,243	471
Merrill Lynch & Co., Inc. 13,700	740
Moody's Corp. 2,100	136
Morgan Stanley 15,550	821
• Provident Financial Corp. 3,800	56
SLM Corp. 6,500	263
Sovereign Bancorp., Inc. 3,800	84
T. Rowe Price Group, Inc. 1,700	86
Washington Mutual, Inc. 12,424	480
	11,489
Non-Durables & Entertainment 1.1%	
Darden Restaurants, Inc. 2,450	50
• Electronic Arts, Inc. 4,258	232
Fortune Brands, Inc. 2,000	151
Hasbro, Inc. 2,525	48
International Game Technology 5,000	193
Mattel, Inc. 5,900	108
McDonald's Corp. 17,800	463
• Starbucks Corp. 5,460	237
Wendy's International, Inc. 1,700	59
• Yum! Brands, Inc. 4,100	153
	1,694

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Non-Ferrous Metals 0.4%			
Alcoa, Inc. 12,272	405	Dover Corp. 2,800	118
Engelhard Corp. 1,800	58	Emerson Electric Co. 5,900	375
Freeport-McMoran Copper & Gold, Inc., Class B 2,400	80	▲❶ General Electric Co. 148,800	4,821
• Phelps Dodge Corp. 1,315	102	Honeywell International, Inc. 12,237	448
	645	Illinois Tool Works, Inc. 4,400	422
		Ingersoll-Rand Co., Class A 2,400	164
		Johnson Controls, Inc. 2,600	139
		• Millipore Corp. 800	45
		Pall Corp. 1,700	45
		Parker Hannifin Corp. 1,650	98
		Snap-On, Inc. 800	27
		W.W. Grainger, Inc. 1,300	75
			7,685
Oil: Domestic 1.0%			
Amerada Hess Corp. 1,200	95	Railroad & Shipping 0.4%	
Ashland, Inc. 900	48	Burlington Northern Santa Fe Corp. 5,200	182
ConocoPhillips 9,754	744	CSX Corp. 2,900	95
Kerr-McGee Corp. 1,884	101	Norfolk Southern Corp. 5,600	149
Marathon Oil Corp. 4,900	185	Union Pacific Corp. 3,700	220
• Nabors Industries Ltd. 2,000	90		646
Sunoco, Inc. 1,200	76	Real Property 0.4%	
• Transocean, Inc. 4,584	133	Apartment Investment & Management Co., Class A 1,300	41
Unocal Corp. 3,700	141	Equity Office Properties Trust 5,600	152
	1,613	Equity Residential 3,800	113
		Plum Creek Timber Co., Inc. 2,500	81
		ProLogis 2,600	86
		Simon Property Group, Inc. 2,800	144
			617
Oil: International 3.5%		Retail 6.1%	
ChevronTexaco Corp. 15,185	1,429	Albertson's, Inc. 5,275	140
▲❸ Exxon Mobil Corp. 92,650	4,115	• Autonation, Inc. 3,700	63
	5,544	• AutoZone, Inc. 1,200	96
		• Bed, Bath & Beyond, Inc. 4,200	161
		Best Buy Co., Inc. 4,650	236
		• Big Lots, Inc. 1,400	20
		Circuit City Stores, Inc. 2,900	38
		Costco Wholesale Corp. 6,500	267
		CVS Corp. 5,700	239
		Dillards, Inc., Class A 1,100	25
		Dollar General Corp. 4,763	93
		Family Dollar Stores, Inc. 2,400	73
		Federated Department Stores, Inc. 2,500	123
		The Gap, Inc. 12,562	305
		The Home Depot, Inc. 31,600	1,112
Optical & Photo 0.2%			
• Corning, Inc. 18,800	245		
Eastman Kodak Co. 4,100	111		
	356		
Paper & Forest Products 0.8%			
Boise Cascade Corp. 1,200	45		
Georgia-Pacific Corp. 3,655	135		
International Paper Co. 6,798	304		
Kimberly-Clark Corp. 7,000	461		
Louisiana-Pacific Corp. 1,400	33		
MeadWestvaco Corp. 2,764	81		
Temple-Inland, Inc. 800	56		
Weyerhaeuser Co. 3,200	202		
	1,317		
Producer Goods & Manufacturing 4.9%			
• American Standard Cos., Inc. 2,700	109		
Avery Dennison Corp. 1,500	96		
Caterpillar, Inc. 4,800	381		
Cooper Industries Ltd., Class A 1,300	77		
Deere & Co. 3,500	245		

Security and Number of Shares	Value (\$ x 1,000)
J.C. Penney Co., Inc. Holding Co. 3,900	147
• Kohl's Corp. 4,800	203
• Kroger Co. 10,600	193
Limitedbrands 6,500	122
Lowe's Cos., Inc. 11,100	583
The May Department Stores Co. 4,050	111
Nordstrom, Inc. 2,000	85
• Office Depot, Inc. 4,500	81
RadioShack Corp. 2,400	69
• Safeway, Inc. 6,200	157
Sears, Roebuck & Co. 3,100	117
Staples, Inc. 7,000	205
Target Corp. 13,000	552
Tiffany & Co. 2,000	74
TJX Cos., Inc. 7,200	174
• Toys 'R' Us, Inc. 3,000	48
▲ Wal-Mart Stores, Inc. 60,800	3,208
Walgreen Co. 14,600	529
Winn-Dixie Stores, Inc. 2,100	15
	9,664

Steel 0.1%

Allegheny Technologies, Inc. 1,050	19
Nucor Corp. 1,200	92
United States Steel Corp. 1,500	53
Worthington Industries, Inc. 1,200	24
	188

Telephone 3.3%

Alltel Corp. 4,400	223
AT&T Corp. 11,216	164
• AT&T Wireless Services, Inc. 38,595	553
• Avaya, Inc. 5,832	92
BellSouth Corp. 25,800	676
CenturyTel, Inc. 1,900	57
• Citizens Communications Co. 3,918	47
• Nextel Communications, Inc., Class A 15,700	418
• Qwest Communications International, Inc. 24,216	87
SBC Communications, Inc. 46,710	1,133
Sprint Corp. (FON Group) 20,050	353
Verizon Communications, Inc. 38,950	1,410
	5,213

Security and Number of Shares	Value (\$ x 1,000)
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Tobacco 1.0%

Altria Group, Inc. 28,900	1,447
R.J. Reynolds Tobacco Holdings, Inc. 1,300	88
UST, Inc. 2,400	86
	1,621

Travel & Recreation 0.6%

Brunswick Corp. 1,200	49
Carnival Corp. 9,000	423
Harrah's Entertainment, Inc. 1,500	81
Hilton Hotels Corp. 5,400	101
Marriott International, Inc., Class A 3,300	164
Starwood Hotels & Resorts Worldwide, Inc. 2,900	130
	948

Trucking & Freight 0.1%

Paccar, Inc. 2,550	148
Ryder Systems, Inc. 900	36
	184

Utilities: Electric & Gas 2.7%

• The AES Corp. 8,800	87
• Allegheny Energy, Inc. 1,551	24
Ameren Corp. 2,600	112
American Electric Power Co., Inc. 5,560	178
• Calpine Corp. 5,600	24
Centerpoint Energy, Inc. 4,150	48
Cinergy Corp. 2,600	99
• CMS Energy Corp. 2,400	22
Consolidated Edison, Inc. 3,200	127
Constellation Energy Group, Inc. 2,300	87
Dominion Resources, Inc. 4,580	289
DTE Energy Co. 2,400	97
Duke Energy Corp. 12,834	261
• Dynegy, Inc., Class A 5,200	22
Edison International 4,700	120
El Paso Corp. 8,129	64
Entergy Corp. 3,300	185
Exelon Corp. 9,150	305
FirstEnergy Corp. 4,628	173
FPL Group, Inc. 2,700	173
KeySpan Corp. 2,300	85

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
Kinder Morgan, Inc. 1,690	100	Collateral Invested for Securities on Loan 10.3% of net assets		
Nicor, Inc. 600	20			
NiSource, Inc. 3,546	73	Commercial Paper & Other Corporate Obligations 5.3%		
Peoples Energy Corp. 500	21			
PG&E Corp. 5,900	165	Amsterdam Funding Corp.		
Pinnacle West Capital Corp. 1,200	49	1.11%, 07/12/04	5	5
PPL Corp. 2,600	119	Bank of America		
Progress Energy, Inc. 3,502	154	1.30%, 09/20/04	296	296
Public Service Enterprise Group, Inc. 3,300	132	BNP Paribas		
Sempra Energy 3,141	108	1.08%, 07/13/04	15	15
The Southern Co. 10,300	300	Canadian Imperial Bank Corp.		
TECO Energy, Inc. 2,700	32	1.27%, 01/31/05	193	193
TXU Corp. 4,522	183	Concord Minutemen Capital Corp.		
Williams Cos., Inc. 7,300	87	1.12%, 07/08/04	1,080	1,079
Xcel Energy, Inc. 5,605	94	Credit Lyonnais		
	4,219	1.08%, 09/30/04	240	240
Short-Term Investments		Fairway Finance Corp.		
4.7% of net assets		1.22%, 07/16/04	380	380
BlackRock Liquidity Fund		Foreningssparbanken AB		
Temp Cash Institutional		1.34%, 01/18/05	1,525	1,491
Shares #21 1,183,355	1,183	Fortis Bank		
Provident Institutional		2.06%, 06/08/05	732	732
TempFund 6,293,633	6,294	1.78%, 06/06/05	413	413
	7,477	Grampian Funding		
		1.12%, 07/13/04	38	37
		Societe Generale		
		1.31%, 12/08/04	1,044	1,044
		1.31%, 06/14/05	287	287
		Svenska Handelsbanken		
		1.39%, 10/27/04	507	507
		Westdeutsche Landesbank AG		
		1.50%, 01/10/05	712	711
		1.30%, 10/12/04	310	310
		1.28%, 09/29/04	127	127
		1.23%, 09/23/04	530	530
				8,397
		Short-Term Investment 0.5%		
		Chase Manhattan Bank,		
		Time Deposit		
		1.25%, 07/01/04	723	723
		Security and Number of Shares		
		Other Investment Companies 4.5%		
		Institutional Money Market		
		Trust 7,151,595		7,152
		End of collateral invested for securities on loan.		

End of investments.

Short-Term Investment 0.5%

Chase Manhattan Bank, Time Deposit		
1.25%, 07/01/04	723	723

Security and Number of Shares**Other Investment Companies 4.5%**

Institutional Money Market Trust 7,151,595		7,152
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End of collateral invested for securities on loan.

Statement of

Assets and Liabilities

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

Assets

Investments, at value (including \$15,822 of securities on loan)	\$158,385
Collateral invested for securities on loan	16,272
Receivables:	
Fund shares sold	234
Interest	4
Dividends	169
Due from brokers for futures	32
Income from securities on loan	+ 1
Total assets	175,097

Liabilities

Collateral invested for securities on loan	16,272
Payables:	
Fund shares redeemed	31
Investments bought	335
Investment adviser and administrator fees	1
Accrued expenses	+ 47
Total liabilities	16,686

Net Assets

Total assets	175,097
Total liabilities	- 16,686
Net assets	\$158,411

Net Assets by Source

Capital received from investors	150,733
Net investment income not yet distributed	2,732
Net realized capital losses	(11,165)
Net unrealized capital gains	16,111

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$158,411		9,549		\$16.59

Unless stated, all numbers are x 1,000.

The fund paid \$142,329 for these securities.

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

Purchases	\$10,462
Sales/maturities	\$4,114

These derive from investments and futures. As of the report date, the fund had twenty-eight open S&P 500 futures contracts due to expire on September 17, 2004, with an aggregate contract value of \$7,983 and net unrealized gains of \$55.

Federal Tax Data

Portfolio Cost	\$142,999
Net unrealized gains and losses:	
Gains	\$34,479
Losses	+ (19,093)
	\$15,386

As of December 31, 2003:

Undistributed earnings:	
Ordinary income	\$1,719
Long-term capital gains	\$-

Unused capital losses:

Expires 12/31 of:	Loss amount
2008	\$665
2009	1,821
2010	7,810
2011	+ 38
	\$10,334

See financial notes. 13

Statement of

Operations

For January 1, 2004 through June 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers are x 1,000.

Investment Income

Dividends	\$1,197
Interest	18
Securities on loan	+ 9
Total investment income	1,224

Net Realized Gains and Losses

Net realized losses on investments sold	(133)
Net realized gains on futures contracts	+ 279
Net realized gains	146

Net Unrealized Gains and Losses

Net unrealized gains on investments	3,823
Net unrealized losses on futures contracts	+ (134)
Net unrealized gains	3,689

Expenses

Investment adviser and administrator fees	151
Trustees' fees	9
Custodian fees	16
Portfolio accounting fees	10
Professional fees	17
Shareholder reports	16
Other expenses	+ 10
Total expenses	229
Expense reduction	- 18
Net expenses	211

Increase in Net Assets From Operations

Total investment income	1,224
Net expenses	- 211
Net investment income	1,013
Net realized gains	146
Net unrealized gains	+ 3,689
Increase in net assets from operations	\$4,848

Calculated as a percentage of average daily net assets: 0.20% of the first \$500 million and 0.17% of the assets beyond that.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM to limit the operating expenses of this fund through April 30, 2005, to 0.28% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$3,835.

Statements of

Changes in Net Assets

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

Operations

	1/1/04–6/30/04	1/1/03–12/31/03
Net investment income	\$1,013	\$1,719
Net realized gains or losses	146	(188)
Net unrealized gains	+ 3,689	27,789
Increase in net assets from operations	4,848	29,320

Distributions Paid

Dividends from net investment income	\$—	\$1,477
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Transactions in Fund Shares

	1/1/04–6/30/04		1/1/03–12/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	1,597	\$26,164	2,724	\$38,442
Shares reinvested	—	—	95	1,477
Shares redeemed	+ (1,145)	(18,671)	(1,487)	(19,991)
Net transactions in fund shares	452	\$7,493	1,332	\$19,928

Shares Outstanding and Net Assets

	1/1/04–6/30/04		1/1/03–12/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	9,097	\$146,070	7,765	\$98,299
Total increase	+ 452	12,341	1,332	47,771
End of period	9,549	\$158,411	9,097	\$146,070

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions paid for the period ended 12/31/03 are:

Ordinary income	\$1,477
Long-term capital gains	\$—

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes distributable net investment income in the amount of \$2,732 and \$1,719 for the current period and the prior period, respectively.

Financial Notes unaudited

Business Structure of the Fund

The fund discussed in this report is a series of Schwab Annuity Portfolios, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The fund offers one share class. Shares are bought and sold at net asset value (NAV), which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

The fund is intended as an investment vehicle for variable annuity contracts and variable life insurance policies to be offered by separate accounts of participating life insurance companies and for pension and retirement plans qualified under the Internal Revenue Code of 1986, as amended.

Fund Operations

Most of the fund's investments are described earlier in this report. However, there are certain other investments and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund pays dividends from net investment income and makes distributions from net capital gains once a year.

The fund may invest in futures contracts. Futures contracts involve certain risks because they can be very sensitive to market movements.

One risk is that the price of a futures contract may not move in perfect correlation with the price of the underlying securities. Another risk is that, at certain times, it may be impossible for the fund to close out a position in a futures contract due to a difference in trading hours or to market conditions that may reduce the liquidity for a futures contract or its underlying securities.

Because futures carry inherent risks, the fund must give the broker a deposit of cash and/or securities (the "initial margin") whenever it enters into a futures contract. The amount of the deposit may vary from one contract to another, but it is generally a percentage of the contract amount.

Futures are traded publicly on exchanges, and their market value changes daily. The fund records the change in market value of futures, and also the change in the amount of margin deposit required ("variation margin").

The fund may enter into repurchase agreements. In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created.

The Trust and its Funds

This list shows all of the funds included in Schwab Annuity Portfolios. The fund discussed in this report is highlighted.

Schwab Annuity Portfolios organized January 21, 1994
 Schwab Money Market Portfolio
 Schwab MarketTrack Growth Portfolio II
Schwab S&P 500 Portfolio

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The fund may loan securities to certain brokers, dealers and other financial institutions who pay the fund negotiated fees. The fund receives cash, letters of credit or U.S. government securities as collateral on these loans. All of the cash collateral received is reinvested in high quality, short-term investments. The value of the collateral must be at least 102% of the market value of the loaned securities as of the first day of the loan, and at least 100% each day thereafter.

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent, shareholder services and transaction services.

Although these agreements specify certain fees for these services, CSIM has made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the SchwabFunds®. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the SchwabFunds®.

The fund may engage in certain transactions involving related parties. For instance, the fund may own shares of The Charles Schwab Corporation if that company is included in its index.

The fund may make direct transactions with certain other SchwabFunds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab. Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through its trust to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trust has custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts it borrows at rates that are negotiated periodically.

Amount outstanding at 6/30/04 (\$ × 1,000)	Average borrowing* (\$ × 1,000)	Weighted average interest rate* (%)
—	171	1.37

The fund intends to meet federal income tax requirements for regulated investment companies.

Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that provide general indemnifications. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the fund. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values the securities in its portfolio every business day. The fund uses the following policies to value various types of securities:

- **Securities traded on an exchange or over-the-counter:** valued at the closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes.
- **Securities for which no market quotations are readily available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the fund's Board of Trustees.

- **Futures:** open contracts are valued at their settlement prices as of the close of their exchanges. When the fund closes out a futures position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.

- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Dividends and distributions from portfolio securities are recorded on the date they are effective (the ex-dividend date), although the fund records certain foreign security dividends on the day it learns of the ex-dividend date.

Income from interest and the accretion of discounts is recorded as it accrues.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Assets and liabilities denominated in foreign currencies are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

Expenses that are specific to the fund are charged directly to the fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also keeps certain assets in segregated accounts, as may be required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Fund Trustees unaudited

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the SchwabFunds® (of which there were 49 as of 6/30/04) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; TrustMark, Inc.

¹ The SchwabFunds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Mr. Schwab also own stock of The Charles Schwab Corporation.

Individuals Who Are Interested Trustees but Not Officers of the Trust

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Dawn G. Lepore ¹ 3/21/54	2003 (all trusts).	Vice Chair, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.

Individuals Who Are Officers of the Trust but Not Trustees

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
Tai-Chin Tung 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; SVP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

¹ In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Mr. Schwab also own stock of The Charles Schwab Corporation.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital, Laudus Trust, Laudus Variable Insurance Trust. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Co-CEO, Apton Corp. (bio-pharmaceuticals). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

Large-Cap Blend

charles SCHWAB

**Schwab MarketTrack
Growth Portfolio II**

Balanced

For the period ended June 30, 2004

Inception Date: November 1, 1996

An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-888-311-4887 for a prospectus. Please read the prospectus carefully before you invest.

Proxy Voting Policies and Procedures

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

Management's Discussion for the six months ended June 30, 2004



Geri Hom, a vice president and senior portfolio manager of the investment adviser, is responsible for the day-to-day management of the equity portions of the portfolio. Prior to joining the firm in 1995, she worked for nearly 15 years in equity management.

Kimon Daifotis, CFA, senior vice president and Head of Fixed Income Portfolio Management for the investment adviser, oversees the day-to-day management of the bond and cash portions of the portfolio. Prior to joining the firm in 1997, he worked for more than 18 years in research and asset management.

Effective July 19, 2004, Geri Hom retired. Jeff Mortimer, senior vice president and Chief Investment Officer, Equities of Charles Schwab Investment Management, Inc., is responsible for the overall management of the portfolio.

The encouraging economic climate that was reported in late 2003 continued to improve into 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise, despite a pause in the upward trend in consumer confidence. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. The only big piece missing was job growth, which remained sluggish through the beginning of first quarter.

Amid this benign inflationary environment, the Federal Reserve (the Fed) elected to hold the Fed funds rate at a 45-year low in March to provide liquidity necessary to maintain economic growth. Job growth picked up strongly in March and continued into the second quarter. With the economic recovery now broad-based, investors, who only a year ago feared deflation, now started to worry about inflation.

Inflationary concerns were based on surging oil prices, which hit a 13-year high amid tight supplies. And while commodity prices moderated somewhat during the report period, previous increases started to show up in broad measures of inflation. Labor costs also were beginning to rise.

Most market watchers expected the Fed to raise interest rates, and it did at the end of June. At that time the Federal Open Market Committee increased the Fed funds target 0.25% to 1.25%, the first rate hike since May 2000, when the Fed funds target was raised to 6.50%.

The Schwab MarketTrack Growth Portfolio II was up 2.89% for the period, closely tracking its benchmark, which returned 3.05% for the six-month period. Returns were hampered because the large-cap portion of the portfolio is tilted to growth and the style in favor was value. The small-cap portion of the portfolio was the strongest category for the period, followed by the international portion.

Past performance does not indicate future results.

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

All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The portfolio's share price and principal values change and when you sell your shares they may be worth more or less than what you paid for them.

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

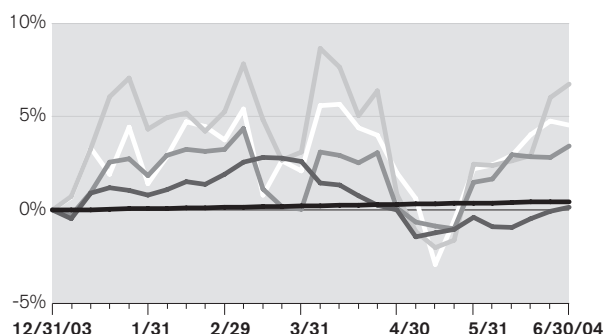
Portfolio returns do not reflect the additional fees and expenses imposed by the insurance company under the variable insurance product contract.

Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower.

Asset Class Performance Comparison % returns during the report period

This graph compares the performance of various asset classes during the report period. Final performance figures for the period are in the key below.

- 0.45% **Three-Month U.S. Treasury Bills (T-Bills):** measures short-term U.S. Treasury obligations
- 0.15% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 3.44% **S&P 500® Index:** measures U.S. large-cap stocks
- 6.76% **Russell 2000® Index:** measures U.S. small-cap stocks
- 4.56% **MSCI-EAFE® Index:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East



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

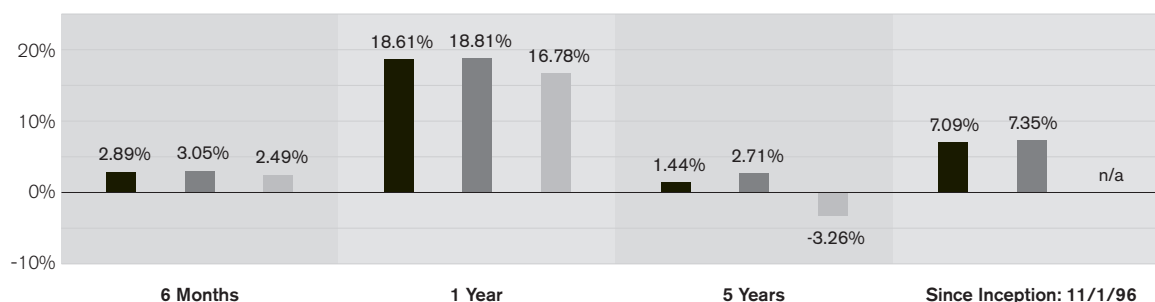
Schwab MarketTrack Growth Portfolio II

Performance as of 6/30/04

Average Annual Total Returns^{1,2}

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

■ **Portfolio**
 ■ Benchmark: **Growth Composite Index**
 ■ Fund Category: **Morningstar Large-Cap Blend**

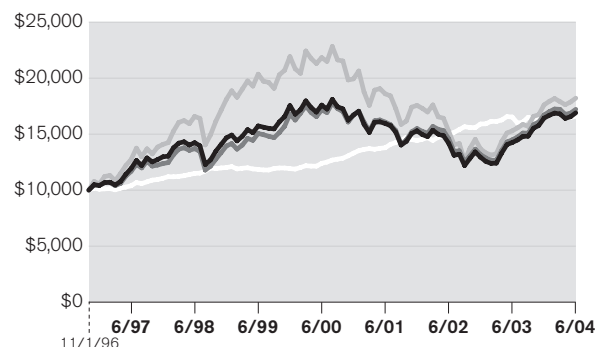


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

Performance of a Hypothetical \$10,000 Investment^{1,2}

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

■ \$16,906 **Portfolio**
 ■ \$17,218 **Growth Composite Index**
 ■ \$18,215 **S&P 500® Index**
 □ \$16,586 **Lehman Brothers U.S. Aggregate Bond Index**



All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The portfolio's share price and principal values change, and when you sell your shares, they may be worth more or less than what you paid for them. Past performance does not indicate future results. Results for the report period are not annualized.

¹ Portfolio expenses have been partially absorbed by CSIM and Schwab. Without these reductions, the portfolio's returns would have been lower. Portfolio returns do not reflect the additional fees and expenses imposed by the insurance company under the variable insurance product contract. If those contract fees and expenses were included, the returns would be less than those shown. Please refer to the variable insurance product prospectus for a complete listing of these expenses.

² The Growth Composite Index is composed of Morningstar category averages and cash equivalents as represented by the 90-day T-bill and is calculated using the following portfolio allocations: 40% large-cap stocks, 20% small-cap stocks, 20% foreign stocks, 15% bonds and 5% cash. Source: Morningstar, Inc.

Portfolio Facts as of 6/30/04

Style Assessment¹

Statistics

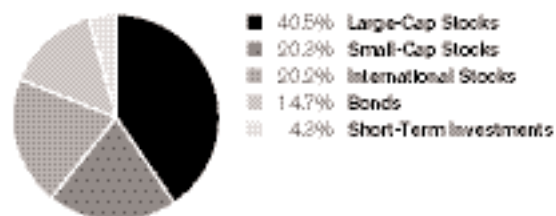
Number of Holdings	507
Weighted Average Market Cap (\$ x 1,000,000)	\$59,071
Price/Earnings Ratio (P/E)	26.4
Price/Book Ratio (P/B)	2.6
Portfolio Turnover Rate ²	3%

Top Holdings³

Security	% of Net Assets
① Schwab Small-Cap Index Fund, Select Shares	20.3
② Schwab International Index Fund, Select Shares	20.2
③ Schwab Total Bond Market Fund	14.7
④ General Electric Co.	1.3
⑤ Microsoft Corp.	1.2
⑥ Exxon Mobil Corp.	1.1
⑦ Pfizer, Inc.	1.0
⑧ Citigroup, Inc.	0.9
⑨ Wal-Mart Stores, Inc.	0.9
⑩ American International Group, Inc.	0.7
Total	62.3

Asset Class Weightings % of Portfolio

This chart shows the portfolio's asset class composition as of the report date.



Portfolio holdings may have changed since the report date.

¹ Source: Morningstar, Inc. This style assessment is the result of evaluating the stock portion of the portfolio based on a ten-factor model for value and growth characteristics. The portfolio's market capitalization placement is determined by the geometric mean of its holdings' market capitalizations. The assessment reflects the portfolio as of 6/30/04, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² Not annualized.

³ This list is not a recommendation of any security by the investment adviser.

Schwab MarketTrack Growth Portfolio II

Financial Statements

Financial Highlights

	1/1/04– 6/30/04*	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00	1/1/99– 12/31/99
Per-Share Data (\$)						
Net asset value at beginning of period	13.49	10.75	12.99	14.81	15.84	14.24
Income or loss from investment operations:						
Net investment income	0.05	0.16	0.17	0.18	0.35	0.15
Net realized and unrealized gains or losses	0.34	2.74	(2.17)	(1.43)	(1.13)	2.63
Total income or loss from investment operations	0.39	2.90	(2.00)	(1.25)	(0.78)	2.78
Less distributions:						
Dividends from net investment income	–	(0.16)	(0.20)	(0.35)	(0.14)	(0.18)
Distributions from net realized gains	–	–	(0.04)	(0.22)	(0.11)	(1.00)
Total distributions	–	(0.16)	(0.24)	(0.57)	(0.25)	(1.18)
Net asset value at end of period	13.88	13.49	10.75	12.99	14.81	15.84
Total return (%)	2.89 ¹	26.97	(15.44)	(8.40)	(4.82)	19.63
Ratios/Supplemental Data (%)						
Ratios to average net assets:						
Net operating expenses ²	0.50 ³	0.50	0.50	0.50	0.56 ⁴	0.56
Gross operating expenses ²	0.70 ³	0.87	1.00	0.82	0.84	1.09
Net investment income	0.66 ³	1.70	1.59	1.67	2.80	1.32
Portfolio turnover rate	3 ¹	10	30	13	19	14
Net assets, end of period (\$ x 1,000,000)	30	30	20	22	22	19

* Unaudited.

¹ Not annualized.

² The expense incurred by underlying funds in which the portfolio invests are not included in this ratio. The income received by the portfolio from underlying funds is reduced by those expenses.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.55% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2004, unaudited

This section shows all the securities in the fund's portfolio by industry classification and their market value, as of the report date.

We use the symbols below to designate certain characteristics. With the top ten holdings, the number in the circle is the security's rank among the top ten.

- ① Top ten holding
- Non-income producing security
- Issuer is affiliated with the fund's adviser

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
55.2% Other Investment Companies	15,628	16,795
40.3% Common Stock	10,273	12,280
4.3% Short-Term Investments	1,317	1,317
99.8% Total Investments	27,218	30,392
0.2% Other Assets and Liabilities, Net		65
100.0% Total Net Assets		30,457

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

Common Stock 40.3% of net assets

Aerospace / Defense 0.7%

The Boeing Co.	938	48
Crane Co.	100	3
General Dynamics Corp.	150	15
Goodrich Corp.	100	3
Lockheed Martin Corp.	540	28
Northrop Grumman Corp.	428	23
Raytheon Co.	500	18
Rockwell Automation, Inc.	200	8
Rockwell Collins, Inc.	200	7
Textron, Inc.	150	9
United Technologies Corp.	530	49
		211

Air Transportation 0.5%

Delta Air Lines, Inc.	100	1
FedEx Corp.	350	28
Sabre Holdings Corp.	172	5
Southwest Airlines Co.	900	15
United Parcel Service, Inc., Class B	1,247	94
		143

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

Alcoholic Beverages 0.2%

Adolph Coors Co., Class B	25	2
Anheuser-Busch Cos., Inc.	975	53
Brown-Forman Corp., Class B	150	7
		62

Apparel 0.1%

Jones Apparel Group, Inc.	150	6
Liz Claiborne, Inc.	100	3
Nike, Inc., Class B	300	23
Reebok International Ltd.	100	4
VF Corp.	100	5
		41

Automotive Products / Motor Vehicles 0.5%

Cooper Tire & Rubber Co.	100	2
Cummins, Inc.	50	3
Dana Corp.	180	4
Danaher Corp.	350	18
Delphi Corp.	579	6
Eaton Corp.	200	13
Ford Motor Co.	2,098	33
General Motors Corp.	650	30
Genuine Parts Co.	200	8
• Goodyear Tire & Rubber Co.	100	1
Harley-Davidson, Inc.	350	22
• Navistar International Corp.	100	4
Visteon Corp.	104	1
		145

Banks 3.0%

AmSouth Bancorp.	430	11
Bank of America Corp.	2,320	196
The Bank of New York Co., Inc.	900	26
Bank One Corp.	1,247	64
BB&T Corp.	626	23
Comerica, Inc.	200	11
Fifth Third Bancorp.	667	36
First Horizon National Corp.	150	7
Huntington Bancshares, Inc.	333	8
J.P. Morgan Chase & Co.	2,340	91
KeyCorp, Inc.	500	15
M&T Bank Corp.	140	12
Marshall & Ilsley Corp.	300	12
Mellon Financial Corp.	525	15
National City Corp.	724	25
North Fork Bancorp., Inc.	200	8
Northern Trust Corp.	250	10

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
PNC Financial Services Group, Inc. 340	18	Business Services 1.8%	
Regions Financial Corp. 300	11	• Affiliated Computer Services, Inc., Class A 103	6
SouthTrust Corp. 375	14	• Allied Waste Industries, Inc. 400	5
State Street Corp. 400	20	• Apollo Group, Inc., Class A 200	18
SunTrust Banks, Inc. 320	21	Automatic Data Processing, Inc. 700	29
Synovus Financial Corp. 325	8	Cendant Corp. 1,190	29
U.S. Bancorp 2,274	63	Cintas Corp. 182	9
Union Planters Corp. 225	7	• Citrix Systems, Inc. 175	4
Wachovia Corp. 1,549	69	Computer Associates International, Inc. 700	20
Wells Fargo & Co. 1,900	109	• Computer Sciences Corp. 200	9
Zions Bancorp. 100	6	• Convergys Corp. 137	2
	916	Deluxe Corp. 100	4
Business Machines & Software 3.7%		• eBay, Inc. 759	70
Adobe Systems, Inc. 250	12	Electronic Data Systems Corp. 550	11
• Apple Computer, Inc. 400	13	Equifax, Inc. 175	4
Autodesk, Inc. 100	4	First Data Corp. 1,032	46
• BMC Software, Inc. 200	4	• Fiserv, Inc. 225	9
• Cisco Systems, Inc. 7,925	188	H&R Block, Inc. 200	10
• Compuware Corp. 400	3	IMS Health, Inc. 300	7
• Comverse Technology, Inc. 200	4	• Interpublic Group of Cos., Inc. 500	7
• Dell, Inc. 2,925	105	• Intuit, Inc. 244	9
• EMC Corp. 2,850	32	• Mercury Interactive Corp. 100	5
• Gateway, Inc. 200	1	• Monster Worldwide, Inc. 95	3
Hewlett-Packard Co. 3,462	73	• Omnicom Group, Inc. 220	17
International Business Machines Corp. 1,920	169	• Parametric Technology Corp. 200	1
• Lexmark International, Inc., Class A 150	14	Paychex, Inc. 425	14
⑤ Microsoft Corp. 12,515	357	• PeopleSoft, Inc. 400	7
• NCR Corp. 100	5	• Robert Half International, Inc. 200	6
• Network Appliance, Inc. 400	9	• Sungard Data Systems, Inc. 361	9
• Novell, Inc. 400	3	• Symantec Corp. 300	13
• Oracle Corp. 6,000	72	Tyco International Ltd. 2,360	78
Pitney Bowes, Inc. 250	11	• Veritas Software Corp. 500	14
• Siebel Systems, Inc. 600	6	Waste Management, Inc. 720	22
• Sun Microsystems, Inc. 3,675	16	• Yahoo!, Inc. 1,580	57
• Unisys Corp. 350	5		554
• Xerox Corp. 900	13		
	1,119		

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

Chemicals 0.6%

Air Products & Chemicals, Inc.	250	13
Dow Chemical Co.	1,121	46
E.I. du Pont de Nemours & Co.	1,169	52
Eastman Chemical Co.	100	5
Ecolab, Inc.	275	9
Great Lakes Chemical Corp.	100	3
•Hercules, Inc.	100	1
Monsanto Co.	314	12
PPG Industries, Inc.	200	12
Praxair, Inc.	400	16
Rohm & Haas Co.	300	12
Sigma-Aldrich Corp.	100	6
		187

Construction 0.2%

Centex Corp.	150	7
Fluor Corp.	100	5
KB Home	50	3
Masco Corp.	500	16
Pulte Homes, Inc.	150	8
The Sherwin-Williams Co.	175	7
The Stanley Works	100	4
Vulcan Materials Co.	100	5
		55

Consumer Durables 0.1%

Black & Decker Corp.	100	6
Leggett & Platt, Inc.	200	5
Maytag Corp.	100	3
Newell Rubbermaid, Inc.	300	7
Whirlpool Corp.	100	7
		28

Containers 0.1%

Ball Corp.	100	7
Bemis Co.	100	3
•Pactiv Corp.	200	5
•Sealed Air Corp.	103	5
		20

Electronics 2.3%

•ADC Telecommunications, Inc.	700	2
•Advanced Micro Devices, Inc.	400	6
•Agilent Technologies, Inc.	566	17
•Altera Corp.	464	10

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

American Power Conversion Corp.	275	5
Analog Devices, Inc.	450	21
•Andrew Corp.	200	4
•Applied Materials, Inc.	2,000	39
•Applied Micro Circuits Corp.	221	1
•Broadcom Corp., Class A	355	17
•CIENA Corp.	300	1
Intel Corp.	7,475	206
ITT Industries, Inc.	100	8
•Jabil Circuit, Inc.	208	5
•JDS Uniphase Corp.	1,654	6
•KLA-Tencor Corp.	240	12
Linear Technology Corp.	400	16
•LSI Logic Corp.	400	3
•Lucent Technologies, Inc.	5,055	19
Maxim Integrated Products, Inc.	400	21
•Micron Technology, Inc.	650	10
Molex, Inc.	225	7
Motorola, Inc.	2,721	50
•National Semiconductor Corp.	400	9
•Novellus Systems, Inc.	175	6
•Nvidia Corp.	200	4
PerkinElmer, Inc.	118	2
•PMC – Sierra, Inc.	200	3
•Power-One, Inc.	226	3
•QLogic Corp.	113	3
Qualcomm, Inc.	900	66
•Sanmina-SCI Corp.	500	5
Scientific-Atlanta, Inc.	175	6
•Soletron Corp.	1,000	7
Symbol Technologies, Inc.	289	4
Tektronix, Inc.	100	3
•Tellabs, Inc.	500	4
•Teradyne, Inc.	200	5
Texas Instruments, Inc.	2,050	50
•Thermo Electron Corp.	175	5
•Thomas & Betts Corp.	80	2
•Waters Corp.	150	7
•Xilinx, Inc.	375	13
		693

Energy: Raw Materials 0.6%

Anadarko Petroleum Corp.	295	17
Apache Corp.	386	17
Baker Hughes, Inc.	431	16

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• BJ Services Co. 200	9	• Biogen Idec, Inc. 380	24
Burlington Resources, Inc. 400	15	Biomet, Inc. 325	14
Devon Energy Corp. 290	19	• Boston Scientific Corp. 988	42
EOG Resources, Inc. 132	8	Bristol-Myers Squibb Co. 2,300	56
Halliburton Co. 500	15	C.R. Bard, Inc. 100	6
• Noble Corp. 200	8	Cardinal Health, Inc. 525	37
Occidental Petroleum Corp. 465	23	• Caremark Rx, Inc. 535	18
• Rowan Cos., Inc. 100	2	• Chiron Corp. 200	9
Schlumberger Ltd. 700	44	Eli Lilly & Co. 1,320	92
Valero Energy Corp. 100	7	• Express Scripts, Inc. 100	8
	200	• Forest Laboratories, Inc. 450	26
Food & Agriculture 1.5%		• Genzyme Corp. 250	12
Archer-Daniels-Midland Co. 774	13	• Gilead Sciences, Inc. 150	10
Campbell Soup Co. 500	13	Guidant Corp. 350	20
The Coca-Cola Co. 2,825	143	HCA, Inc. 600	25
Coca-Cola Enterprises, Inc. 550	16	Health Management Associates, Inc., Class A 300	7
ConAgra Foods, Inc. 650	18	• Hospira, Inc. 186	5
General Mills, Inc. 450	21	• Humana, Inc. 200	3
H.J. Heinz Co. 400	16	Johnson & Johnson 3,436	191
Hershey Foods Corp. 300	14	• King Pharmaceuticals, Inc. 233	3
Kellogg Co. 500	21	Manor Care, Inc. 100	3
McCormick & Co., Inc. 200	7	McKesson Corp. 374	13
The Pepsi Bottling Group, Inc. 312	9	• Medco Health Solutions, Inc. 337	13
PepsiCo, Inc. 1,955	105	• Medimmune, Inc. 300	7
Sara Lee Corp. 900	21	Medtronic, Inc. 1,340	65
Supervalu, Inc. 175	5	Merck & Co., Inc. 2,550	121
Sysco Corp. 700	25	Mylan Laboratories, Inc. 300	6
Wm. Wrigley Jr. Co. 250	16	• Pfizer, Inc. 8,759	300
	463	Quest Diagnostics 139	12
Gold 0.1%		Schering-Plough Corp. 1,700	31
Newmont Mining Corp. 500	19	• St. Jude Medical, Inc. 200	15
Healthcare / Drugs & Medicine 5.3%		Stryker Corp. 464	26
Abbott Laboratories 1,760	72	• Tenet Healthcare Corp. 450	6
Allergan, Inc. 150	13	UnitedHealth Group, Inc. 730	45
AmerisourceBergen Corp. 150	9	• Watson Pharmaceuticals, Inc. 100	3
• Amgen, Inc. 1,470	80	• WellPoint Health Networks, Inc. 175	20
• Anthem, Inc. 175	16	Wyeth 1,500	54
Applied Biosystems Group — Applera Corp. 200	4	• Zimmer Holdings, Inc. 275	24
Bausch & Lomb, Inc. 100	7		1,614
Baxter International, Inc. 725	25	Household Products 0.9%	
Becton Dickinson & Co. 300	16	Alberto-Culver Co., Class B 50	2
		Avon Products, Inc. 540	25
		Clorox Co. 250	13
		Colgate-Palmolive Co. 550	32

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
The Gillette Co. 1,200	51	• Univision Communications, Inc., Class A 354	11
International Flavors & Fragrances, Inc. 100	4	Viacom, Inc., Class B 1,992	71
Procter & Gamble Co. 2,840	155	The Walt Disney Co. 2,430	62
	282		431
Insurance 2.0%		Miscellaneous 0.3%	
ACE Ltd. 340	14	3M Co. 925	83
Aetna, Inc. 100	9	Miscellaneous Finance 3.1%	
AFLAC, Inc. 600	25	American Express Co. 1,450	75
The Allstate Corp. 840	39	The Bear Stearns Cos., Inc. 110	9
AMBAC Financial Group, Inc. 123	9	Capital One Financial Corp. 290	20
⑩ American International Group, Inc. 3,006	214	■ The Charles Schwab Corp. 1,575	15
AON Corp. 325	9	Charter One Financial, Inc. 280	12
Chubb Corp. 240	16	⑧ Citigroup, Inc. 5,922	275
CIGNA Corp. 175	12	Countrywide Financial Corp. 330	23
Cincinnati Financial Corp. 210	9	• E*TRADE Group, Inc. 400	4
Hartford Financial Services Group, Inc. 340	23	Fannie Mae 1,145	82
Jefferson-Pilot Corp. 175	9	Federated Investors, Inc., Class B 100	3
Lincoln National Corp. 200	9	Franklin Resources, Inc. 300	15
Loews Corp. 200	12	Freddie Mac 800	51
Marsh & McLennan Cos., Inc. 625	28	Golden West Financial Corp. 175	19
MBIA, Inc. 150	9	Goldman Sachs Group, Inc. 562	53
Metlife, Inc. 915	33	Janus Capital Group, Inc. 300	5
MGIC Investment Corp. 100	8	Lehman Brothers Holdings, Inc. 250	19
• Principal Financial Group, Inc. 381	13	MBNA Corp. 1,487	38
The Progressive Corp. 265	23	Merrill Lynch & Co., Inc. 1,150	62
Prudential Financial, Inc. 650	30	Moody's Corp. 175	11
Safeco Corp. 150	7	Morgan Stanley 1,230	65
St. Paul Cos., Inc. 797	32	• Provident Financial Corp. 350	5
Torchmark Corp. 150	8	SLM Corp. 550	22
UnumProvident Corp. 323	5	Sovereign Bancorp., Inc. 300	7
XL Capital Ltd., Class A 155	12	T. Rowe Price Group, Inc. 150	8
	617	Washington Mutual, Inc. 1,050	41
Media 1.4%			939
Clear Channel Communications, Inc. 729	27	Non-Durables & Entertainment 0.4%	
• Comcast Corp., Class A 2,576	72	Darden Restaurants, Inc. 150	3
Dow Jones & Co., Inc. 100	5	• Electronic Arts, Inc. 354	19
Gannett Co., Inc. 325	28	Fortune Brands, Inc. 175	13
Knight-Ridder, Inc. 100	7	Hasbro, Inc. 200	4
The McGraw-Hill Cos., Inc. 225	17	International Game Technology 413	16
Meredith Corp. 50	3	Mattel, Inc. 500	9
New York Times Co., Class A 200	9	McDonald's Corp. 1,450	38
R.R. Donnelley & Sons Co. 300	10	• Starbucks Corp. 470	20
• Time Warner, Inc. 5,200	91	Wendy's International, Inc. 140	5
Tribune Co. 400	18	• Yum! Brands, Inc. 320	12
			139

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Non-Ferrous Metals 0.2%			
Alcoa, Inc. 1,000	33	Emerson Electric Co. 500	32
Engelhard Corp. 160	5	④ General Electric Co. 12,100	392
Freeport-McMoran Copper & Gold, Inc., Class B 200	7	Honeywell International, Inc. 987	36
• Phelps Dodge Corp. 100	8	Illinois Tool Works, Inc. 350	33
	53	Ingersoll-Rand Co., Class A 200	14
		Johnson Controls, Inc. 240	13
		• Millipore Corp. 75	4
Oil: Domestic 0.4%		Pall Corp. 100	3
Amerada Hess Corp. 100	8	Parker Hannifin Corp. 150	9
Ashland, Inc. 100	5	Snap-On, Inc. 75	2
ConocoPhillips 805	62	W.W. Grainger, Inc. 100	6
Kerr-McGee Corp. 150	8		632
Marathon Oil Corp. 400	15	Railroad & Shipping 0.2%	
• Nabors Industries Ltd. 175	8	Burlington Northern Santa Fe Corp. 400	14
Sunoco, Inc. 100	6	CSX Corp. 225	7
• Transocean, Inc. 358	10	Norfolk Southern Corp. 480	13
Unocal Corp. 300	12	Union Pacific Corp. 295	18
	134		52
Oil: International 1.5%		Real Property 0.2%	
ChevronTexaco Corp. 1,170	110	Apartment Investment & Management Co., Class A 100	3
⑥ Exxon Mobil Corp. 7,580	337	Equity Office Properties Trust 500	14
	447	Equity Residential 300	9
Optical & Photo 0.1%		Plum Creek Timber Co., Inc. 200	6
• Corning, Inc. 1,500	20	ProLogis 200	7
Eastman Kodak Co. 300	8	Simon Property Group, Inc. 240	12
	28		51
Paper & Forest Products 0.3%		Retail 2.6%	
Boise Cascade Corp. 75	3	Albertson's, Inc. 400	11
Georgia-Pacific Corp. 326	12	• Autonation, Inc. 300	5
International Paper Co. 570	25	• AutoZone, Inc. 100	8
Kimberly-Clark Corp. 600	40	• Bed, Bath & Beyond, Inc. 350	13
Louisiana-Pacific Corp. 100	2	Best Buy Co., Inc. 390	20
MeadWestvaco Corp. 197	6	• Big Lots, Inc. 88	1
Temple-Inland, Inc. 50	3	Circuit City Stores, Inc. 200	3
Weyerhaeuser Co. 250	16	Costco Wholesale Corp. 560	23
	107	CVS Corp. 490	21
Producer Goods & Manufacturing 2.1%		Dillard's, Inc., Class A 100	2
• American Standard Cos., Inc. 300	12	Dollar General Corp. 395	8
Avery Dennison Corp. 150	10	Family Dollar Stores, Inc. 200	6
Caterpillar, Inc. 400	32	Federated Department Stores, Inc. 200	10
Cooper Industries Ltd., Class A 100	6	The Gap, Inc. 1,037	25
Deere & Co. 250	17	The Home Depot, Inc. 2,600	91
Dover Corp. 260	11	J.C. Penney Co., Inc. Holding Co. 300	11
		• Kohl's Corp. 400	17

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Kroger Co. 900	16	Tobacco 0.4%	
Limitedbrands 600	11	Altria Group, Inc. 2,340	117
Lowe's Cos., Inc. 940	49	R.J. Reynolds Tobacco Holdings, Inc. 100	7
The May Department Stores Co. 350	10	UST, Inc. 200	7
Nordstrom, Inc. 200	8		131
• Office Depot, Inc. 325	6	Travel & Recreation 0.3%	
RadioShack Corp. 200	6	Brunswick Corp. 100	4
• Safeway, Inc. 500	13	Carnival Corp. 725	34
Sears, Roebuck & Co. 300	11	Harrah's Entertainment, Inc. 150	8
Staples, Inc. 600	18	Hilton Hotels Corp. 400	7
Target Corp. 1,090	46	Marriott International, Inc., Class A 250	13
Tiffany & Co. 150	6	Starwood Hotels & Resorts Worldwide, Inc. 260	12
TJX Cos., Inc. 600	14		78
• Toys 'R' Us, Inc. 200	3	Trucking & Freight 0.0%	
9 Wal-Mart Stores, Inc. 4,950	261	Paccar, Inc. 187	11
Walgreen Co. 1,175	43	Ryder Systems, Inc. 75	3
Winn-Dixie Stores, Inc. 100	1		14
	797	Utilities: Electric & Gas 1.2%	
Steel 0.0%		• The AES Corp. 650	6
Allegheny Technologies, Inc. 100	2	• Allegheny Energy, Inc. 78	1
Nucor Corp. 100	8	Ameren Corp. 200	9
United States Steel Corp. 100	3	American Electric Power Co., Inc. 460	15
Worthington Industries, Inc. 100	2	• Calpine Corp. 500	2
	15	Centerpoint Energy, Inc. 400	5
Telephone 1.4%		Cinergy Corp. 200	8
Alltel Corp. 300	15	• CMS Energy Corp. 300	3
AT&T Corp. 935	14	Consolidated Edison, Inc. 300	12
• AT&T Wireless Services, Inc. 3,205	46	Constellation Energy Group, Inc. 200	8
• Avaya, Inc. 513	8	Dominion Resources, Inc. 396	25
BellSouth Corp. 2,180	57	DTE Energy Co. 200	8
CenturyTel, Inc. 150	5	Duke Energy Corp. 1,050	21
• Citizens Communications Co. 358	5	• Dynegy, Inc., Class A 300	1
• Nextel Communications, Inc., Class A 1,275	34	Edison International 400	10
• Qwest Communications International, Inc. 2,027	7	El Paso Corp. 696	5
SBC Communications, Inc. 3,756	91	Entergy Corp. 250	14
Sprint Corp. (FON Group) 1,662	29	Exelon Corp. 774	26
Verizon Communications, Inc. 3,213	116	FirstEnergy Corp. 391	15
	427	FPL Group, Inc. 200	13

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
KeySpan Corp. 200	7	Other Investment Companies 55.2% of net assets	
Kinder Morgan, Inc. 156	9		
Nicor, Inc. 50	2	■ 2 Schwab International Index Fund, Select Shares 429,797	6,142
NiSource, Inc. 357	7	■ 1 Schwab Small-Cap Index Fund, Select Shares 307,343	6,171
Peoples Energy Corp. 50	2	■ 3 Schwab Total Bond Market Fund 451,847	4,482
• PG&E Corp. 500	14		16,795
Pinnacle West Capital Corp. 100	4	Short-Term Investments 4.3% of net assets	
PPL Corp. 200	9		
Progress Energy, Inc. 277	12	■ Schwab Value Advantage Money Fund, Investor Shares 826,697	827
Public Service Enterprise Group, Inc. 300	12		
Sempra Energy 285	10		
The Southern Co. 875	26		
TECO Energy, Inc. 250	3		
TXU Corp. 350	14		
Williams Cos., Inc. 600	7		
Xcel Energy, Inc. 505	8		
	353		
		Security Rate, Maturity Date	Face Amount (\$ x 1,000)
		Wachovia Bank, Grand Cayman Time Deposit 0.76%, 07/01/04	490 490
			1,317

End of investments.

Statement of

Assets and Liabilities

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

Assets

Investments, at value	\$30,392
Receivables:	
Dividends	14
Investments sold	+ 120
Total assets	30,526

Liabilities

Payables:	
Fund shares redeemed	1
Investments bought	29
Accrued expenses	+ 39
Total liabilities	69

Net Assets

Total assets	30,526
Total liabilities	- 69
Net assets	\$30,457

Net Assets by Source

Capital received from investors	27,996
Net investment income not yet distributed	493
Net realized capital losses	(1,206)
Net unrealized capital gains	3,174

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$30,457		2,195		\$13.88

Unless stated, all numbers x 1,000.

The fund paid \$27,218 for these securities.

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

Purchases	\$952
Sales/maturities	\$1,252

Percent of fund shares of other Schwab funds owned as of the end of the report period:

Schwab Equity Index Funds

Small-Cap Index Fund	0.4%
International Index Fund	0.5%

Schwab Bond Funds

Total Bond Market Fund	0.4%
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Schwab Money Funds

Value Advantage	
Money Fund	Less than 0.1%

Federal Tax Data

Portfolio Cost	\$27,777
Net unrealized gains and losses:	
Gains	\$4,488
Losses	+ (1,873)
	\$2,615

As of December 31, 2003:**Undistributed earnings:**

Ordinary income	\$394
Long-term capital gains	\$-

Unused capital losses:

Expires 12/31 of:	Loss amount
2010	\$347
2011	+ 200
	\$547

Statement of

Operations

For January 1, 2004 through June 30, 2004; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

Dividends	\$175
Interest	+ 1
Total investment income	176

Net Realized Gains and Losses

Net realized losses on investments sold	(97)
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Net Unrealized Gains and Losses

Net unrealized gains on investments	836
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Expenses

Investment adviser and administrator fees	67
Trustees' fees	5
Custodian fees	13
Portfolio accounting fees	2
Professional fees	15
Shareholder reports	3
Other expenses	+ 2
Total expenses	107
Expense reduction	- 31
Net expenses	76

Increase in Net Assets From Operations

Total investment income	176
Net expenses	- 76
Net investment income	100
Net realized losses	(97)
Net unrealized gains	+ 836
Increase in net assets from operations	\$839

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of assets beyond that.

For the fund's independent trustees only.

This reduction was made by the investment adviser (CSIM). It reflects a guarantee by CSIM to limit the operating expenses of this fund through April 30, 2005, to 0.50% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

These add up to a net gain on investments of \$739.

Statements of

Changes in Net Assets

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

Operations

	1/1/04-6/30/04	1/1/03-12/31/03
Net investment income	\$100	\$394
Net realized losses	(97)	(162)
Net unrealized gains	+ 836	5,540
Increase in net assets from operations	839	5,772

Distributions Paid

Dividends from net investment income	\$—	\$334
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Transactions in Fund Shares

	1/1/04-6/30/04		1/1/03-12/31/03	
	SHARES	VALUE	SHARES	VALUE
Shares sold	152	\$2,091	697	\$8,463
Shares reinvested	—	—	25	334
Shares redeemed	+ (175)	(2,400)	(398)	(4,659)
Net transactions in fund shares	(23)	(\$309)	324	\$4,138

Shares Outstanding and Net Assets

	1/1/04-6/30/04		1/1/03-12/31/03	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	2,218	\$29,927	1,894	\$20,351
Total increase or decrease	+ (23)	530	324	9,576
End of period	2,195	\$30,457	2,218	\$29,927

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/03 are:

Ordinary income	\$334
Long-term capital gains	\$—

Figures for shares represent shares sold plus shares reinvested, minus shares redeemed. Figures for net assets represent the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Includes distributable net investment income in the amount of \$493 and \$393 at the end of the current period and the prior period, respectively.

Financial Notes unaudited

Business Structure of the Fund

The fund discussed in this report is a series of Schwab Annuity Portfolios, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The fund offers one share class. Shares are bought and sold at net asset value (NAV) which is the price for all outstanding shares. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

The fund is intended as an investment vehicle for variable annuity contracts and variable life insurance policies to be offered by separate accounts of participating life insurance companies and for pension and retirement plans qualified under the Internal Revenue Code of 1986, as amended.

Fund Operations

Most of the fund's investments are described earlier in this report. However, there are certain other investments and policies that may affect the fund's financials, as described below. Other policies concerning the fund's business operations also are described here.

The fund pays dividends from net investment income and makes distributions from net capital gains once a year.

The fund may invest in futures contracts. Futures contracts involve certain risks because they can be very sensitive to market movements.

One risk is that the price of a futures contract may not move in perfect correlation with the price of the underlying securities. Another risk is that, at certain times, it

may be impossible for the fund to close out a position in a futures contract due to a difference in trading hours or to market conditions that may reduce the liquidity for a futures contract or its underlying securities.

Because futures carry inherent risks, the fund must give the broker a deposit of cash and/or securities (the "initial margin") whenever it enters into a futures contract. The amount of the deposit may vary from one contract to another, but it is generally a percentage of the contract amount.

Futures are traded publicly on exchanges, and their market value changes daily. The fund records the change in market value of futures, and also the change in the amount of margin deposit required ("variation margin").

The fund may enter into repurchase agreements. In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The date, price and other conditions are all specified when the agreement is created.

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The Trust and Its Funds

This list shows all of the funds included in Schwab Annuity Portfolios. The fund discussed in this report is highlighted.

Schwab Annuity Portfolios organized January 21, 1994

Schwab Money Market Portfolio
Schwab MarketTrack Growth Portfolio II
Schwab S&P 500 Portfolio

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent, shareholder services and transaction services.

Although these agreements specify certain fees for these services, CSIM has made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving related parties. For instance, the fund may own shares of The Charles Schwab Corporation if that company is included in its index.

Pursuant to an exemptive order issued by the SEC, the fund may invest in other related funds. The percentages of fund shares of other related funds owned are shown in the fund's Statement of Assets and Liabilities.

The fund may make direct transactions with certain other SchwabFunds® when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions within the SchwabFunds®. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the SchwabFunds®.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab.

Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through its trust to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trust has custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts it borrows at rates that are negotiated periodically.

The fund intends to meet federal income tax requirements for regulated investment companies.

Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax. The net investment income and net realized capital gains and losses may differ for financial statement and tax purposes primarily due to differing treatments of losses on wash sales.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund.

In addition, in the normal course of business the fund enters into contracts with its vendors and others that provide general indemnifications. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the fund. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values the securities in its portfolio every business day. The fund uses the following policies to value various types of securities:

- **Securities traded on an exchange or over-the-counter:** valued at the closing value for the day, or, on days when no closing value has been reported, halfway between the most recent bid and asked quotes.
- **Securities for which no market quotations are readily available:** valued at fair value, as determined in good faith by the fund's investment adviser using guidelines adopted by the fund's Board of Trustees.
- **Futures:** open contracts are valued at their settlement prices as of the close of their exchanges. When the fund closes out a futures position, it calculates the difference between the value of the position at the beginning and at the end, and records a realized gain or loss accordingly.
- **Underlying funds:** valued at their respective net asset values as determined by those funds, in accordance with the 1940 Act for a given day.
- **Short-term securities (60 days or less to maturity):** valued at amortized cost.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Dividends and distributions from portfolio securities are recorded on the date they are effective (the ex-dividend date), although the fund records certain foreign security dividends on the day it learns of the ex-dividend date.

Income from interest and the accretion of discounts is recorded as it accrues.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Assets and liabilities denominated in foreign currencies are reported in U.S. dollars. For assets and liabilities held on a given date, the dollar value is based on market exchange rates in effect on that date. Transactions involving foreign currencies, including purchases, sales, income receipts and expense payments, are calculated using exchange rates in effect on the transaction date.

Expenses that are specific to the fund are charged directly to the fund. Expenses that are common to all funds within a trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also keeps certain assets in segregated accounts, as may be required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Fund Trustees unaudited

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the SchwabFunds® (of which there were 49 as of 6/30/04) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04</i> : Director, The Gap, Inc. (clothing retailer). <i>Until 2003</i> : Co-CEO, The Charles Schwab Corp. <i>Until 2002</i> : Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02</i> : Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01</i> : Director, The Charles Schwab Trust Co.; TrustMark, Inc.

¹ The SchwabFunds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Mr. Schwab also own stock of The Charles Schwab Corporation.

Individuals Who Are Interested Trustees but Not Officers of the Trust

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Dawn G. Lepore ¹ 3/21/54	2003 (all trusts).	Vice Chair, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.

Individuals Who Are Officers of the Trust but Not Trustees

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
Tai-Chin Tung 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; SVP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

¹ In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Mr. Schwab also own stock of The Charles Schwab Corporation.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital, Laudus Trust, Laudus Variable Insurance Trust. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Co-CEO, Aphton Corp. (bio-pharmaceuticals). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).

Money Market

charles SCHWAB

**Schwab Money
Market Portfolio**

Money Market

For the period ended June 30, 2004

Inception Date: May 3, 1994

An investor should consider a fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information can be found in the fund's prospectus. Please call 1-888-311-4887 for a prospectus. Please read the prospectus carefully before you invest.

Proxy Voting Policies and Procedures

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

Management's Discussion for the six months ended June 30, 2004



Karen Wiggan, a vice president of the investment adviser and senior portfolio manager, has been responsible for day-to-day management of the portfolio since 1999. She joined the firm in 1987 and has worked in fixed-income portfolio management since 1991.

The Investment Environment and the Portfolio

The encouraging economic climate that was reported in late 2003 continued to improve into 2004. Businesses added to their inventories, factory orders rose amid the pick-up in capital spending and production gained some strength. Retail sales continued to rise, despite a pause in the upward trend in consumer confidence. Mortgage refinancing activity, while still significant, waned as mortgage rates inched slightly upward. The only big piece missing was job growth, which remained sluggish through the beginning of first quarter.

Amid this benign inflationary environment, the Federal Reserve (the Fed) elected to hold the Fed funds rate at a 45-year low in March to provide liquidity necessary to maintain economic growth. Job growth picked up strongly in March and continued into the second quarter. With the economic recovery now broad-based, investors, who only a year ago feared deflation, now started to worry about inflation.

Inflationary concerns were based on surging oil prices, which hit a 13-year high amid tight supplies. And while commodity prices moderated somewhat during the report period, previous increases started to show up in broad measures of inflation. Labor costs also were beginning to rise.

During the second quarter, in anticipation of the Fed tightening (raising rates), we began shortening the weighted average maturities of our money funds. During that time, most market watchers expected the Fed to raise interest rates, and it did at the end of June. At that time the Federal Open Market Committee increased the Fed funds target 0.25% to 1.25%, the first rate hike since May 2000, when the Fed funds target was raised to 6.50%.

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

Performance and Portfolio Facts as of 6/30/04

Seven-Day Yields¹

The seven-day yields are calculated using standard SEC formulas. The effective yield includes the effect of reinvesting daily dividends. Please remember that money market fund yields fluctuate.

Seven-Day Yield	0.66%
Seven-Day Effective Yield	0.66%

The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be lower or higher than performance data quoted. To obtain more current performance information, please visit www.schwab.com/annuity.

Statistics

Money funds must maintain a dollar-weighted average maturity of no longer than 90 days, and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

Weighted Average Maturity	30 days
Credit Quality of Holdings % of portfolio	100% Tier 1

An investment in a money fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although money funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in a money fund.

Portfolio holdings may have changed since the report date.

¹ Portfolio yields do not reflect the additional fees and expenses imposed by the insurance company under the variable insurance product contract. If those contract fees and expenses were included, the yields would be less than those shown. Please refer to the variable insurance product prospectus for a complete listing of these expenses.

Schwab Money Market Portfolio

Financial Statements

Financial Highlights

	1/1/04– 6/30/04*	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01	1/1/00– 12/31/00	1/1/99– 12/31/99
Per-share data (\$)						
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00	1.00
Income from investment operations:						
Net investment income	0.00 ¹	0.01	0.01	0.04	0.06	0.05
Less distributions:						
Dividends from net investment income	(0.00) ¹	(0.01)	(0.01)	(0.04)	(0.06)	(0.05)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00	1.00
Total return (%)	0.30 ²	0.74	1.31	3.72	5.95	4.69
Ratios/supplemental data (%)						
Ratios to average net assets:						
Net operating expenses	0.45 ³	0.44	0.48	0.49	0.49 ⁴	0.50
Gross operating expenses	0.45 ³	0.44	0.48	0.50	0.51	0.60
Net investment income	0.61 ³	0.75	1.31	3.55	5.81	4.62
Net assets, end of period (\$ x 1,000,000)	133	141	215	204	160	120

* Unaudited.

¹ Per-share amount was less than \$0.01.

² Not annualized.

³ Annualized.

⁴ The ratio of net operating expenses would have been 0.48% if certain non-routine expenses (proxy fees) had not been included.

Portfolio Holdings as of June 30, 2004; unaudited

This section shows all the securities in the fund's portfolio and their value, as of the report date.

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except for U.S. government agency coupon notes and U.S. Treasury notes, for which the rate shown is the interest rate (the rate established when obligation was issued). For variable-rate obligations, the rate shown is the rate as of the report date. For variable-rate obligations with scheduled maturities greater than 397 days, the maturity shown is the later of the next interest rate change date or demand date. For variable-rate obligations with scheduled maturities less than 397 days, the maturity shown is the earlier of the next interest rate change date or demand date. For variable-rate obligations without demand features, the maturity shown is the next interest rate change date.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
80.2% U.S. Government Securities	106,356	106,356
20.3% Other Investments	26,889	26,889
100.5% Total Investments	133,245	133,245
(0.5)% Other Assets and Liabilities	—	(700)
100.0% Total Net Assets	—	132,545

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

U.S. Government Securities 80.2% of net assets

Discount Notes 70.5%

Fannie Mae		
1.02%, 07/07/04	4,000	3,999
1.16%, 07/07/04	1,000	1,000
1.04%, 07/20/04	2,000	1,999
1.06%, 07/21/04	4,000	3,998
1.20%, 07/21/04	3,000	2,998
1.04%, 07/23/04	3,000	2,998
1.28%, 08/11/04	4,000	3,994
1.08%, 08/18/04	2,000	1,997
1.28%, 08/25/04	2,865	2,859
1.10%, 10/12/04	1,000	997
1.16%, 10/12/04	2,000	1,993

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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Federal Farm Credit Bank

1.00%, 07/12/04	4,000	3,999
1.21%, 07/13/04	9,000	8,996
1.30%, 07/13/04	1,050	1,050
1.04%, 08/12/04	2,000	1,998
1.26%, 02/15/05	1,000	992

Federal Home Loan Bank

1.03%, 07/07/04	3,950	3,949
1.05%, 07/07/04	1,500	1,500
1.02%, 07/12/04	3,000	2,999
1.15%, 07/12/04	2,506	2,505
1.20%, 07/20/04	1,000	999
1.05%, 07/21/04	2,000	1,999
1.19%, 07/21/04	3,000	2,998
1.04%, 07/23/04	2,000	1,999
1.05%, 07/23/04	1,000	999
1.09%, 08/27/04	2,000	1,997
1.35%, 08/27/04	1,214	1,211
1.08%, 09/14/04	1,500	1,497

Freddie Mac

1.04%, 07/06/04	1,000	1,000
1.11%, 07/06/04	3,000	2,999
1.04%, 07/13/04	1,762	1,761
1.04%, 07/15/04	3,248	3,247
1.05%, 07/15/04	1,000	1,000
1.05%, 07/20/04	1,100	1,099
1.03%, 07/21/04	1,000	999
1.27%, 08/17/04	2,100	2,096
1.07%, 08/24/04	2,000	1,997
1.12%, 09/09/04	1,000	998
1.25%, 09/09/04	1,800	1,796
1.21%, 10/19/04	2,000	1,993
1.22%, 10/19/04	2,000	1,993

93,497

Coupon Notes 9.7%

Fannie Mae		
6.50%, 08/15/04	1,550	1,560
Federal Home Loan Bank		
3.63%, 10/15/04	2,500	2,516
4.13%, 05/13/05	1,000	1,022
Freddie Mac		
3.00%, 07/15/04	3,750	3,753
1.40%, 08/11/04	2,000	2,000
4.50%, 08/15/04	2,000	2,008
		12,859

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

Other Investments 20.3% of net assets

Repurchase Agreements 20.3%

Credit Suisse First Boston L.L.C.		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Treasury		
Securities with a value of \$28,238		
1.25%, issued 06/30/04 due		
07/01/04	26,890	26,889

End of investments.

Statement of

Assets and Liabilities

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

Assets

Investments, at value	\$106,356
Repurchase agreements, at value	26,889
Receivables:	
Interest	160
Fund shares sold	106
Prepaid expenses	+ 1
Total assets	133,512

Liabilities

Payables:	
Dividends to Shareholders	35
Fund shares redeemed	892
Investment advisory and administration fees	1
Accrued expenses	+ 39
Total liabilities	967

Net Assets

Total assets	133,512
Total liabilities	- 967
Net assets	\$132,545

Net Assets by Source

Capital received from investors	132,560
Net realized capital losses	(15)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$132,545		132,592		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$133,245.

Federal Tax Data**Cost basis of portfolio** \$133,245**As of December 31, 2003:****Unused capital losses:**

Expires 12/31 of:	Loss amount:
2005	\$1
2006	3
2007	9
2008	+ 2
	\$15

Statement of

Operations

For January 1, 2004 through June 30, 2004; unaudited. All numbers x 1,000.

Investment IncomeInterest **\$705****Expenses**

Investment adviser and administrator fees 253

Trustees' fees 13

Custodian and portfolio accounting fees 10

Professional fees 16

Shareholder reports 4

Other expenses + 4

Total expenses 300**Increase in Net Assets from Operations****Total investment income 705****Total expenses – 300****Net investment income 405****Increase in net assets from operations \$405**

Unless stated, all numbers x 1,000.

Calculated on a graduated basis as a percentage of average daily net assets: 0.38% of the first \$1 billion, 0.35% over \$1 billion, 0.32% over \$10 billion, 0.30% over \$20 billion and 0.27% over \$40 billion.

For the fund's independent trustees only.

The investment adviser (CSIM) guarantees to limit the operating expenses of this fund through April 30, 2005 to 0.50% of average daily net assets. This limit doesn't include interest, taxes and certain non-routine expenses.

Statements of

Changes in Net Assets

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

Operations

	1/1/04-6/30/04	1/1/03-12/31/03
Net investment income	\$405	\$1,354
Increase in net assets from operations	405	1,354

Distributions Paid

Dividends from net investment income	405	1,354
--------------------------------------	------------	--------------

Transactions in Fund Shares

Shares sold	72,233	260,198
Shares reinvested	370	1,354
Shares redeemed	+ (80,969)	(335,840)
Net transactions in fund shares	(8,366)	(74,288)

Net Assets

Beginning of period	140,911	215,199
Total decrease	+ (8,366)	(74,288)
End of period	\$132,545	\$140,911

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/03 are:

Ordinary income	\$1,354
Long-term capital gains	\$-

Because all transactions in this section took place at \$1.00 per share, figures for share quantities are the same as for dollars.

Represents the changes in net assets from operations plus the changes in value of transactions in fund shares, minus distributions paid.

Financial Notes unaudited

Business Structure of the Fund

The fund discussed in this report is a series of Schwab Annuity Portfolios, a no-load, open-end management investment company. The company is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended. The sidebar shows the fund in this report and its trust.

The fund offers one share class. Shares are bought and sold at \$1.00 per share. Each share has a par value of 1/1,000 of a cent, and the trust may issue as many shares as necessary.

The fund is intended as an investment vehicle for variable annuity contracts and variable life insurance policies to be offered by separate accounts of participating life insurance companies and for pension and retirement plans qualified under the Internal Revenue Code of 1986, as amended.

Fund Operations

Most of the fund's investments are described in sections earlier in this report. However, there are certain other investments and policies that may affect the fund's financials. The most significant of these are described below. Other policies concerning the fund's business operations also are described here.

The fund declares dividends every day it is open for business. These dividends, which are equal to the fund's net investment income for that day, are paid out to shareholders once a month. The fund may make distributions from any net realized capital gains once a year.

The fund may buy securities on a delayed-delivery basis. In these transactions, the fund agrees to buy a

security for a stated price, with settlement generally occurring within two weeks. If the security's value falls before settlement occurs, the fund could end up paying more for the security than its market value at the time of settlement. The fund has set aside sufficient securities as collateral for those securities bought on a delayed-delivery basis.

The fund may enter into repurchase agreements. In a repurchase agreement, the fund buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future. The

The Trust and Its Funds

This list shows all of the funds included in Schwab Annuity Portfolios. The fund discussed in this report is highlighted.

Schwab Annuity Portfolios

Organized January 21, 1994

Schwab Money Market Portfolio

Schwab MarketTrack Growth Portfolio II

Schwab S&P 500 Portfolio

date, price and other conditions are all specified when the agreement is created. Any repurchase agreement with due dates later than seven days from issue dates may be subject to seven day put features for liquidity purposes.

The fund's repurchase agreements will be fully collateralized by U.S. government securities. All collateral is held by the fund's custodian (or, with tri-party agreements, the agent's bank) and is monitored daily to ensure that its market value is at least equal to the repurchase price under the agreement.

The fund pays fees to affiliates of the investment adviser for various services. Through its trust, the fund has agreements with Charles Schwab Investment Management, Inc. (CSIM) to provide investment advisory and administrative services and with Charles Schwab & Co., Inc. (Schwab) to provide transfer agent, shareholder services and transaction services.

Although these agreements specify certain fees for these services, CSIM and Schwab have made additional agreements with the fund that may limit the total expenses charged. The rates and limitations for these fees are described in the fund's Statement of Operations.

The fund may engage in certain transactions involving affiliates. The fund may make direct transactions with certain other SchwabFunds when practical. When one fund is seeking to sell a security that another is seeking to buy, an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and officers.

Pursuant to an exemptive order issued by the SEC, the funds may enter into interfund borrowing and lending transactions within the SchwabFunds. All loans are for temporary or emergency purposes only. The interest rate charged on the loan is the average of the overnight repurchase agreement rate and the short-term bank loan rate. The interfund lending facility is subject to the oversight and periodic review of the Board of Trustees of the SchwabFunds.

Trustees may include people who are officers and/or directors of the investment adviser or Schwab.

Federal securities law limits the percentage of such "interested persons" who may serve on a trust's board, and the trust was in compliance with these limitations throughout the report period. The trust did not pay any of these persons for their service as trustees, but it did pay non-interested persons (independent trustees), as noted in the fund's Statement of Operations.

The fund may borrow money from banks and custodians. The fund may obtain temporary bank loans through the trust to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The trust has custodian overdraft facilities and line of credit arrangements of \$150 million and \$100 million with PNC Bank, N.A. and Bank of America, N.A., respectively. The fund pays interest on the amounts it borrows at rates that are negotiated periodically.

The fund intends to meet federal income tax requirements for regulated investment companies. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains (if any) to its respective shareholders each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax.

Under the fund's organizational documents, its officers and trustees are indemnified against certain liability arising out of the performance of their duties to the fund. In addition, in the normal course of business the fund enters into contracts with its vendors and others that provide general indemnifications. The fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the fund. However, based on experience, the fund expects the risk of loss to be remote.

Accounting Policies

The following are the main policies the fund uses in preparing its financial statements.

The fund values its securities at amortized cost, which approximates market value.

Security transactions are recorded as of the date the order to buy or sell the security is executed.

Interest income is recorded as it accrues. If the fund bought a debt instrument at a discount (that is, for less than its face value) or a premium (more than face value), it amortizes the discount or premium from the current date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. If the security is callable (meaning that the issuer has the option to pay it off before its maturity date), then the fund amortizes the premium to the security's call date and price, rather than the maturity date and price.

Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Expenses that are specific to the fund are charged directly to the fund. Expenses that are common to all funds within the trust generally are allocated among the funds in proportion to their average daily net assets.

The fund maintains its own account for purposes of holding assets and accounting, and is considered a separate entity for tax purposes. Within its account, the fund also keeps certain assets in segregated accounts, as may be required by securities law.

The accounting policies described above conform with accounting principles generally accepted in the United States of America. Notwithstanding this, shareholders should understand that in order to follow these principles, fund management has to make estimates and assumptions that affect the information reported in the financial statements. It's possible that once the results are known, they may turn out to be different from these estimates.

Fund Trustees unaudited

A fund's Board of Trustees is responsible for protecting the interests of that fund's shareholders. The tables below give information about the people who serve as trustees and officers for the SchwabFunds®, including the funds covered in this report. Trustees remain in office until they resign, retire or are removed by shareholder vote.¹

Under the Investment Company Act of 1940, any officer, director, or employee of Schwab or CSIM is considered an “interested person,” meaning that he or she is considered to have a business interest in Schwab or CSIM. These individuals are listed as “interested trustees.” The “independent trustees” are individuals who, under the 1940 Act, are not considered to have a business interest in Schwab or CSIM.

Each of the SchwabFunds® (of which there were 49 as of 6/30/04) belongs to one of these trusts: The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust or Schwab Annuity Portfolios. Currently all these trusts have the same trustees and officers. The address for all trustees and officers is 101 Montgomery Street, San Francisco, CA 94104. You can find more information about the trustees and officers in the Statement of Additional Information, which is available free by calling 1-800-435-4000.

Individuals Who Are Interested Trustees and Officers of the Trust

Name and Birthdate	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ² 7/29/37	Chair, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc. Charles Schwab Investment Management, Inc., Charles Schwab Holdings (UK); CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, U.S. Trust Corp., United States Trust Co. of New York, Siebel Systems (software), Xsign, Inc. (electronic payment systems); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 2003:</i> Co-CEO, The Charles Schwab Corp. <i>Until 2002:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodaphone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co.; TrustMark, Inc.

¹ The SchwabFunds retirement policy requires that independent trustees elected after January 1, 2000 retire at age 72 or after twenty years of service as a trustee, whichever comes first. Independent trustees elected prior to January 1, 2000 will retire on the following schedule: Messrs. Holmes and Dorward will retire on December 31, 2007, and Messrs. Stephens and Wilsey will retire on December 31, 2010.

² In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Mr. Schwab also own stock of The Charles Schwab Corporation.

Individuals Who Are Interested Trustees but Not Officers of the Trust

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Dawn G. Lepore ¹ 3/21/54	2003 (all trusts).	Vice Chair, The Charles Schwab Corp.; <i>Until 10/01</i> : CIO, The Charles Schwab Corporation. <i>Until 1999</i> : EVP, The Charles Schwab Corporation. Director, Wal-Mart Stores, eBay, Inc.

Individuals Who Are Officers of the Trust but Not Trustees

Name and Birthdate	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Randall W. Merk 7/25/54	President, CEO (all trusts).	President, CEO, Charles Schwab Investment Management, Inc.; EVP, Charles Schwab & Co., Inc.; Director, Charles Schwab Worldwide Funds PLC, Charles Schwab Asset Management (Ireland) Ltd. <i>Until 9/02</i> : President, CIO, American Century Investment Management; Director, American Century Cos., Inc. <i>Until 6/01</i> : CIO, Fixed Income, American Century Cos., Inc. <i>Until 1997</i> : SVP, Director, Fixed Income and Quantitative Equity Portfolio Management, Twentieth Century Investors, Inc.
Tai-Chin Tung 3/7/51	Treasurer, Principal Financial Officer (all trusts).	SVP, CFO, Charles Schwab Investment Management, Inc.; SVP, The Charles Schwab Trust Co.; Director, Charles Schwab Asset Management (Ireland) Ltd., Charles Schwab Worldwide Funds PLC.
Stephen B. Ward 4/5/55	SVP, Chief Investment Officer (all trusts).	SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; CIO, The Charles Schwab Trust Co.
Koji E. Felton 3/13/61	Secretary (all trusts).	SVP, Chief Counsel, Assistant Corporate Secretary, Charles Schwab Investment Management, Inc. <i>Until 6/98</i> : Branch Chief in Enforcement, U.S. Securities and Exchange Commission, San Francisco.

¹ In addition to their positions with the investment adviser and the distributor, Ms. Lepore and Mr. Schwab also own stock of The Charles Schwab Corporation.

Individuals Who Are Independent Trustees

Name and Birthdate	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 8/13/60	2000 (all trusts).	Chair, JDN Corp. Advisory LLC; Trustee, Stanford University, America First Cos., (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital, Laudus Trust, Laudus Variable Insurance Trust. <i>2001</i> : Special Advisor to the President, Stanford University. <i>Until 2002</i> : Director, LookSmart, Ltd. (Internet infrastructure). <i>Until 2001</i> : VP, Business Affairs, CFO, Stanford University.
Donald F. Dorward 9/23/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	CEO, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : EVP, Managing Director, Grey Advertising.
William A. Hasler 11/22/41	2000 (all trusts).	Co-CEO, Apton Corp. (bio-pharmaceuticals). Trustee, Solectron Corp. (manufacturing), Airlease Ltd. (aircraft leasing), Mission West Properties (commercial real estate), Stratex Corp. (network equipment); Public Governor, Laudus Trust, Laudus Variable Insurance Trust; Member, executive committee, Pacific Stock & Options Exchange. <i>Until 2003</i> : Trustee, Tenera, Inc. (services and software). <i>Until 1998</i> : Dean, Haas School of Business, University of California, Berkeley.
Robert G. Holmes 5/15/31	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Director, Semloh Financial, Inc. (international financial services and investment advice).
Gerald B. Smith 9/28/50	2000 (all trusts).	Chair, CEO, Founder, Smith Graham & Co. (investment advisors); Trustee, Rorento N.V. (investments—Netherlands), Cooper Industries (electrical products, tools and hardware); Member, audit committee, Northern Border Partners, L.P. (energy). <i>Until 2002</i> : Director, Pennzoil-Quaker State Co. (oil and gas).
Donald R. Stephens 6/28/38	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chair, CEO, North American Trust (real estate investment trust).
Michael W. Wilsey 8/18/43	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chair, CEO, Wilsey Bennett, Inc. (transportation, real estate and investments).