

charles SCHWAB

Large Blend

**Schwab S&P 500
Index Portfolio**

(formerly Schwab S&P 500 Portfolio)

Large-Cap

Semiannual report for the period ended June 30, 2005

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, Procedures and Results

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 website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The industry/sector classification of the fund's portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

Management's Discussion for the six months ended June 30, 2005



Jeffrey Mortimer, CFA, senior vice president and chief investment officer, equities, of the investment adviser is responsible for the overall management of the portfolio. Prior to joining the firm in October 1997, he worked for more than nine years in asset management.



Larry Mano, vice president and senior portfolio manager, is responsible for the overall management of the portfolio. Prior to joining the firm in 1998, he worked for 20 years in equity management.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

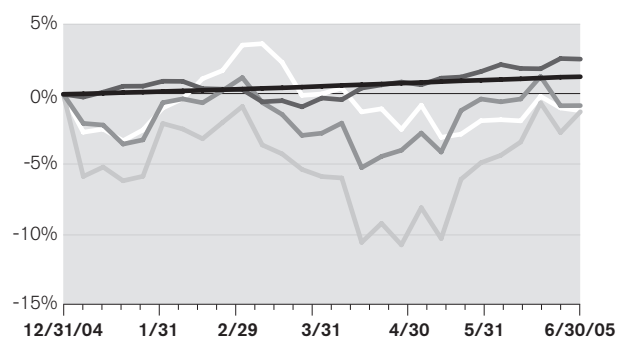
While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on

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.

- 1.25% **Three-Month U.S. Treasury Bills (T-Bills)**: measures short-term U.S. Treasury obligations
- 2.51% **Lehman Brothers U.S. Aggregate Bond Index**: measures the U.S. bond market
- -0.81% **S&P 500® Index**: measures U.S. large-cap stocks
- -1.25% **Russell 2000® Index**: measures U.S. small-cap stocks
- -1.17% **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.

Source of Sector Classification: S&P and MSCI.



Tom Brown, an associate portfolio manager of the investment adviser, is a day-to-day manager of the portfolio. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

The S&P 500 Index Portfolio ended the six-month report period down 0.80%, just outperforming its benchmark, the S&P 500 Index, which was down 0.81%. Value was the favored style over the period. The price of crude oil increased substantially over the period, making energy-related stocks the top performing sector in the Portfolio. Utilities also enjoyed strong gains. Conversely, the Materials and Consumer Discretionary sectors were the laggards.

Past performance does not indicate future results.

Source of Sector Classification: S&P and MSCI.

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.

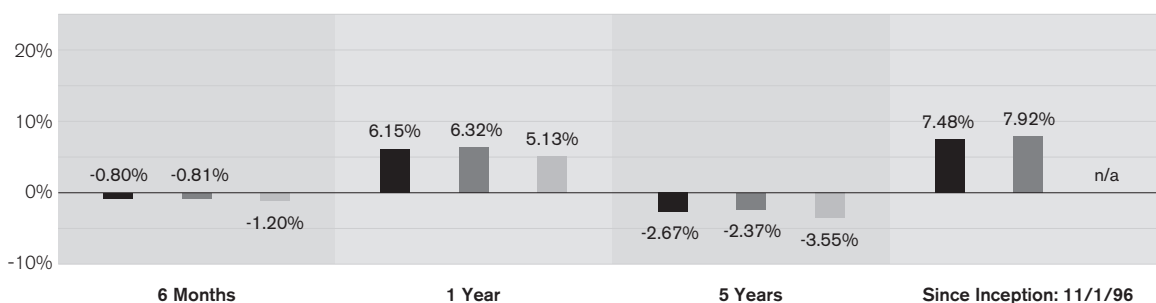
Schwab S&P 500 Index Portfolio

Performance as of 6/30/05

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

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

■ **Portfolio**
 ■ Benchmark: **S&P 500® Index**
 ■ Fund Category: **Morningstar Large-Cap Blend**

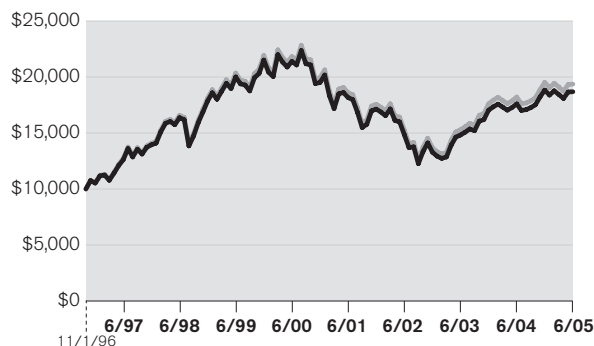


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

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.

■ \$18,686 **Portfolio**
 ■ \$19,363 **S&P 500® Index**



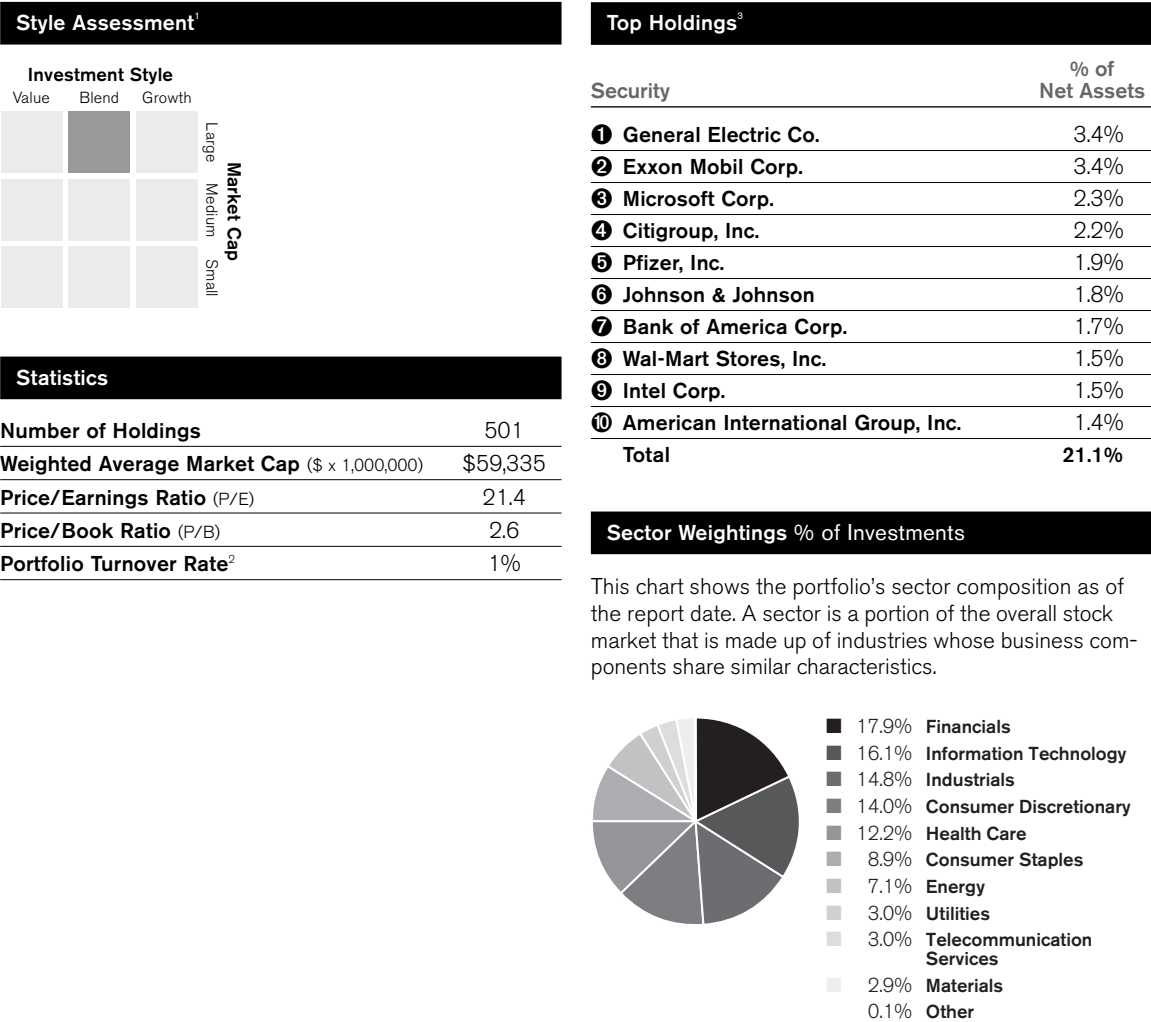
All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

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 6/30/05



Portfolio holdings may have changed since the report date.
Source of Sector Classification: S&P and MSCI.

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 6/30/05, 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.

Portfolio Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 1/1/05 | Ending Account Value (Net of Expenses) at 6/30/05 | Expenses Paid During Period ² 1/1/05–6/30/05 |
|---|--|---|--|---|
| Schwab S&P 500 Index Portfolio | | | | |
| Actual Return | 0.28% | \$1,000 | \$992.00 | \$1.38 |
| Hypothetical 5% Return | 0.28% | \$1,000 | \$1,023.41 | \$1.40 |

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.
² Expenses for the portfolio are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Schwab S&P 500 Index Portfolio

Financial Statements

Financial Highlights

| | 1/1/05– 6/30/05* | 1/1/04– 12/31/04 | 1/1/03– 12/31/03 | 1/1/02– 12/31/02 | 1/1/01– 12/31/01 | 1/1/00– 12/31/00 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Per-Share Data (\$) | | | | | | |
| Net asset value at beginning of period | 17.56 | 16.06 | 12.66 | 16.54 | 19.02 | 21.26 |
| Income or loss from investment operations: | | | | | | |
| Net investment income | 0.15 | 0.29 | 0.17 | 0.19 | 0.15 | 0.18 |
| Net realized and unrealized gains or losses | (0.29) | 1.40 | 3.40 | (3.90) | (2.46) | (2.17) |
| Total income or loss from investment operations | (0.14) | 1.69 | 3.57 | (3.71) | (2.31) | (1.99) |
| Less distributions: | | | | | | |
| Dividends from net investment income | — | (0.19) | (0.17) | (0.17) | (0.17) | (0.19) |
| Distributions from net realized gains | — | — | — | — | — | (0.06) |
| Total distributions | — | (0.19) | (0.17) | (0.17) | (0.17) | (0.25) |
| Net asset value at end of period | 17.42 | 17.56 | 16.06 | 12.66 | 16.54 | 19.02 |
| Total return (%) | (0.80) ¹ | 10.53 | 28.22 | (22.43) | (12.16) | (9.34) |
| Ratios/Supplemental Data (%) | | | | | | |
| Ratios to average net assets: | | | | | | |
| Net operating expenses | 0.28 ² | 0.28 | 0.28 | 0.28 | 0.28 | 0.29 ³ |
| Gross operating expenses | 0.31 ² | 0.31 | 0.32 | 0.35 | 0.33 | 0.31 |
| Net investment income | 1.54 ² | 1.75 | 1.50 | 1.33 | 1.09 | 0.99 |
| Portfolio turnover rate | 1 ¹ | 4 | 2 | 11 | 5 | 10 |
| Net assets, end of period (\$ x 1,000,000) | 154 | 162 | 146 | 98 | 128 | 126 |

* 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, 2005, unaudited

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities. 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
 - All or a portion of this security is on loan

| Holdings by Category | | Cost (\$ x 1,000) | Value (\$ x 1,000) |
|----------------------|---|----------------------|-----------------------|
| 99.9% | Common Stock | 130,749 | 154,117 |
| 0.1% | U.S. Treasury Obligation | 99 | 99 |
| 100.0% | Total Investments | 130,848 | 154,216 |
| 6.3% | Collateral Invested for Securities on Loan | 9,755 | 9,755 |
| (6.3)% | Other Assets and Liabilities, Net | | (9,806) |
| 100.0% | Total Net Assets | | 154,165 |

Security and Number of Shares

Value
(\$ x 1,000)

Common Stock 99.9% of net assets**Automobiles & Components** 0.7%

| | | |
|------------------------------|--------|-----|
| Cooper Tire & Rubber Co. | 1,000 | 19 |
| Dana Corp. | 2,178 | 33 |
| ■ Delphi Corp. | 7,563 | 35 |
| Ford Motor Co. | 25,852 | 265 |
| ■ General Motors Corp. | 8,000 | 272 |
| ■ Goodyear Tire & Rubber Co. | 2,500 | 37 |
| Harley-Davidson, Inc. | 4,200 | 208 |

| Security and Number of Shares | | Value (\$ x 1,000) |
|-------------------------------|-------|-----------------------|
| Johnson Controls, Inc. | 2,600 | 146 |
| Visteon Corp. | 1,584 | 10 |
| | | 1,025 |

Banks 7.6%

| | | |
|------------------------------------|--------|---------------|
| AmSouth Bancorp. | 5,050 | 131 |
| ⑦ Bank of America Corp. | 56,784 | 2,590 |
| BB&T Corp. | 7,800 | 312 |
| Comerica, Inc. | 2,350 | 136 |
| Compass Bancshares, Inc. | 1,700 | 76 |
| Countrywide Financial Corp. | 8,000 | 309 |
| Fannie Mae | 13,790 | 805 |
| Fifth Third Bancorp. | 7,405 | 305 |
| ■ First Horizon National Corp. | 1,700 | 72 |
| Freddie Mac | 9,700 | 633 |
| ■ Golden West Financial Corp. | 4,000 | 258 |
| Huntington Bancshares, Inc. | 3,256 | 79 |
| KeyCorp, Inc. | 5,900 | 196 |
| M&T Bank Corp. | 1,400 | 147 |
| Marshall & Ilsley Corp. | 2,938 | 131 |
| MGIC Investment Corp. | 1,400 | 91 |
| National City Corp. | 8,500 | 290 |
| North Fork Bancorp., Inc. | 6,600 | 185 |
| PNC Financial Services Group, Inc. | 4,000 | 218 |
| ■ Regions Financial Corp. | 6,427 | 218 |
| Sovereign Bancorp, Inc. | 5,300 | 118 |
| SunTrust Banks, Inc. | 4,800 | 347 |
| Synovus Financial Corp. | 4,300 | 123 |
| U.S. Bancorp | 26,420 | 771 |
| Wachovia Corp. | 22,427 | 1,112 |
| ■ Washington Mutual, Inc. | 12,424 | 506 |
| Wells Fargo & Co. | 23,999 | 1,478 |
| Zions Bancorp. | 1,200 | 88 |
| | | 11,725 |

Capital Goods 8.9%

| | | |
|---------------------------------|--------|-----|
| 3M Co. | 11,050 | 799 |
| American Power Conversion Corp. | 2,825 | 67 |
| American Standard Cos., Inc. | 2,600 | 109 |
| The Boeing Co. | 11,696 | 772 |
| Caterpillar, Inc. | 4,800 | 458 |
| Cooper Industries Ltd., Class A | 1,300 | 83 |
| Cummins, Inc. | 700 | 52 |
| Danaher Corp. | 3,900 | 204 |
| Deere & Co. | 3,500 | 229 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| Dover Corp. 2,800 | 102 | • Coach, Inc. 5,400 | 181 |
| Eaton Corp. 2,200 | 132 | Eastman Kodak Co. 4,100 | 110 |
| Emerson Electric Co. 5,900 | 370 | Fortune Brands, Inc. 2,000 | 178 |
| Fluor Corp. 1,100 | 63 | Hasbro, Inc. 2,525 | 53 |
| General Dynamics Corp. 2,800 | 307 | Jones Apparel Group, Inc. 1,800 | 56 |
| ① General Electric Co. 150,040 | 5,199 | KB Home 1,160 | 88 |
| Goodrich Corp. 1,700 | 70 | Leggett & Platt, Inc. 2,800 | 74 |
| Honeywell International, Inc. 12,237 | 448 | Liz Claiborne, Inc. 1,600 | 64 |
| Illinois Tool Works, Inc. 3,920 | 312 | Mattel, Inc. 5,900 | 108 |
| Ingersoll-Rand Co., Class A 2,400 | 171 | ■ Maytag Corp. 1,120 | 18 |
| ITT Industries, Inc. 1,300 | 127 | ■ Newell Rubbermaid, Inc. 3,924 | 94 |
| L-3 Communications Holdings, Inc. 1,500 | 115 | Nike, Inc., Class B 3,260 | 282 |
| Lockheed Martin Corp. 5,670 | 368 | Pulte Homes, Inc. 1,800 | 152 |
| Masco Corp. 6,300 | 200 | Reebok International Ltd. 800 | 33 |
| • Navistar International Corp. 1,000 | 32 | Snap-On, Inc. 800 | 27 |
| Northrop Grumman Corp. 5,114 | 283 | The Stanley Works 1,100 | 50 |
| Paccar, Inc. 2,550 | 173 | VF Corp. 1,410 | 81 |
| Pall Corp. 1,700 | 52 | Whirlpool Corp. 900 | 63 |
| Parker Hannifin Corp. 1,650 | 102 | | 1,990 |
| Raytheon Co. 6,300 | 246 | | |
| Rockwell Automation, Inc. 2,470 | 120 | Diversified Financials 7.7% | |
| Rockwell Collins, Inc. 2,500 | 119 | American Express Co. 16,690 | 888 |
| Textron, Inc. 1,900 | 144 | The Bank of New York Co., Inc. 10,900 | 314 |
| Tyco International Ltd. 28,729 | 839 | ■ The Bear Stearns Cos., Inc. 1,512 | 157 |
| United Technologies Corp. 14,600 | 750 | Capital One Financial Corp. 3,400 | 272 |
| W.W. Grainger, Inc. 1,300 | 71 | ■ The Charles Schwab Corp. 16,342 | 184 |
| | 13,688 | CIT Group, Inc. 2,900 | 125 |
| Commercial Services & Supplies 1.0% | | ④ Citigroup, Inc. 73,466 | 3,396 |
| • Allied Waste Industries, Inc. 4,300 | 34 | • E*TRADE Financial Corp. 5,200 | 73 |
| ■ Apollo Group, Inc., Class A 2,400 | 188 | Federated Investors, Inc., Class B 1,500 | 45 |
| Avery Dennison Corp. 1,500 | 80 | Franklin Resources, Inc. 2,800 | 216 |
| Cendant Corp. 14,902 | 333 | Goldman Sachs Group, Inc. 6,347 | 647 |
| ■ Cintas Corp. 2,112 | 82 | Janus Capital Group, Inc. 3,300 | 50 |
| Equifax, Inc. 2,000 | 71 | JPMorgan Chase & Co. 49,705 | 1,756 |
| H&R Block, Inc. 2,300 | 134 | Lehman Brothers Holdings, Inc. 3,950 | 392 |
| ■ Monster Worldwide, Inc. 1,644 | 47 | MBNA Corp. 18,243 | 477 |
| Pitney Bowes, Inc. 3,400 | 148 | Mellon Financial Corp. 6,000 | 172 |
| R.R. Donnelley & Sons Co. 3,000 | 104 | Merrill Lynch & Co., Inc. 13,280 | 730 |
| Robert Half International, Inc. 2,400 | 60 | Moody's Corp. 3,880 | 174 |
| Waste Management, Inc. 8,157 | 231 | Morgan Stanley 15,450 | 811 |
| | 1,512 | Northern Trust Corp. 2,870 | 131 |
| Consumer Durables & Apparel 1.3% | | Principal Financial Group, Inc. 4,274 | 179 |
| Black & Decker Corp. 1,100 | 99 | • Provident Financial Corp. 3,800 | 67 |
| Brunswick Corp. 1,200 | 52 | SLM Corp. 6,000 | 305 |
| Centex Corp. 1,800 | 127 | ■ State Street Corp. 4,800 | 232 |
| | | T. Rowe Price Group, Inc. 1,700 | 106 |
| | | | 11,899 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|
| Energy 8.8% | |
| ■ Amerada Hess Corp. 1,200 | 128 |
| Anadarko Petroleum Corp. 3,347 | 275 |
| Apache Corp. 4,684 | 303 |
| ■ Ashland, Inc. 900 | 65 |
| Baker Hughes, Inc. 4,780 | 244 |
| BJ Services Co. 2,300 | 121 |
| Burlington Resources, Inc. 5,474 | 302 |
| ChevronTexaco Corp. 29,790 | 1,666 |
| ConocoPhillips 19,828 | 1,140 |
| Devon Energy Corp. 6,800 | 345 |
| El Paso Corp. 8,929 | 103 |
| EOG Resources, Inc. 3,214 | 182 |
| ② Exxon Mobil Corp. 89,990 | 5,172 |
| ■ Halliburton Co. 7,100 | 339 |
| Kerr-McGee Corp. 1,516 | 116 |
| ■ Kinder Morgan, Inc. 1,550 | 129 |
| Marathon Oil Corp. 4,900 | 261 |
| • Nabors Industries Ltd. 2,000 | 121 |
| • National-Oilwell Varco, Inc. 2,400 | 114 |
| Noble Corp. 1,800 | 111 |
| Occidental Petroleum Corp. 5,700 | 438 |
| • Rowan Cos., Inc. 1,400 | 42 |
| Schlumberger Ltd. 8,300 | 630 |
| Sunoco, Inc. 970 | 110 |
| • Transocean, Inc. 4,584 | 247 |
| Unocal Corp. 3,700 | 241 |
| Valero Energy Corp. 3,600 | 285 |
| Williams Cos., Inc. 7,900 | 150 |
| XTO Energy, Inc. 4,933 | 168 |
| | 13,548 |
| Food & Staples Retailing 2.8% | |
| ■ Albertson's, Inc. 5,275 | 109 |
| Costco Wholesale Corp. 6,500 | 291 |
| CVS Corp. 11,400 | 331 |
| • Kroger Co. 10,600 | 202 |
| ■ Safeway, Inc. 6,200 | 140 |
| Supervalu, Inc. 1,900 | 62 |
| Sysco Corp. 9,100 | 329 |
| ⑧ Wal-Mart Stores, Inc. 47,260 | 2,278 |
| Walgreen Co. 14,540 | 669 |
| | 4,411 |

| Security and Number of Shares | Value (\$ x 1,000) |
|---|-----------------------|
| Food Beverage & Tobacco 4.8% | |
| Altria Group, Inc. 29,280 | 1,893 |
| Anheuser-Busch Cos., Inc. 11,010 | 504 |
| Archer-Daniels-Midland Co. 9,200 | 197 |
| Brown-Forman Corp., Class B 1,304 | 79 |
| Campbell Soup Co. 4,600 | 142 |
| The Coca-Cola Co. 32,070 | 1,339 |
| Coca-Cola Enterprises, Inc. 5,000 | 110 |
| ConAgra Foods, Inc. 7,170 | 166 |
| General Mills, Inc. 5,080 | 238 |
| H.J. Heinz Co. 5,000 | 177 |
| Hershey Foods Corp. 3,100 | 192 |
| Kellogg Co. 5,000 | 222 |
| McCormick & Co., Inc. 2,000 | 65 |
| Molson Coors Brewing Co., Class B 1,100 | 68 |
| The Pepsi Bottling Group, Inc. 2,802 | 80 |
| PepsiCo, Inc. 23,870 | 1,287 |
| ■ Reynolds American, Inc. 1,628 | 128 |
| Sara Lee Corp. 11,100 | 220 |
| UST, Inc. 2,400 | 110 |
| Wm. Wrigley Jr. Co. 2,800 | 193 |
| | 7,410 |
| Health Care Equipment & Services 5.0% | |
| Aetna, Inc. 4,200 | 348 |
| ■ AmerisourceBergen Corp. 1,600 | 111 |
| Bausch & Lomb, Inc. 800 | 66 |
| Baxter International, Inc. 8,600 | 319 |
| Becton Dickinson & Co. 3,600 | 189 |
| Biomet, Inc. 3,725 | 129 |
| • Boston Scientific Corp. 10,800 | 292 |
| C.R. Bard, Inc. 1,400 | 93 |
| Cardinal Health, Inc. 6,175 | 356 |
| • Caremark Rx, Inc. 6,413 | 285 |
| CIGNA Corp. 1,860 | 199 |
| • Express Scripts, Inc. 2,200 | 110 |
| • Fisher Scientific International, Inc. 1,605 | 104 |
| Guidant Corp. 4,500 | 303 |
| HCA, Inc. 5,820 | 330 |
| ■ Health Management Associates, Inc., Class A 3,300 | 86 |
| • Hospira, Inc. 2,210 | 86 |
| • Humana, Inc. 2,100 | 83 |
| IMS Health, Inc. 3,300 | 82 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---|-----------------------|---|-----------------------|
| • Laboratory Corp. of America Holdings 2,000 | 100 | ⑩ American International Group, Inc. 36,868 | 2,142 |
| Manor Care, Inc. 1,300 | 52 | AON Corp. 4,550 | 114 |
| McKesson Corp. 4,106 | 184 | ■ Chubb Corp. 2,700 | 231 |
| • Medco Health Solutions, Inc. 3,888 | 207 | Cincinnati Financial Corp. 2,535 | 100 |
| Medtronic, Inc. 17,200 | 891 | Hartford Financial Services Group, Inc. 4,200 | 314 |
| • Millipore Corp. 800 | 45 | Jefferson-Pilot Corp. 1,850 | 93 |
| PerkinElmer, Inc. 1,700 | 32 | Lincoln National Corp. 2,600 | 122 |
| Quest Diagnostics 2,760 | 147 | Loews Corp. 2,300 | 178 |
| • St. Jude Medical, Inc. 5,000 | 218 | Marsh & McLennan Cos., Inc. 7,200 | 200 |
| Stryker Corp. 5,300 | 252 | ■ MBIA, Inc. 1,950 | 116 |
| ■ Tenet Healthcare Corp. 6,500 | 80 | Metlife, Inc. 10,367 | 466 |
| • Thermo Electron Corp. 2,200 | 59 | The Progressive Corp. 2,850 | 282 |
| ■ UnitedHealth Group, Inc. 18,220 | 950 | Prudential Financial, Inc. 7,300 | 479 |
| • Waters Corp. 1,700 | 63 | Safeco Corp. 1,900 | 103 |
| • WellPoint, Inc. 8,602 | 599 | The St. Paul Travelers Cos., Inc. 9,459 | 374 |
| • Zimmer Holdings, Inc. 3,500 | 267 | Torchmark Corp. 1,500 | 78 |
| | 7,717 | ■ UnumProvident Corp. 4,276 | 78 |
| | | XL Capital Ltd., Class A 1,900 | 141 |
| | | | 6,789 |
| Hotels Restaurants & Leisure 1.5% | | Materials 2.9% | |
| ■ Carnival Corp. 7,500 | 409 | Air Products & Chemicals, Inc. 3,300 | 199 |
| Darden Restaurants, Inc. 2,090 | 69 | Alcoa, Inc. 12,272 | 321 |
| Harrah's Entertainment, Inc. 2,600 | 187 | Allegheny Technologies, Inc. 1,260 | 28 |
| Hilton Hotels Corp. 5,400 | 129 | Ball Corp. 1,600 | 58 |
| International Game Technology 5,000 | 141 | Bemis Co. 1,400 | 37 |
| Marriott International, Inc., Class A 2,820 | 192 | The Dow Chemical Co. 13,555 | 604 |
| McDonald's Corp. 17,800 | 494 | E.I. du Pont de Nemours & Co. 14,254 | 613 |
| • Starbucks Corp. 5,660 | 292 | Eastman Chemical Co. 1,000 | 55 |
| Starwood Hotels & Resorts Worldwide, Inc. 2,900 | 170 | Ecolab, Inc. 3,100 | 100 |
| Wendy's International, Inc. 1,700 | 81 | Engelhard Corp. 1,800 | 51 |
| Yum! Brands, Inc. 4,100 | 214 | ■ Freeport-McMoran Copper & Gold, Inc., Class B 2,400 | 90 |
| | 2,378 | Georgia-Pacific Corp. 3,655 | 116 |
| Household & Personal Products 2.4% | | Great Lakes Chemical Corp. 700 | 22 |
| Alberto-Culver Co., Class B 1,200 | 52 | • Hercules, Inc. 1,500 | 21 |
| Avon Products, Inc. 6,600 | 250 | ■ International Flavors & Fragrances, Inc. 1,400 | 51 |
| Clorox Co. 2,100 | 117 | International Paper Co. 6,798 | 205 |
| Colgate-Palmolive Co. 7,600 | 379 | Louisiana-Pacific Corp. 1,400 | 34 |
| The Gillette Co. 14,130 | 715 | MeadWestvaco Corp. 2,549 | 72 |
| Kimberly-Clark Corp. 6,800 | 426 | Monsanto Co. 3,725 | 234 |
| Procter & Gamble Co. 35,010 | 1,847 | Newmont Mining Corp. 6,186 | 241 |
| | 3,786 | Nucor Corp. 2,400 | 110 |
| Insurance 4.4% | | • Pactiv Corp. 2,300 | 50 |
| ACE Ltd. 3,900 | 175 | Phelps Dodge Corp. 1,315 | 122 |
| AFLAC, Inc. 7,200 | 312 | PPG Industries, Inc. 2,500 | 157 |
| The Allstate Corp. 9,700 | 580 | | |
| AMBAC Financial Group, Inc. 1,592 | 111 | | |

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---|-----------------------|--|-----------------------|
| Praxair, Inc. 4,600 | 214 | Merck & Co., Inc. 31,500 | 970 |
| Rohm & Haas Co. 2,805 | 130 | Mylan Laboratories, Inc. 3,800 | 73 |
| • Sealed Air Corp. 1,214 | 60 | ⑤ Pfizer, Inc. 105,609 | 2,913 |
| Sigma-Aldrich Corp. 1,000 | 56 | Schering-Plough Corp. 20,800 | 397 |
| Temple-Inland, Inc. 1,600 | 59 | • Watson Pharmaceuticals, Inc. 1,500 | 44 |
| United States Steel Corp. 1,500 | 52 | Wyeth 19,000 | 846 |
| Vulcan Materials Co. 1,500 | 98 | | 12,967 |
| Weyerhaeuser Co. 3,400 | 216 | | |
| | 4,476 | | |
| Media 3.7% | | Real Estate 0.6% | |
| Clear Channel Communications, Inc. 7,496 | 232 | Apartment Investment & Management Co., Class A 1,300 | 53 |
| • Comcast Corp., Class A 31,259 | 960 | ■ Archstone-Smith Trust 2,700 | 104 |
| ■ Dow Jones & Co., Inc. 1,100 | 39 | Equity Office Properties Trust 5,600 | 185 |
| Gannett Co., Inc. 3,560 | 253 | Equity Residential 4,200 | 155 |
| • Interpublic Group of Cos., Inc. 5,700 | 69 | Plum Creek Timber Co., Inc. 2,560 | 93 |
| ■ Knight-Ridder, Inc. 1,200 | 74 | ProLogis 2,600 | 105 |
| The McGraw-Hill Cos., Inc. 5,400 | 239 | Simon Property Group, Inc. 3,100 | 225 |
| Meredith Corp. 700 | 34 | | 920 |
| New York Times Co., Class A 2,200 | 68 | | |
| News Corp, Inc., Class A 41,100 | 665 | Retailing 4.1% | |
| Omnicom Group, Inc. 2,600 | 208 | • Autonation, Inc. 3,700 | 76 |
| • Time Warner, Inc. 65,450 | 1,094 | • AutoZone, Inc. 1,000 | 92 |
| Tribune Co. 4,400 | 155 | • Bed, Bath & Beyond, Inc. 4,200 | 175 |
| ■ Univision Communications, Inc., Class A 4,125 | 114 | Best Buy Co., Inc. 4,250 | 291 |
| Viacom, Inc., Class B 22,761 | 729 | ■ Big Lots, Inc. 1,400 | 18 |
| The Walt Disney Co. 29,170 | 734 | Circuit City Stores, Inc. 2,900 | 50 |
| | 5,667 | ■ Dillards, Inc., Class A 1,100 | 26 |
| Pharmaceuticals & Biotechnology 8.4% | | Dollar General Corp. 4,263 | 87 |
| Abbott Laboratories 22,200 | 1,088 | • eBay, Inc. 17,288 | 571 |
| ■ Allergan, Inc. 1,800 | 153 | Family Dollar Stores, Inc. 2,400 | 63 |
| • Amgen, Inc. 17,504 | 1,058 | ■ Federated Department Stores, Inc. 2,500 | 183 |
| Applied Biosystems Group — Applera Corp. 2,800 | 55 | The Gap, Inc. 10,462 | 207 |
| • Biogen Idec, Inc. 4,700 | 162 | Genuine Parts Co. 2,500 | 103 |
| Bristol-Myers Squibb Co. 27,810 | 695 | Home Depot, Inc. 30,300 | 1,179 |
| • Chiron Corp. 2,100 | 73 | J.C. Penney Co., Inc. Holding Co. 3,700 | 195 |
| Eli Lilly & Co. 16,170 | 901 | • Kohl's Corp. 4,610 | 258 |
| • Forest Laboratories, Inc. 5,200 | 202 | Limitedbrands 5,705 | 122 |
| • Genzyme Corp. 3,500 | 210 | Lowe's Cos., Inc. 11,000 | 640 |
| • Gilead Sciences, Inc. 6,000 | 264 | The May Department Stores Co. 4,050 | 163 |
| ⑥ Johnson & Johnson 42,088 | 2,736 | Nordstrom, Inc. 1,780 | 121 |
| • King Pharmaceuticals, Inc. 3,466 | 36 | • Office Depot, Inc. 4,500 | 103 |
| • Medimmune, Inc. 3,400 | 91 | OfficeMax, Inc. 1,200 | 36 |
| | | RadioShack Corp. 2,400 | 56 |
| | | • Sears Holdings Corp. 1,475 | 221 |
| | | The Sherwin-Williams Co. 1,840 | 87 |
| | | Staples, Inc. 10,500 | 224 |
| | | Target Corp. 12,700 | 691 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| Tiffany & Co. 2,000 | 65 | ■ Mercury Interactive Corp. 1,200 | 46 |
| TJX Cos., Inc. 6,710 | 163 | ● Microsoft Corp. 142,040 | 3,528 |
| • Toys 'R' Us, Inc. 3,000 | 79 | • Novell, Inc. 5,200 | 32 |
| | 6,345 | • Oracle Corp. 62,460 | 824 |
| Semiconductors & Semiconductor Equipment 3.2% | | • Parametric Technology Corp. 3,800 | 24 |
| • Advanced Micro Devices, Inc. 5,600 | 97 | Paychex, Inc. 5,250 | 171 |
| • Altera Corp. 5,480 | 109 | Sabre Holdings Corp., Class A 1,883 | 38 |
| Analog Devices, Inc. 5,400 | 202 | • Siebel Systems, Inc. 7,000 | 62 |
| • Applied Materials, Inc. 24,000 | 388 | • SunGard Data Systems, Inc. 4,031 | 142 |
| • Applied Micro Circuits Corp. 4,082 | 11 | • Symantec Corp. 9,796 | 213 |
| • Broadcom Corp., Class A 4,110 | 146 | • Unisys Corp. 4,700 | 30 |
| • Freescale Semiconductor, Inc., Class B 5,566 | 118 | • Veritas Software Corp. 6,000 | 146 |
| ■● Intel Corp. 87,250 | 2,274 | • Yahoo! Inc. 18,600 | 644 |
| • KLA-Tencor Corp. 2,700 | 118 | | 8,190 |
| Linear Technology Corp. 4,400 | 161 | Technology Hardware & Equipment 6.6% | |
| • LSI Logic Corp. 5,300 | 45 | • ADC Telecommunications, Inc. 1,471 | 32 |
| Maxim Integrated Products, Inc. 4,700 | 180 | • Agilent Technologies, Inc. 6,117 | 141 |
| • Micron Technology, Inc. 8,800 | 90 | • Andrew Corp. 2,250 | 29 |
| National Semiconductor Corp. 5,000 | 110 | • Apple Computer, Inc. 11,600 | 427 |
| ■ Novellus Systems, Inc. 2,200 | 54 | • Avaya, Inc. 6,432 | 54 |
| • Nvidia Corp. 2,400 | 64 | • CIENA Corp. 6,700 | 14 |
| • PMC — Sierra, Inc. 2,500 | 23 | • Cisco Systems, Inc. 90,360 | 1,727 |
| • Teradyne, Inc. 2,700 | 32 | • Comverse Technology, Inc. 2,700 | 64 |
| Texas Instruments, Inc. 23,480 | 659 | • Corning, Inc. 19,540 | 325 |
| Xilinx, Inc. 4,800 | 122 | • Dell, Inc. 34,220 | 1,352 |
| | 5,003 | • EMC Corp. 34,012 | 466 |
| Software & Services 5.3% | | ■ Gateway, Inc. 4,600 | 15 |
| Adobe Systems, Inc. 6,800 | 195 | Hewlett-Packard Co. 41,277 | 970 |
| ■ Affiliated Computer Services, Inc., Class A 1,791 | 92 | International Business Machines Corp. 22,800 | 1,692 |
| Autodesk, Inc. 3,000 | 103 | • Jabil Circuit, Inc. 2,727 | 84 |
| Automatic Data Processing, Inc. 8,120 | 341 | • JDS Uniphase Corp. 20,155 | 31 |
| • BMC Software, Inc. 3,200 | 57 | ■ Lexmark International, Inc., Class A 1,800 | 117 |
| • Citrix Systems, Inc. 2,400 | 52 | • Lucent Technologies, Inc. 60,295 | 175 |
| Computer Associates International, Inc. 7,600 | 209 | Molex, Inc. 2,700 | 70 |
| • Computer Sciences Corp. 2,700 | 118 | Motorola, Inc. 34,905 | 637 |
| • Compuware Corp. 5,100 | 37 | • NCR Corp. 2,800 | 98 |
| • Convergys Corp. 2,054 | 29 | ■ Network Appliance, Inc. 5,200 | 147 |
| • Electronic Arts, Inc. 4,258 | 241 | • QLogic Corp. 1,295 | 40 |
| Electronic Data Systems Corp. 6,900 | 133 | Qualcomm, Inc. 23,400 | 772 |
| First Data Corp. 10,959 | 440 | • Sanmina — SCI Corp. 7,400 | 41 |
| • Fiserv, Inc. 2,700 | 116 | Scientific-Atlanta, Inc. 2,200 | 73 |
| • Intuit, Inc. 2,820 | 127 | • Solectron Corp. 13,300 | 50 |
| | | • Sun Microsystems, Inc. 45,800 | 171 |
| | | Symbol Technologies, Inc. 3,052 | 30 |

| Security and Number of Shares | Value (\$ x 1,000) |
|-------------------------------|-----------------------|
| Tektronix, Inc. 1,500 | 35 |
| • Tellabs, Inc. 5,900 | 51 |
| • Xerox Corp. 13,600 | 188 |
| | 10,118 |

Telecommunication Services 3.2%

| | |
|--|--------------|
| ■ Alltel Corp. 4,400 | 274 |
| AT&T Corp. 11,216 | 214 |
| BellSouth Corp. 25,800 | 685 |
| CenturyTel, Inc. 1,900 | 66 |
| Citizens Communications Co. 4,718 | 63 |
| • Nextel Communications, Inc., Class A 15,700 | 507 |
| • Qwest Communications International, Inc. 24,216 | 90 |
| SBC Communications, Inc. 47,100 | 1,119 |
| Sprint Corp. (FON Group) 21,050 | 528 |
| Verizon Communications, Inc. 39,450 | 1,363 |
| | 4,909 |

Transportation 1.6%

| | |
|--|--------------|
| Burlington Northern Santa Fe Corp. 5,200 | 245 |
| CSX Corp. 2,900 | 124 |
| ■ Delta Air Lines, Inc. 1,400 | 5 |
| FedEx Corp. 4,220 | 342 |
| Norfolk Southern Corp. 5,600 | 173 |
| Ryder Systems, Inc. 900 | 33 |
| Southwest Airlines Co. 10,428 | 145 |
| Union Pacific Corp. 3,700 | 240 |
| United Parcel Service, Inc., Class B 15,915 | 1,101 |
| | 2,408 |

Utilities 3.4%

| | |
|---|-----|
| • The AES Corp. 8,800 | 144 |
| • Allegheny Energy, Inc. 1,941 | 49 |
| Ameren Corp. 2,700 | 149 |
| American Electric Power Co., Inc. 5,560 | 205 |
| ■ Calpine Corp. 7,500 | 26 |
| Centerpoint Energy, Inc. 4,150 | 55 |
| Cinergy Corp. 2,600 | 117 |
| ■ CMS Energy Corp. 2,400 | 36 |
| Consolidated Edison, Inc. 3,300 | 155 |
| Constellation Energy Group, Inc. 2,500 | 144 |
| Dominion Resources, Inc. 4,880 | 358 |
| DTE Energy Co. 2,400 | 112 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|
| Duke Energy Corp. 13,234 | 393 |
| • Dynegy, Inc., Class A 5,200 | 25 |
| Edison International 4,700 | 191 |
| Entergy Corp. 3,120 | 236 |
| Exelon Corp. 9,230 | 474 |
| FirstEnergy Corp. 4,628 | 223 |
| FPL Group, Inc. 5,400 | 227 |
| ■ KeySpan Corp. 2,300 | 94 |
| Nicor, Inc. 600 | 25 |
| NiSource, Inc. 3,546 | 88 |
| Peoples Energy Corp. 500 | 22 |
| PG&E Corp. 5,100 | 191 |
| Pinnacle West Capital Corp. 1,200 | 53 |
| PPL Corp. 2,600 | 154 |
| ■ Progress Energy, Inc. 3,502 | 158 |
| Public Service Enterprise Group, Inc. 3,300 | 201 |
| Sempra Energy 3,141 | 130 |
| The Southern Co. 10,300 | 357 |
| TECO Energy, Inc. 2,700 | 51 |
| TXU Corp. 3,422 | 284 |
| Xcel Energy, Inc. 5,605 | 109 |
| | 5,236 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) |
|---------------------------------|-----------------------------|
|---------------------------------|-----------------------------|

U.S. Treasury Obligation
 0.1% of net assets

| | | |
|---------------------------------------|-----|-----------|
| U.S. Treasury Bill 2.92%, 09/15/05 | 100 | 99 |
|---------------------------------------|-----|-----------|

End of investments.

Portfolio Holdings continued

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

Collateral Invested for Securities on Loan
 6.3% of net assets

**Commercial Paper & Other Corporate
Obligations 2.4%**

| | | |
|-------------------------|-------|--------------|
| Skandinav Enskilda Bank | | |
| 3.21%, 07/17/05 | 1,345 | 1,345 |
| UBS Bank | | |
| 3.04%, 07/01/05 | 2,377 | 2,377 |
| | | 3,722 |

Short-Term Investments 3.9%

| | | |
|--------------------------------|-----|-----|
| Rabobank, Time Deposit | | |
| 3.35%, 07/01/05 | 995 | 995 |
| Societe Generale, Time Deposit | | |
| 3.38%, 07/01/05 | 251 | 251 |

Security and Number of Shares

| | | |
|---|--|--------------|
| Institutional Money Market Trust 4,786,791 | | 4,787 |
| | | 6,033 |

End of collateral invested for securities on loan.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

| | |
|--|----------------|
| Investments, at value (including \$9,379 of securities on loan) | \$154,216 |
| Collateral invested for securities on loan | 9,755 |
| Receivables: | |
| Fund shares sold | 14 |
| Dividends | 186 |
| Investments sold | 532 |
| Income from securities on loan | + 2 |
| Total assets | 164,705 |

Liabilities

| | |
|--|---------------|
| Collateral invested for securities on loan | 9,755 |
| Bank overdraft | 436 |
| Payables: | |
| Fund shares redeemed | 131 |
| Investments bought | 157 |
| Investment adviser and administrator fees | 7 |
| Accrued expenses | + 54 |
| Total liabilities | 10,540 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 164,705 |
| Total liabilities | - 10,540 |
| Net assets | \$154,165 |

Net Assets by Source

| | |
|---|----------|
| Capital received from investors | 139,194 |
| Net investment income not yet distributed | 3,844 |
| Net realized capital losses | (12,241) |
| Net unrealized capital gains | 23,368 |

Net Asset Value (NAV)

| | | | | |
|-------------------|---|---------------------------|---|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$154,165 | | 8,852 | | \$17.42 |

Unless stated, all numbers are x 1,000.

The fund paid \$130,848 for these securities.

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

| | |
|------------------|---------|
| Purchases | \$2,242 |
| Sales/maturities | \$4,521 |

These derive from investments and futures.

Federal Tax Data**Portfolio cost** \$131,036**Net unrealized gains and losses:**

| | |
|--------|-----------------|
| Gains | \$42,792 |
| Losses | + (19,612) |
| | \$23,180 |

As of December 31, 2004:**Net undistributed earnings:**

| | |
|-------------------------|---------|
| Ordinary income | \$2,649 |
| Long-term capital gains | \$- |

Unused capital losses:

| | |
|-------------------|-----------------|
| Expires 12/31 of: | Loss amount |
| 2008 | \$664 |
| 2009 | 1,821 |
| 2010 | 7,810 |
| 2011 | 38 |
| 2012 | + 359 |
| | \$10,692 |

Deferred capital losses \$7

Statement of

Operations

For January 1, 2005 through June 30, 2005 unaudited. All numbers x 1,000.

Unless stated, all numbers are x 1,000.

Investment Income

| | |
|--------------------------------|--------------|
| Dividends | \$1,382 |
| Interest | 19 |
| Securities on loan | + 11 |
| Total investment income | 1,412 |

Net Realized Gains and Losses

| | |
|--|--------------|
| Net realized losses on investments | (916) |
| Net realized losses on futures contracts | + (2) |
| Net realized losses | (918) |

Net Unrealized Gains and Losses

| | |
|--|----------------|
| Net unrealized losses on investments | (1,692) |
| Net unrealized losses on futures contracts | + (43) |
| Net unrealized losses | (1,735) |

Expenses

| | |
|---|------------|
| Investment adviser and administrator fees | 155 |
| Trustees' fees | 11 |
| Custodian fees | 14 |
| Portfolio accounting fees | 10 |
| Professional fees | 15 |
| Shareholder reports | 26 |
| Other expenses | + 8 |
| Total expenses | 239 |
| Expense reduction | - 22 |
| Net expenses | 217 |

Decrease in Net Assets From Operations

| | |
|---|------------------|
| Total investment income | 1,412 |
| Net expenses | - 217 |
| Net investment income | 1,195 |
| Net realized losses | (918) |
| Net unrealized losses | + (1,735) |
| Decrease in net assets from operations | (\$1,458) |

Calculated as a percentage of average daily net assets: 0.20% of the first \$500 million and 0.17% of the assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

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 29, 2006, to 0.28% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$2,653.

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

| | 1/1/05–6/30/05 | 1/1/04–12/31/04 |
|---|----------------|-----------------|
| Net investment income | \$1,195 | \$2,650 |
| Net realized losses | (918) | (12) |
| Net unrealized gains or losses | + (1,735) | 12,681 |
| Increase or decrease in net assets from operations | (1,458) | 15,319 |

Distributions Paid

| | | |
|--------------------------------------|------------|----------------|
| Dividends from net investment income | \$— | \$1,720 |
|--------------------------------------|------------|----------------|

Transactions in Fund Shares

| | 1/1/05–6/30/05 | | 1/1/04–12/31/04 | |
|--|----------------|------------------|-----------------|----------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 746 | \$12,917 | 2,284 | \$37,513 |
| Shares reinvested | — | — | 100 | 1,720 |
| Shares redeemed | + (1,116) | (19,285) | (2,259) | (36,911) |
| Net transactions in fund shares | (370) | (\$6,368) | 125 | \$2,322 |

Shares Outstanding and Net Assets

| | 1/1/05–6/30/05 | | 1/1/04–12/31/04 | |
|----------------------------|----------------|------------------|-----------------|------------------|
| | SHARES | NET ASSETS | SHARES | NET ASSETS |
| Beginning of period | 9,222 | \$161,991 | 9,097 | \$146,070 |
| Total increase or decrease | + (370) | (7,826) | 125 | 15,921 |
| End of period | 8,852 | \$154,165 | 9,222 | \$161,991 |

Unless stated, all numbers are x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

| | |
|-------------------------|---------|
| Ordinary income | \$1,720 |
| 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 \$3,844 and \$2,649 for the current period and 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 fund operations 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 Index 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.

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 Schwab Funds® 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 Schwab Funds®. 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 Schwab Funds®.

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 which the fund belongs 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 6/30/05 (\$ x 1,000) | Average Borrowing* (\$ x 1,000) | Weighted Average Interest Rate* (%) |
|--|---------------------------------|-------------------------------------|
| 436 | 205 | 3.05 |

*Based on the number of days for which the borrowing is outstanding.

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 the participating insurance company separate accounts 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 that are primarily traded on foreign exchanges are valued at the closing values of such securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.

- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security's last close and the time that a fund calculates net asset value: 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 and the Pricing Committee. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been de-listed from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.

- **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.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Annuity Portfolios (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, which includes the Schwab S&P 500 Index Portfolio, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data

provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement for an additional one year period. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees considered the role of unaffiliated insurance companies in the distribution of the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition, and how this affects the success of the funds. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation, the Board concluded, within the context of its full deliberations, that the performance of the funds supported renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual

funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds. However, the trustees accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to such other types of accounts, and the unique insurance-dedicated distribution arrangements of the funds as compared to other funds managed by CSIM. Following such evaluation, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

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 Schwab Funds®, 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 56 Schwab Funds 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.

Interested Trustees and Officers

| Name and Birthdate | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|--|---|---|
| Charles R. Schwab ² 7/29/37 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</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. |

¹ The Schwab Funds 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 his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

| Name and Birthdate | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|--------------------|--|
| Randall W. Merk 7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

Officers of the Trust

| Name and Birthdate | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|-------------------------------------|--|---|
| Evelyn Dilsaver 5/4/55 | President, CEO (all trusts). | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 4/5/55 | SVP, Chief Investment Officer (all trusts). | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |
| Kimon Daifotis 7/10/59 | SVP, Chief Investment Officer (all trusts). | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 9/29/63 | SVP, Chief Investment Officer (all trusts). | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 11/11/60 | Chief Compliance Officer (all trusts). | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04:</i> VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| 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. |
| George Pereira 6/9/64 | Treasurer, Principal Financial Officer (all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange. |

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 (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001:</i> Stanford University, Special Assistant to the President. <i>From 1996-2001:</i> VP of Business Affairs, CFO. |
| 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. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising. |
| William A. Hasler 11/22/41 | 2000 (all trusts). | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). |
| 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 advisory firm). |
| Gerald B. Smith 9/28/50 | 2000 (all trusts). | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy). |
| 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. (real estate investment and management, and other investments). |

Prospectus Supplement and Semiannual Report Enclosed

charles SCHWAB

Large-Cap Blend

**Schwab MarketTrack
Growth Portfolio II™**

Balanced

Supplement to the prospectus dated April 30, 2005

Semiannual report for the period ended June 30, 2005

This prospectus supplement is not part of the shareholder report.

Supplement to the Schwab MarketTrack Growth Portfolio II[™] Prospectus dated April 30, 2005

Effective July 22, 2005, under “Portfolio Management” on page 8 of the prospectus, the Michael Shearer biography is deleted and the following biography is added.

Steven Hung, a director and portfolio manager of the investment adviser, has day-to-day co-responsibility for the management of the bond and cash portions of the portfolio. He joined the firm in 1998 and has worked in fixed-income asset management since 1999.

Please retain this supplement for future reference.

Large-Cap Blend | *charles* SCHWAB

**Schwab MarketTrack
Growth Portfolio II™**

Balanced

Semiannual report for the period ended June 30, 2005

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, Procedures and Results

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 website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

The industry/sector classification of the fund's portfolio holdings uses the Global Industry Classification Standard (GICS) which was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard & Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Charles Schwab & Co., Inc.

Management's Discussion for the six months ended June 30, 2005



Larry Mano, vice president and senior portfolio manager, is responsible for the overall management of the portfolio. Prior to joining the firm in 1998, he worked for 20 years in equity management.



Tom Brown, an associate portfolio manager of the investment adviser, is a day-to-day manager of the equity portions of the portfolio. He joined Schwab in 1995, became a trader in 1999, and was named to his current position in 2004.

The Investment Environment and the Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

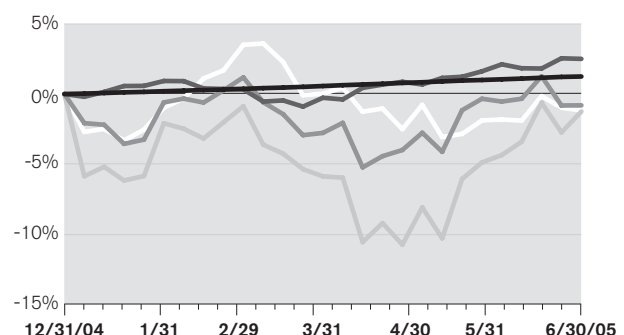
While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on

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.

- 1.25% **Three-Month U.S. Treasury Bills (T-Bills):** measures short-term U.S. Treasury obligations
- 2.51% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- -0.81% **S&P 500® Index:** measures U.S. large-cap stocks
- -1.25% **Russell 2000® Index:** measures U.S. small-cap stocks
- -1.17% **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.

Source of Sector Classification: S&P and MSCI.

core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

The MarketTrack Growth Portfolio II was down 0.40% for the six-month report period, lagging the Growth Composite Index, which was down 0.09%. The Portfolio's performance was hurt by its equity components. Positive returns in the fixed-income portion of the Portfolio, however, contributed positively and kept performance close to that of its benchmark.

During the six-month report period, the S&P 500® Index was down 0.81%, while the Schwab Small-Cap Index® was down 0.49% and the Schwab International Index® was down 0.90%. In terms of style, value edged out growth. Bonds were the better performers over the report period, up 2.51%, as measured by the Lehman Brothers Aggregate Index.

Past performance does not indicate future results.

Source of Sector Classification: S&P and MSCI.

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.

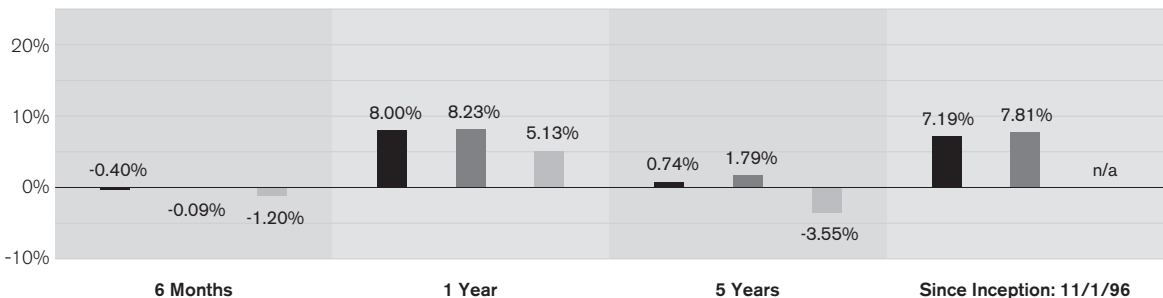
Schwab MarketTrack Growth Portfolio II

Performance as of 6/30/05

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**

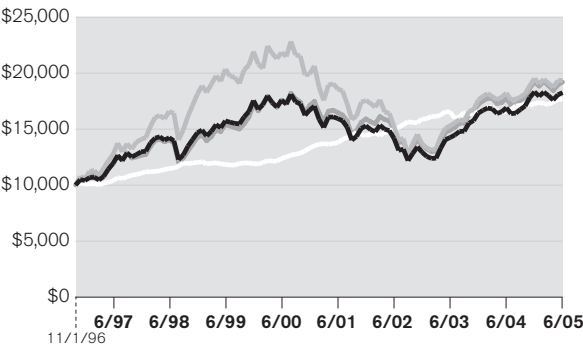


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance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

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.

■ \$18,258 **Portfolio**
■ \$19,201 **Growth Composite Index**
■ \$19,363 **S&P 500® Index**
□ \$17,715 **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. Performance results less than one year 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 6/30/05

Style Assessment¹

| Investment Style | | |
|------------------|-------|--------|
| Value | Blend | Growth |
| | | |
| | | |
| | | |

Large
Medium
Small

Market Cap

Statistics

| | |
|--|----------|
| Number of Holdings | 512 |
| Weighted Average Market Cap (\$ x 1,000,000) | \$89,210 |
| Price/Earnings Ratio (P/E) | 19.7 |
| Price/Book Ratio (P/B) | 2.9 |
| Portfolio Turnover Rate ² | 1% |

Top Holdings³

| Security | % of Net Assets |
|--|-----------------|
| 1 Schwab Small-Cap Index Fund* Select Shares* | 20.8% |
| 2 Schwab International Index Fund* Select Shares | 19.8% |
| 3 Schwab Total Bond Market Fund™ | 14.7% |
| 4 Schwab Value Advantage Money Fund* Select Shares | 3.6% |
| 5 Exxon Mobil Corp. | 1.3% |
| 6 General Electric Co. | 1.3% |
| 7 Microsoft Corp. | 0.9% |
| 8 Citigroup, Inc. | 0.9% |
| 9 Pfizer, Inc. | 0.7% |
| 10 Wal-Mart Stores, Inc. | 0.7% |
| Total | 64.7% |

Asset Class Weightings % of Investments

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

| | |
|-------|------------------------|
| 39.0% | Large-Cap Stocks |
| 20.8% | Small-Cap Stocks |
| 19.9% | International Stocks |
| 14.7% | Bonds |
| 5.6% | Short-Term Investments |

Portfolio holdings may have changed since the report date.
Source of Sector Classification: S&P and MSCI.

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 6/30/05, 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.

Portfolio Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value ÷ \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 1/1/05 | Ending Account Value (Net of Expenses) at 6/30/05 | Expenses Paid During Period ² 1/1/05–6/30/05 |
|---|--|---|--|---|
| Schwab MarketTrack Growth Portfolio II | | | | |
| Actual Return | 0.50% | \$1,000 | \$996.00 | \$2.47 |
| Hypothetical 5% Return | 0.50% | \$1,000 | \$1,022.32 | \$2.51 |

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for the portfolio are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Schwab MarketTrack Growth Portfolio II

Financial Statements

Financial Highlights

| | 1/1/05– 6/30/05* | 1/1/04– 12/31/04 | 1/1/03– 12/31/03 | 1/1/02– 12/31/02 | 1/1/01– 12/31/01 | 1/1/00– 12/31/00 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Per-Share Data (\$) | | | | | | |
| Net asset value at beginning of period | 14.87 | 13.49 | 10.75 | 12.99 | 14.81 | 15.84 |
| Income or loss from investment operations: | | | | | | |
| Net investment income | 0.06 | 0.21 | 0.16 | 0.17 | 0.18 | 0.35 |
| Net realized and unrealized gains or losses | (0.12) | 1.35 | 2.74 | (2.17) | (1.43) | (1.13) |
| Total income or loss from investment operations | (0.06) | 1.56 | 2.90 | (2.00) | (1.25) | (0.78) |
| Less distributions: | | | | | | |
| Dividends from net investment income | — | (0.18) | (0.16) | (0.20) | (0.35) | (0.14) |
| Distributions from net realized gains | — | — | — | (0.04) | (0.22) | (0.11) |
| Total distributions | — | (0.18) | (0.16) | (0.24) | (0.57) | (0.25) |
| Net asset value at end of period | 14.81 | 14.87 | 13.49 | 10.75 | 12.99 | 14.81 |
| Total return (%) | (0.40) ¹ | 11.58 | 26.97 | (15.44) | (8.40) | (4.82) |
| Ratios/Supplemental Data (%) | | | | | | |
| Ratios to average net assets: | | | | | | |
| Net operating expenses ² | 0.50 ³ | 0.50 | 0.50 | 0.50 | 0.50 | 0.56 ⁴ |
| Gross operating expenses ² | 0.69 ³ | 0.69 | 0.87 | 1.00 | 0.82 | 0.84 |
| Net investment income | 0.89 ³ | 1.52 | 1.70 | 1.59 | 1.67 | 2.80 |
| Portfolio turnover rate | 1 ¹ | 8 | 10 | 30 | 13 | 19 |
| Net assets, end of period (\$ x 1,000,000) | 34 | 34 | 30 | 20 | 22 | 22 |

* 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, 2005, unaudited

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

We use the symbols below to designate certain characteristics of the securities. 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) |
|---|-----------------------------|------------------------------|
| 58.9% Other Investment Companies | 17,296 | 19,904 |
| 38.9% Common Stock | 10,878 | 13,164 |
| 2.0% Short-Term Investment | 669 | 669 |
| 99.8% Total Investments | 28,843 | 33,737 |
| 0.2% Other Assets and Liabilities, Net | | 60 |
| 100.0% Total Net Assets | | 33,797 |

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

Common Stock 38.9% of net assets**Automobiles & Components** 0.3%

| | | |
|------------------------------|-------|-----------|
| Cooper Tire & Rubber Co. | 100 | 2 |
| Dana Corp. | 180 | 3 |
| Delphi Corp. | 579 | 3 |
| Ford Motor Co. | 2,098 | 21 |
| General Motors Corp. | 650 | 22 |
| • Goodyear Tire & Rubber Co. | 100 | 1 |
| Harley-Davidson, Inc. | 350 | 17 |
| Johnson Controls, Inc. | 240 | 14 |
| Visteon Corp. | 104 | 1 |
| | | 84 |

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

Banks 3.0%

| | | |
|------------------------------------|-------|--------------|
| AmSouth Bancorp. | 430 | 11 |
| Bank of America Corp. | 4,840 | 221 |
| BB&T Corp. | 626 | 25 |
| Comerica, Inc. | 200 | 12 |
| Compass Bancshares, Inc. | 100 | 5 |
| Countrywide Financial Corp. | 660 | 25 |
| Fannie Mae | 1,145 | 67 |
| Fifth Third Bancorp. | 667 | 28 |
| First Horizon National Corp. | 150 | 6 |
| Freddie Mac | 800 | 52 |
| Golden West Financial Corp. | 350 | 23 |
| Huntington Bancshares, Inc. | 333 | 8 |
| KeyCorp, Inc. | 500 | 17 |
| M&T Bank Corp. | 140 | 15 |
| Marshall & Ilsley Corp. | 300 | 13 |
| MGIC Investment Corp. | 100 | 7 |
| National City Corp. | 824 | 28 |
| North Fork Bancorp., Inc. | 600 | 17 |
| PNC Financial Services Group, Inc. | 340 | 19 |
| Regions Financial Corp. | 595 | 20 |
| Sovereign Bancorp, Inc. | 500 | 11 |
| SunTrust Banks, Inc. | 420 | 30 |
| Synovus Financial Corp. | 325 | 9 |
| U.S. Bancorp. | 2,274 | 66 |
| Wachovia Corp. | 1,882 | 93 |
| Washington Mutual, Inc. | 1,050 | 43 |
| Wells Fargo & Co. | 2,000 | 123 |
| Zions Bancorp. | 100 | 7 |
| | | 1,001 |

Capital Goods 3.4%

| | | |
|---------------------------------|-------|----|
| 3M Co. | 925 | 67 |
| American Power Conversion Corp. | 275 | 6 |
| American Standard Cos., Inc. | 300 | 13 |
| The Boeing Co. | 1,038 | 69 |
| Caterpillar, Inc. | 400 | 38 |
| Cooper Industries Ltd., Class A | 100 | 6 |
| Crane Co. | 100 | 3 |
| Cummins, Inc. | 50 | 4 |
| Danaher Corp. | 350 | 18 |
| Deere & Co. | 350 | 23 |
| Dover Corp. | 260 | 9 |
| Eaton Corp. | 200 | 12 |
| Emerson Electric Co. | 500 | 31 |
| Fluor Corp. | 100 | 6 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|--|-----------------------|
| General Dynamics Corp. 250 | 27 | Centex Corp. 150 | 11 |
| • General Electric Co. 12,500 | 433 | • Coach, Inc. 400 | 13 |
| Goodrich Corp. 100 | 4 | Eastman Kodak Co. 300 | 8 |
| Honeywell International, Inc. 987 | 36 | Fortune Brands, Inc. 175 | 15 |
| Illinois Tool Works, Inc. 350 | 28 | Hasbro, Inc. 200 | 4 |
| Ingersoll-Rand Co., Class A 200 | 14 | Jones Apparel Group, Inc. 150 | 5 |
| ITT Industries, Inc. 100 | 10 | KB Home 100 | 8 |
| L-3 Communications Holdings, Inc. 100 | 8 | Leggett & Platt, Inc. 200 | 5 |
| Lockheed Martin Corp. 540 | 35 | Liz Claiborne, Inc. 100 | 4 |
| Masco Corp. 500 | 16 | Mattel, Inc. 500 | 9 |
| • Navistar International Corp. 100 | 3 | Maytag Corp. 100 | 2 |
| Northrop Grumman Corp. 428 | 24 | Newell Rubbermaid, Inc. 300 | 7 |
| Paccar, Inc. 187 | 13 | Nike, Inc., Class B 300 | 26 |
| Pall Corp. 100 | 3 | Pulte Homes, Inc. 150 | 13 |
| Parker Hannifin Corp. 150 | 9 | Reebok International Ltd. 100 | 4 |
| • Power-One, Inc. 226 | 1 | Snap-On, Inc. 75 | 3 |
| Raytheon Co. 500 | 19 | The Stanley Works 100 | 4 |
| Rockwell Automation, Inc. 200 | 10 | VF Corp. 100 | 6 |
| Rockwell Collins, Inc. 200 | 10 | Whirlpool Corp. 100 | 7 |
| Textron, Inc. 150 | 11 | | 167 |
| • Thomas & Betts Corp. 80 | 2 | | |
| Tyco International Ltd. 2,360 | 69 | Diversified Financials 3.0% | |
| United Technologies Corp. 1,260 | 65 | American Express Co. 1,550 | 83 |
| W.W. Grainger, Inc. 100 | 5 | The Bank of New York Co., Inc. 900 | 26 |
| | 1,160 | The Bear Stearns Cos., Inc. 110 | 11 |
| Commercial Services & Supplies 0.4% | | Capital One Financial Corp. 290 | 23 |
| • Allied Waste Industries, Inc. 400 | 3 | ■ The Charles Schwab Corp. 1,575 | 18 |
| • Apollo Group, Inc., Class A 200 | 16 | CIT Group, Inc. 200 | 9 |
| Avery Dennison Corp. 150 | 8 | • Citigroup, Inc. 6,222 | 288 |
| Cendant Corp. 1,190 | 27 | • E*TRADE Financial Corp. 400 | 6 |
| Cintas Corp. 182 | 7 | Federated Investors, Inc., Class B 100 | 3 |
| Deluxe Corp. 100 | 4 | Franklin Resources, Inc. 300 | 23 |
| Equifax, Inc. 175 | 6 | Goldman Sachs Group, Inc. 562 | 57 |
| H&R Block, Inc. 200 | 12 | Janus Capital Group, Inc. 300 | 5 |
| • Monster Worldwide, Inc. 95 | 3 | JPMorgan Chase & Co. 4,286 | 151 |
| • PHH Corp. 59 | 1 | Lehman Brothers Holdings, Inc. 350 | 35 |
| Pitney Bowes, Inc. 250 | 11 | MBNA Corp. 1,487 | 39 |
| R.R. Donnelley & Sons Co. 300 | 10 | Mellon Financial Corp. 525 | 15 |
| Robert Half International, Inc. 200 | 5 | Merrill Lynch & Co., Inc. 1,150 | 63 |
| Waste Management, Inc. 720 | 20 | Moody's Corp. 350 | 16 |
| | 133 | Morgan Stanley 1,330 | 70 |
| Consumer Durables & Apparel 0.5% | | Northern Trust Corp. 250 | 11 |
| Black & Decker Corp. 100 | 9 | Principal Financial Group, Inc. 381 | 16 |
| Brunswick Corp. 100 | 4 | • Provident Financial Corp. 350 | 6 |
| | | SLM Corp. 550 | 28 |
| | | State Street Corp. 400 | 19 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|
| T. Rowe Price Group, Inc. 150 | 9 |
| | 1,030 |
| Energy 3.4% | |
| Amerada Hess Corp. 100 | 11 |
| Anadarko Petroleum Corp. 295 | 24 |
| Apache Corp. 386 | 25 |
| • Ashland, Inc. 100 | 7 |
| Baker Hughes, Inc. 431 | 22 |
| BJ Services Co. 200 | 10 |
| Burlington Resources, Inc. 500 | 28 |
| ChevronTexaco Corp. 2,540 | 142 |
| ConocoPhillips 1,610 | 93 |
| Devon Energy Corp. 580 | 29 |
| El Paso Corp. 696 | 8 |
| EOG Resources, Inc. 264 | 15 |
| ⑤ Exxon Mobil Corp. 7,780 | 447 |
| Halliburton Co. 500 | 24 |
| Kerr-McGee Corp. 100 | 8 |
| Kinder Morgan, Inc. 156 | 13 |
| Marathon Oil Corp. 400 | 21 |
| • Nabors Industries Ltd. 175 | 11 |
| Noble Corp. 200 | 12 |
| Occidental Petroleum Corp. 465 | 36 |
| • Rowan Cos., Inc. 100 | 3 |
| Schlumberger Ltd. 700 | 53 |
| Sunoco, Inc. 100 | 11 |
| • Transocean, Inc. 358 | 19 |
| Unocal Corp. 300 | 20 |
| Valero Energy Corp. 300 | 24 |
| Williams Cos., Inc. 600 | 11 |
| XTO Energy, Inc. 400 | 14 |
| | 1,141 |
| Food & Staples Retailing 1.2% | |
| Albertson's, Inc. 400 | 8 |
| Costco Wholesale Corp. 560 | 25 |
| CVS Corp. 980 | 29 |
| • Kroger Co. 900 | 17 |
| • Safeway, Inc. 500 | 11 |
| Supervalu, Inc. 175 | 6 |
| Sysco Corp. 700 | 25 |
| ⑩ Wal-Mart Stores, Inc. 5,050 | 244 |
| Walmart Co. 1,175 | 54 |
| • Winn-Dixie Stores, Inc. 100 | — |
| | 419 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|
| Food Beverage & Tobacco 1.9% | |
| Altria Group, Inc. 2,440 | 158 |
| Anheuser-Busch Cos., Inc. 975 | 45 |
| Archer-Daniels-Midland Co. 774 | 16 |
| Brown-Forman Corp., Class B 150 | 9 |
| Campbell Soup Co. 500 | 15 |
| The Coca-Cola Co. 2,825 | 118 |
| Coca-Cola Enterprises, Inc. 550 | 12 |
| ConAgra Foods, Inc. 650 | 15 |
| General Mills, Inc. 450 | 21 |
| H.J. Heinz Co. 400 | 14 |
| Hershey Foods Corp. 300 | 19 |
| Kellogg Co. 500 | 22 |
| McCormick & Co., Inc. 200 | 6 |
| Molson Coors Brewing Co., Class B 25 | 2 |
| The Pepsi Bottling Group, Inc. 312 | 9 |
| PepsiCo, Inc. 2,055 | 111 |
| Reynolds American, Inc. 200 | 16 |
| Sara Lee Corp. 900 | 18 |
| UST, Inc. 200 | 9 |
| Wm. Wrigley Jr. Co. 250 | 17 |
| | 652 |
| Health Care Equipment & Services 2.0% | |
| Aetna, Inc. 400 | 33 |
| AmerisourceBergen Corp. 150 | 10 |
| Bausch & Lomb, Inc. 100 | 8 |
| Baxter International, Inc. 725 | 27 |
| Becton Dickinson & Co. 300 | 16 |
| Biomet, Inc. 325 | 11 |
| • Boston Scientific Corp. 988 | 27 |
| C.R. Bard, Inc. 100 | 7 |
| Cardinal Health, Inc. 525 | 30 |
| • Caremark Rx, Inc. 535 | 24 |
| CIGNA Corp. 175 | 19 |
| • Express Scripts, Inc. 200 | 10 |
| • Fisher Scientific International, Inc. 100 | 6 |
| Guidant Corp. 350 | 24 |
| HCA, Inc. 600 | 34 |
| Health Management Associates, Inc., Class A 300 | 8 |
| • Hospira, Inc. 186 | 7 |
| • Humana, Inc. 200 | 8 |
| IMS Health, Inc. 300 | 7 |
| • Laboratory Corp. of America Holdings 200 | 10 |
| Manor Care, Inc. 100 | 4 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---|-----------------------|---|-----------------------|
| McKesson Corp. 374 | 17 | Chubb Corp. 240 | 21 |
| • Medco Health Solutions, Inc. 337 | 18 | Cincinnati Financial Corp. 220 | 9 |
| Medtronic, Inc. 1,440 | 75 | Hartford Financial Services Group, Inc. 340 | 25 |
| • Millipore Corp. 75 | 4 | Jefferson-Pilot Corp. 175 | 9 |
| PerkinElmer, Inc. 118 | 2 | Lincoln National Corp. 200 | 9 |
| Quest Diagnostics 278 | 15 | Loews Corp. 200 | 15 |
| • St. Jude Medical, Inc. 400 | 17 | Marsh & McLennan Cos., Inc. 625 | 17 |
| Stryker Corp. 464 | 22 | MBIA, Inc. 150 | 9 |
| • Tenet Healthcare Corp. 450 | 5 | Metlife, Inc. 915 | 41 |
| • Thermo Electron Corp. 175 | 5 | The Progressive Corp. 265 | 26 |
| UnitedHealth Group, Inc. 1,660 | 86 | Prudential Financial, Inc. 650 | 43 |
| • Waters Corp. 150 | 6 | Safeco Corp. 150 | 8 |
| • WellPoint, Inc. 700 | 49 | The St. Paul Travelers Cos., Inc. 797 | 32 |
| • Zimmer Holdings, Inc. 275 | 21 | Torchmark Corp. 150 | 8 |
| | 672 | UnumProvident Corp. 323 | 6 |
| | | XL Capital Ltd., Class A 155 | 12 |
| | | | 578 |
| Hotels Restaurants & Leisure 0.6% | | Materials 1.1% | |
| Carnival Corp. 725 | 40 | Air Products & Chemicals, Inc. 250 | 15 |
| Darden Restaurants, Inc. 150 | 5 | Alcoa, Inc. 1,000 | 26 |
| Harrah's Entertainment, Inc. 150 | 11 | Allegheny Technologies, Inc. 100 | 2 |
| Hilton Hotels Corp. 400 | 9 | Ball Corp. 200 | 7 |
| International Game Technology 413 | 12 | Bemis Co. 100 | 3 |
| Marriott International, Inc., Class A 250 | 17 | The Dow Chemical Co. 1,121 | 50 |
| McDonald's Corp. 1,450 | 40 | E.I. du Pont de Nemours & Co. 1,169 | 50 |
| • Starbucks Corp. 470 | 24 | Eastman Chemical Co. 100 | 5 |
| Starwood Hotels & Resorts Worldwide, Inc. 260 | 15 | Ecolab, Inc. 275 | 9 |
| Wendy's International, Inc. 140 | 7 | Engelhard Corp. 160 | 5 |
| Yum! Brands, Inc. 320 | 17 | Freeport-McMoran Copper & Gold, Inc., Class B 200 | 7 |
| | 197 | Georgia-Pacific Corp. 326 | 10 |
| | | Great Lakes Chemical Corp. 100 | 3 |
| Household & Personal Products 1.0% | | • Hercules, Inc. 100 | 1 |
| Alberto-Culver Co., Class B 150 | 7 | International Flavors & Fragrances, Inc. 100 | 4 |
| Avon Products, Inc. 540 | 20 | International Paper Co. 570 | 17 |
| Clorox Co. 250 | 14 | Louisiana-Pacific Corp. 100 | 2 |
| Colgate-Palmolive Co. 650 | 32 | MeadWestvaco Corp. 197 | 6 |
| The Gillette Co. 1,200 | 61 | Monsanto Co. 314 | 20 |
| Kimberly-Clark Corp. 600 | 38 | Neenah Paper, Inc. 18 | 1 |
| Procter & Gamble Co. 3,040 | 160 | Newmont Mining Corp. 500 | 20 |
| | 332 | Nucor Corp. 200 | 9 |
| | | • Pactiv Corp. 200 | 4 |
| Insurance 1.7% | | Phelps Dodge Corp. 100 | 9 |
| ACE Ltd. 340 | 15 | PPG Industries, Inc. 200 | 13 |
| AFLAC, Inc. 600 | 26 | Praxair, Inc. 400 | 19 |
| The Allstate Corp. 840 | 50 | Rohm & Haas Co. 300 | 14 |
| AMBAC Financial Group, Inc. 123 | 9 | | |
| American International Group, Inc. 3,106 | 180 | | |
| AON Corp. 325 | 8 | | |

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|---|-----------------------|---|-----------------------|
| • Sealed Air Corp. 103 | 5 | • Watson Pharmaceuticals, Inc. 100 | 3 |
| Sigma-Aldrich Corp. 100 | 6 | Wyeth 1,600 | 71 |
| Temple-Inland, Inc. 100 | 4 | | 1,078 |
| United States Steel Corp. 100 | 3 | | |
| Vulcan Materials Co. 100 | 6 | Real Estate 0.2% | |
| Weyerhaeuser Co. 250 | 16 | Apartment Investment & Management Co., Class A 100 | 4 |
| Worthington Industries, Inc. 100 | 2 | Archstone-Smith Trust 200 | 8 |
| | 373 | Equity Office Properties Trust 500 | 17 |
| Media 1.4% | | Equity Residential 300 | 11 |
| Clear Channel Communications, Inc. 729 | 23 | Plum Creek Timber Co., Inc. 200 | 7 |
| • Comcast Corp., Class A 2,576 | 79 | ProLogis 200 | 8 |
| Dow Jones & Co., Inc. 100 | 4 | Simon Property Group, Inc. 240 | 17 |
| Gannett Co., Inc. 325 | 23 | | 72 |
| • Interpublic Group of Cos., Inc. 500 | 6 | Retailing 1.6% | |
| Knight-Ridder, Inc. 100 | 6 | • Autonation, Inc. 300 | 6 |
| The McGraw-Hill Cos., Inc. 450 | 20 | • AutoZone, Inc. 100 | 9 |
| Meredith Corp. 50 | 2 | • Bed, Bath & Beyond, Inc. 350 | 15 |
| New York Times Co., Class A 200 | 6 | Best Buy Co., Inc. 390 | 27 |
| News Corp, Inc., Class A 3,100 | 50 | • Big Lots, Inc. 88 | 1 |
| Omnicom Group, Inc. 220 | 18 | Circuit City Stores, Inc. 200 | 4 |
| • Time Warner, Inc. 5,500 | 92 | Dillards, Inc., Class A 100 | 2 |
| Tribune Co. 400 | 14 | Dollar General Corp. 395 | 8 |
| • Univision Communications, Inc., Class A 354 | 10 | • eBay, Inc. 1,718 | 57 |
| Viacom, Inc., Class B 1,992 | 64 | Family Dollar Stores, Inc. 200 | 5 |
| The Walt Disney Co. 2,430 | 61 | Federated Department Stores, Inc. 200 | 15 |
| | 478 | The Gap, Inc. 1,037 | 21 |
| Pharmaceuticals & Biotechnology 3.2% | | Genuine Parts Co. 200 | 8 |
| Abbott Laboratories 1,860 | 91 | Home Depot, Inc. 2,600 | 101 |
| Allergan, Inc. 150 | 13 | J.C. Penney Co., Inc. Holding Co. 300 | 16 |
| • Amgen, Inc. 1,470 | 89 | • Kohl's Corp. 400 | 22 |
| Applied Biosystems Group — Applera Corp. 200 | 4 | Limitedbrands 521 | 11 |
| • Biogen Idec, Inc. 380 | 13 | Lowe's Cos., Inc. 940 | 55 |
| Bristol-Myers Squibb Co. 2,300 | 57 | The May Department Stores Co. 350 | 14 |
| • Chiron Corp. 200 | 7 | Nordstrom, Inc. 200 | 14 |
| Eli Lilly & Co. 1,320 | 74 | • Office Depot, Inc. 325 | 7 |
| • Forest Laboratories, Inc. 450 | 17 | OfficeMax, Inc. 75 | 2 |
| • Genzyme Corp. 250 | 15 | RadioShack Corp. 200 | 5 |
| • Gilead Sciences, Inc. 450 | 20 | • Sears Holdings Corp. 94 | 14 |
| Johnson & Johnson 3,536 | 230 | The Sherwin-Williams Co. 175 | 8 |
| • King Pharmaceuticals, Inc. 233 | 2 | Staples, Inc. 900 | 19 |
| • Medimmune, Inc. 300 | 8 | Target Corp. 1,090 | 59 |
| Merck & Co., Inc. 2,550 | 79 | Tiffany & Co. 150 | 5 |
| Mylan Laboratories, Inc. 300 | 6 | TJX Cos., Inc. 600 | 15 |
| • Pfizer, Inc. 8,959 | 247 | • Toys 'R' Us, Inc. 200 | 5 |
| Schering-Plough Corp. 1,700 | 32 | | 550 |

Portfolio Holdings continued

| Security and Number of Shares | Value (\$ x 1,000) | Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|---|-----------------------|
| Semiconductors & Semiconductor Equipment 1.3% | | | |
| • Advanced Micro Devices, Inc. 400 | 7 | Sabre Holdings Corp., Class A 172 | 3 |
| • Altera Corp. 464 | 9 | • Siebel Systems, Inc. 600 | 5 |
| • Analog Devices, Inc. 450 | 17 | • SunGard Data Systems, Inc. 361 | 13 |
| • Applied Materials, Inc. 2,000 | 32 | • Symantec Corp. 800 | 17 |
| • Applied Micro Circuits Corp. 221 | 1 | • Unisys Corp. 350 | 2 |
| • Broadcom Corp., Class A 355 | 13 | • Veritas Software Corp. 500 | 12 |
| • Freescale Semiconductor, Inc., Class B 300 | 6 | • Yahoo! Inc. 1,580 | 55 |
| • Intel Corp. 7,675 | 200 | | 723 |
| • KLA-Tencor Corp. 240 | 10 | Technology Hardware & Equipment 2.5% | |
| • Linear Technology Corp. 400 | 15 | • ADC Telecommunications, Inc. 100 | 2 |
| • LSI Logic Corp. 400 | 3 | • Agilent Technologies, Inc. 566 | 13 |
| • Maxim Integrated Products, Inc. 400 | 15 | • Andrew Corp. 200 | 3 |
| • Micron Technology, Inc. 650 | 7 | • Apple Computer, Inc. 1,000 | 37 |
| • National Semiconductor Corp. 400 | 9 | • Avaya, Inc. 513 | 4 |
| • Novellus Systems, Inc. 175 | 4 | • CIENA Corp. 300 | 1 |
| • Nvidia Corp. 200 | 5 | • Cisco Systems, Inc. 7,925 | 151 |
| • PMC — Sierra, Inc. 200 | 2 | • Comverse Technology, Inc. 200 | 5 |
| • Teradyne, Inc. 200 | 2 | • Corning, Inc. 1,500 | 25 |
| • Texas Instruments, Inc. 2,050 | 58 | • Dell, Inc. 2,925 | 116 |
| • Xilinx, Inc. 375 | 10 | • EMC Corp. 2,850 | 39 |
| | 425 | • Gateway, Inc. 200 | 1 |
| Software & Services 2.1% | | • Hewlett-Packard Co. 3,462 | 81 |
| • Adobe Systems, Inc. 500 | 14 | • International Business Machines Corp. 2,020 | 150 |
| • Affiliated Computer Services, Inc., Class A 203 | 10 | • Jabil Circuit, Inc. 208 | 6 |
| • Autodesk, Inc. 200 | 7 | • JDS Uniphase Corp. 1,654 | 2 |
| • Automatic Data Processing, Inc. 700 | 29 | • Lexmark International, Inc., Class A 150 | 10 |
| • BMC Software, Inc. 200 | 4 | • Lucent Technologies, Inc. 5,055 | 15 |
| • Citrix Systems, Inc. 175 | 4 | • Molex, Inc. 225 | 6 |
| • Computer Associates International, Inc. 700 | 19 | • Motorola, Inc. 2,721 | 50 |
| • Computer Sciences Corp. 200 | 9 | • NCR Corp. 200 | 7 |
| • Compuware Corp. 400 | 3 | • Network Appliance, Inc. 400 | 11 |
| • Convergys Corp. 137 | 2 | • QLogic Corp. 113 | 3 |
| • Electronic Arts, Inc. 354 | 20 | • Qualcomm, Inc. 1,900 | 63 |
| • Electronic Data Systems Corp. 550 | 11 | • Sanmina — SCI Corp. 500 | 3 |
| • First Data Corp. 1,032 | 41 | • Scientific-Atlanta, Inc. 175 | 6 |
| • Fiserv, Inc. 225 | 10 | • Soletron Corp. 1,000 | 4 |
| • Intuit, Inc. 244 | 11 | • Sun Microsystems, Inc. 3,675 | 14 |
| • Mercury Interactive Corp. 100 | 4 | • Symbol Technologies, Inc. 289 | 3 |
| • Microsoft Corp. 12,915 | 321 | • Tektronix, Inc. 100 | 2 |
| • Novell, Inc. 400 | 3 | • Tellabs, Inc. 500 | 4 |
| • Oracle Corp. 6,000 | 79 | • Xerox Corp. 900 | 12 |
| • Parametric Technology Corp. 200 | 1 | | 849 |
| • Paychex, Inc. 425 | 14 | | |

| Security and Number of Shares | Value (\$ x 1,000) |
|---|-----------------------|
| Telecommunication Services 1.2% | |
| Alltel Corp. 400 | 25 |
| AT&T Corp. 935 | 18 |
| BellSouth Corp. 2,180 | 58 |
| CenturyTel, Inc. 150 | 5 |
| Citizens Communications Co. 358 | 5 |
| • Nextel Communications, Inc., Class A 1,275 | 41 |
| • Qwest Communications International, Inc. 2,027 | 7 |
| SBC Communications, Inc. 3,956 | 94 |
| Sprint Corp. (FON Group) 1,662 | 42 |
| Verizon Communications, Inc. 3,313 | 114 |
| | 409 |
| Transportation 0.6% | |
| Burlington Northern Santa Fe Corp. 400 | 19 |
| CSX Corp. 225 | 10 |
| • Delta Air Lines, Inc. 100 | — |
| FedEx Corp. 350 | 28 |
| Norfolk Southern Corp. 480 | 15 |
| Ryder Systems, Inc. 75 | 3 |
| Southwest Airlines Co. 900 | 13 |
| Union Pacific Corp. 295 | 19 |
| United Parcel Service, Inc., Class B 1,347 | 93 |
| | 200 |
| Utilities 1.3% | |
| • The AES Corp. 650 | 11 |
| • Allegheny Energy, Inc. 78 | 2 |
| Ameren Corp. 200 | 11 |
| American Electric Power Co., Inc. 460 | 17 |
| • Calpine Corp. 500 | 2 |
| Centerpoint Energy, Inc. 400 | 5 |
| Cinergy Corp. 200 | 9 |
| • CMS Energy Corp. 300 | 4 |
| Consolidated Edison, Inc. 300 | 14 |
| Constellation Energy Group, Inc. 200 | 12 |
| Dominion Resources, Inc. 396 | 29 |
| DTE Energy Co. 200 | 9 |
| Duke Energy Corp. 1,050 | 31 |
| • Dynegy, Inc., Class A 300 | 1 |
| Edison International 400 | 16 |
| Entergy Corp. 250 | 19 |
| Exelon Corp. 774 | 40 |
| FirstEnergy Corp. 391 | 19 |

| Security and Number of Shares | Value (\$ x 1,000) |
|--|-----------------------|
| FPL Group, Inc. 400 | 17 |
| KeySpan Corp. 200 | 8 |
| Nicor, Inc. 50 | 2 |
| NiSource, Inc. 357 | 9 |
| Peoples Energy Corp. 50 | 2 |
| PG&E Corp. 500 | 19 |
| Pinnacle West Capital Corp. 100 | 4 |
| PPL Corp. 200 | 12 |
| Progress Energy, Inc. 277 | 13 |
| Public Service Enterprise Group, Inc. 300 | 18 |
| Sempra Energy 285 | 12 |
| The Southern Co. 875 | 30 |
| TECO Energy, Inc. 250 | 5 |
| TXU Corp. 350 | 29 |
| Xcel Energy, Inc. 505 | 10 |
| | 441 |

Other Investment Companies

58.9% of net assets

| | |
|---|---------------|
| ■ 2 Schwab International Index Fund, Select Shares 422,025 | 6,702 |
| ■ 1 Schwab Small-Cap Index Fund, Select Shares 317,952 | 7,011 |
| ■ 6 Schwab Total Bond Market Fund 492,069 | 4,980 |
| ■ 4 Schwab Value Advantage Money Fund, Select Shares 1,210,734 | 1,211 |
| | 19,904 |

| Security Rate, Maturity Date | Face Amount (\$ x 1,000) |
|---------------------------------|--------------------------------|
|---------------------------------|--------------------------------|

Short Term Investment

2.0% of net assets

| | | |
|--|-----|------------|
| Wachovia Bank, Grand Cayman Time Deposit 2.70%, 07/01/05 | 669 | 669 |
|--|-----|------------|

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

| | |
|-----------------------|---------------|
| Investments, at value | \$33,737 |
| Receivables: | |
| Fund shares sold | 114 |
| Dividends | + 20 |
| Total assets | 33,871 |

Liabilities

| | |
|---|-----------|
| Payables: | |
| Fund shares redeemed | 56 |
| Investment adviser and administrator fees | 1 |
| Accrued expenses | + 17 |
| Total liabilities | 74 |

Net Assets

| | |
|--------------------------|-----------------|
| Total assets | 33,871 |
| Total liabilities | - 74 |
| Net assets | \$33,797 |

Net Assets by Source

| | |
|---|--------|
| Capital received from investors | 29,282 |
| Net investment income not yet distributed | 614 |
| Net realized capital losses | (993) |
| Net unrealized capital gains | 4,894 |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$33,797 | | 2,282 | | \$14.81 |

Unless stated, all numbers x 1,000.

The fund paid \$28,843 for these securities.

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

| | |
|------------------|-------|
| Purchases | \$477 |
| Sales/maturities | \$382 |

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% |
|------------------------|------|

Schwab Money Funds

| | |
|-----------------|----------------|
| Value Advantage | |
| Money Fund | Less than 0.1% |

Federal Tax Data

Portfolio cost \$29,096

Net unrealized gains and losses:

| | |
|--------|----------------|
| Gains | \$6,362 |
| Losses | + (1,721) |
| | \$4,641 |

As of December 31, 2004:**Net undistributed earnings:**

| | |
|-------------------------|-------|
| Ordinary income | \$466 |
| Long-term capital gains | \$- |

Unused capital losses:

| | |
|-------------------|--------------|
| Expires 12/31 of: | Loss amount |
| 2010 | \$347 |
| 2011 | 200 |
| 2012 | + 101 |
| | \$648 |

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

| | | |
|--------------------------------|---|------------|
| Dividends | | \$222 |
| Interest | + | 9 |
| Total investment income | | 231 |

Net Realized Gains and Losses

| | |
|---|-----------|
| Net realized gains on investments sold | 37 |
| Net realized gains received from underlying funds | + 1 |
| Net realized gains | 38 |

Net Unrealized Gains and Losses

| | |
|--------------------------------------|--------------|
| Net unrealized losses on investments | (327) |
|--------------------------------------|--------------|

Expenses

| | |
|---|-----------|
| Investment adviser and administrator fees | 73 |
| Trustees' fees | 6 |
| Custodian fees | 8 |
| Portfolio accounting fees | 2 |
| Professional fees | 15 |
| Shareholder reports | 7 |
| Other expenses | + 3 |
| Total expenses | 114 |
| Expense reduction | - 31 |
| Net expenses | 83 |

Decrease in Net Assets From Operations

| | |
|--|----------------|
| Total investment income | 231 |
| Net expenses | <u>83</u> |
| Net investment income | 148 |
| Net realized gains | 38 |
| Net unrealized losses | <u>(327)</u> |
| Decrease in net assets from operations | (\$141) |

Calculated as a percentage of average daily net assets: 0.44% of the first \$500 million and 0.39% of assets beyond that. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

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 29, 2006, to 0.50% of average daily net assets. This limit excludes interest, taxes and certain non-routine expenses.

These add up to a net loss on investments of \$289.

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

| | 1/1/05-6/30/05 | 1/1/04-12/31/04 |
|---|----------------|-----------------|
| Net investment income | \$148 | \$467 |
| Net realized gains | 38 | 78 |
| Net unrealized gains or losses | + (327) | 2,883 |
| Increase or decrease in net assets from operations | (141) | 3,428 |

Distributions Paid

| | | |
|--------------------------------------|------------|--------------|
| Dividends from net investment income | \$— | \$394 |
|--------------------------------------|------------|--------------|

Transactions in Fund Shares

| | 1/1/05-6/30/05 | | 1/1/04-12/31/04 | |
|--|----------------|-------------|-----------------|--------------|
| | SHARES | VALUE | SHARES | VALUE |
| Shares sold | 164 | \$2,401 | 319 | \$4,455 |
| Shares reinvested | — | — | 27 | 394 |
| Shares redeemed | + (158) | (2,306) | (288) | (3,967) |
| Net transactions in fund shares | 6 | \$95 | 58 | \$882 |

Shares Outstanding and Net Assets

| | 1/1/05-6/30/05 | | 1/1/04-12/31/04 | |
|----------------------------|----------------|-----------------|-----------------|-----------------|
| | SHARES | NET ASSETS | SHARES | NET ASSETS |
| Beginning of period | 2,276 | \$33,843 | 2,218 | \$29,927 |
| Total increase or decrease | + 6 | (46) | 58 | 3,916 |
| End of period | 2,282 | \$33,797 | 2,276 | \$33,843 |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

| | |
|-------------------------|-------|
| Ordinary income | \$394 |
| 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 \$614 and \$466 at the end of the current period and 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 fund operations 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 Index 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 Schwab Funds® 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 Schwab Funds®. 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 Schwab Funds®.

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 which the fund belongs 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. There was no borrowing for this fund during the period.

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 the participating insurance company separate accounts 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 that are primarily traded on foreign exchanges are valued at the closing values of such securities on their respective exchanges with these values then translated into U.S. dollars at the current exchange rate.
- **Securities for which no market quotations are readily available** or when a significant event has occurred between the time of the security's last close and the time that a fund calculates net asset value: 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 and the Pricing Committee. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been de-listed from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price.
- **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 that 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.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Annuity Portfolios (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, which includes the Schwab MarketTrack Growth Portfolio II, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data

provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement for an additional one year period. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees considered the role of unaffiliated insurance companies in the distribution of the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition, and how this affects the success of the funds. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation, the Board concluded, within the context of its full deliberations, that the performance of the funds supported renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual

funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds. However, the trustees accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to such other types of accounts, and the unique insurance-dedicated distribution arrangements of the funds as compared to other funds managed by CSIM. Following such evaluation, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

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 Schwab Funds®, 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 56 Schwab Funds 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.

Interested Trustees and Officers

| Name and Birthdate | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|--|---|---|
| Charles R. Schwab ² 7/29/37 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</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. |

¹ The Schwab Funds 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 his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

| Name and Birthdate | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|--------------------|--|
| Randall W. Merk 7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04:</i> President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02:</i> President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01:</i> Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

Officers of the Trust

| Name and Birthdate | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|-------------------------------------|--|---|
| Evelyn Dilsaver 5/4/55 | President, CEO (all trusts). | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04:</i> SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03:</i> EVP, CFO, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 4/5/55 | SVP, Chief Investment Officer (all trusts). | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |
| Kimon Daifotis 7/10/59 | SVP, Chief Investment Officer (all trusts). | <i>Since 9/04:</i> Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04:</i> VP, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 9/29/63 | SVP, Chief Investment Officer (all trusts). | <i>Since 5/04:</i> SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04:</i> VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04:</i> VP, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 11/11/60 | Chief Compliance Officer (all trusts). | <i>Since 9/04:</i> SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04:</i> VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002:</i> VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000:</i> PricewaterhouseCoopers. |
| 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. |
| George Pereira 6/9/64 | Treasurer, Principal Financial Officer (all trusts). | <i>Since 11/04:</i> SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04:</i> SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99:</i> CFO, Commerzbank Capital Markets. <i>Until 9/99:</i> Managing Director at the New York Stock Exchange. |

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 (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001:</i> Stanford University, Special Assistant to the President. <i>From 1996-2001:</i> VP of Business Affairs, CFO. |
| 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. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising. |
| William A. Hasler 11/22/41 | 2000 (all trusts). | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Aphton Corp. (bio-pharmaceuticals); Non-Executive Chair, Solectron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Aphton Corp. (bio-pharmaceuticals). |
| 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 advisory firm). |
| Gerald B. Smith 9/28/50 | 2000 (all trusts). | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy). |
| 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. (real estate investment and management, and other investments). |

charles SCHWAB

Money Market

**Schwab Money
Market Portfolio™**

Money Market

Semiannual report for the period ended June 30, 2005

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, Procedures and Results

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 website at www.schwab.com/schwabfunds, the SEC's website at <http://www.sec.gov>, or by contacting Schwab Funds at 1-800-435-4000.

Information regarding how a fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available, without charge, by visiting Schwab's website at www.schwab.com/schwabfunds or the SEC's website at <http://www.sec.gov>.

Management's Discussion for the six months ended June 30, 2005



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 Fund

Oil prices hit highs never seen before and the Federal Reserve Open Market Committee continued to raise short-term interest rates to curb inflationary pressures, raising rates for the fourth time this year. At the same time, GDP continued to grow at a healthy pace and the housing market remained strong, largely due to low mortgage rates.

The firming labor market, as well as steady gains in capital spending, kept the economic expansion on a self-sustaining path. Businesses, unable to continue boosting productivity by restraining hiring, added new jobs during the six-month report period. Moreover, many leading indicators, such as the Institute for Supply Management's business activity surveys, suggested ongoing expansion, while continuing claims for unemployment benefits remained near cyclical lows.

Business investments grew only modestly, but consumers continued to spend. In fact, consumer confidence rose to a level not experienced since before September 11, 2001. With consumers in a spending mode and consumer spending comprising about 70% of GDP, first quarter GDP remained strong and retail sales were healthy. In this positive economic environment, strong labor market conditions remained positive for domestic consumption.

While high energy prices remained a significant headwind for economic performance, supply no longer was the issue; demand, especially in China, drove prices up. At the end of the six-month report period, a barrel of oil cost \$56.50 versus \$42.55 at the beginning of 2005.

Though high oil and commodity prices could have hampered growth and stirred inflationary pressures, productivity gains, slow growth in the money supply and slack in the economy have mostly kept a lid on core inflation. The productivity gains, coupled with foreign central banks buying large amounts of U.S. Treasury securities, also helped to keep long-term interest rates under control. These conditions also caused the dollar to rally unexpectedly, which took a little bit of pressure off the price of imported goods.

Amid signs of solidly expanding output and improved hiring, the Fed continued to tighten. It increased short-term interest rates at each of the four meetings in the first half of 2005, ending the six-month report period at a still moderate 3.25%. The moves have had a limited impact on overall economic growth, due primarily to the record-low level of rates from which the increases began. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

In response to the Federal Reserve's stated intentions to raise short-term interest rates at a "measured" pace, the yield curve for money market funds steepened during the first quarter. Over the course of the second quarter the yield curve began to flatten as the market questioned the duration of the Fed's tightening campaign.

In this market environment, our strategy was to position the fund for a continued rise in rates. To take advantage of the rising-rate environment, we kept the weighted average maturity (WAM) short. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates. This is a similar strategy to that used by our peers, as shortening the WAM enabled money funds to more quickly reinvest at higher rates.

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 6/30/05

| Seven-Day Yields ¹ | | Statistics | |
|---|-------|---|-------------|
| 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. | | 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). | |
| Seven-Day Yield | 2.61% | Weighted Average Maturity | 18 days |
| Seven-Day Effective Yield | 2.64% | Credit Quality of Holdings % of portfolio | 100% Tier 1 |
| 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/schwabfunds . | | | |

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.

Portfolio Expenses

Examples for a \$1,000 Investment

As a fund shareholder, you incur two types of costs: transaction costs, such as redemption fees; and, ongoing costs, such as management fees, transfer agent and shareholder services fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in a fund and to compare this cost with the ongoing cost of investing in other mutual funds. These examples are based on an investment of \$1,000 invested for six-months beginning January 1, 2005 and held through June 30, 2005.

Actual Return lines in the table below provide information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value \div \$1,000 = 8.6), then multiply the result by the number given for your fund under the heading entitled "Expenses Paid During Period."

Hypothetical Return lines in the table below provide information about hypothetical account values and hypothetical expenses based on a fund's actual expense ratio and an assumed return of 5% per year before expenses. Because the return used is not an actual return, it may not be used to estimate the actual ending account value or expenses you paid for the period.

You may use this information to compare the ongoing costs of investing in the fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs, such as redemption fees. If these transactional costs were included, your costs would have been higher.

| | Expense Ratio ¹ (Annualized) | Beginning Account Value at 1/1/05 | Ending Account Value (Net of Expenses) at 6/30/05 | Expenses Paid During Period ² 1/1/05–6/30/05 |
|--------------------------------------|--|---|--|---|
| Schwab Money Market Portfolio | | | | |
| Actual Return | 0.49% | \$1,000 | \$1,010.90 | \$2.44 |
| Hypothetical 5% Return | 0.49% | \$1,000 | \$1,022.37 | \$2.46 |

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in Financial Highlights.

² Expenses for the portfolio are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by 365 days of the fiscal year.

Schwab Money Market Portfolio

Financial Statements

Financial Highlights

| | 1/1/05– 6/30/05* | 1/1/04– 12/31/04 | 1/1/03– 12/31/03 | 1/1/02– 12/31/02 | 1/1/01– 12/31/01 | 1/1/00– 12/31/00 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| 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 | 0.01 | 0.01 | 0.01 | 0.01 | 0.04 | 0.06 |
| Less distributions: | | | | | | |
| Dividends from net investment income | (0.01) | (0.01) | (0.01) | (0.01) | (0.04) | (0.06) |
| Net asset value at end of period | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Total return (%) | 1.09 ¹ | 0.90 | 0.74 | 1.31 | 3.72 | 5.95 |
| Ratios/supplemental data (%) | | | | | | |
| Ratios to average net assets: | | | | | | |
| Net operating expenses | 0.49 ² | 0.46 | 0.44 | 0.48 | 0.49 | 0.49 ³ |
| Gross operating expenses | 0.49 ² | 0.46 | 0.44 | 0.48 | 0.50 | 0.51 |
| Net investment income | 2.20 ² | 0.89 | 0.75 | 1.31 | 3.55 | 5.81 |
| Net assets, end of period (\$ x 1,000,000) | 120 | 116 | 141 | 215 | 204 | 160 |

* Unaudited.

¹ Not annualized.

² Annualized.

³ 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, 2005; unaudited.

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-800-SEC-0330 for information on the operation of the Public Reference Room. The schedule of portfolio holdings filed on the fund's most recent Form N-Q is available by visiting Schwab's website at www.schwab.com/schwabfunds.

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) |
|--|---------------------------|----------------------------|
| 84.8% U.S. Government Securities | 101,806 | 101,806 |
| 15.5% Other Investments | 18,660 | 18,660 |
| 100.3% Total Investments | 120,466 | 120,466 |
| (0.3)% Other Assets and Liabilities | | (420) |
| 100.0% Net Assets | | 120,046 |

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

| | |
|-----------------------------------|----------------------------|
| U.S. Government Securities | 84.8% of net assets |
|-----------------------------------|----------------------------|

Discount Notes 84.8%**Fannie Mae**

| | | |
|-----------------|-------|-------|
| 3.02%, 07/01/05 | 1,000 | 1,000 |
| 3.00%, 07/06/05 | 2,000 | 1,999 |
| 3.01%, 07/06/05 | 1,300 | 1,299 |
| 3.02%, 07/06/05 | 1,143 | 1,142 |
| 3.04%, 07/06/05 | 2,000 | 1,999 |
| 3.06%, 07/06/05 | 2,000 | 1,999 |
| 3.00%, 07/13/05 | 1,410 | 1,409 |
| 3.03%, 07/13/05 | 1,100 | 1,099 |
| 3.07%, 07/13/05 | 1,000 | 999 |
| 3.02%, 07/18/05 | 1,700 | 1,698 |
| 3.05%, 07/18/05 | 1,300 | 1,298 |
| 3.04%, 07/20/05 | 1,050 | 1,048 |
| 3.12%, 08/03/05 | 1,400 | 1,396 |
| 3.28%, 08/17/05 | 2,741 | 2,729 |
| 3.17%, 08/24/05 | 3,000 | 2,986 |

Federal Farm Credit Bank

| | | |
|-----------------|-------|-------|
| 3.03%, 07/06/05 | 3,000 | 2,999 |
| 3.01%, 07/18/05 | 1,000 | 999 |
| 3.06%, 07/18/05 | 3,000 | 2,996 |

Federal Home Loan Bank

| | | |
|-----------------|-------|-------|
| 3.06%, 07/06/05 | 1,700 | 1,699 |
| 3.05%, 07/13/05 | 2,000 | 1,998 |
| 3.11%, 07/13/05 | 1,753 | 1,751 |
| 3.01%, 07/15/05 | 7,000 | 6,992 |
| 3.03%, 07/22/05 | 2,129 | 2,125 |
| 3.06%, 07/22/05 | 2,165 | 2,161 |
| 3.14%, 07/22/05 | 1,100 | 1,098 |
| 3.03%, 08/02/05 | 2,000 | 1,995 |
| 3.22%, 08/19/05 | 2,000 | 1,991 |
| 3.28%, 09/14/05 | 3,000 | 2,980 |

Freddie Mac

| | | |
|-----------------|-------|-------|
| 2.99%, 07/01/05 | 1,795 | 1,795 |
| 3.01%, 07/01/05 | 4,630 | 4,630 |
| 3.01%, 07/05/05 | 6,175 | 6,173 |
| 3.03%, 07/12/05 | 1,100 | 1,099 |
| 3.13%, 07/12/05 | 1,000 | 999 |
| 3.05%, 07/15/05 | 1,116 | 1,115 |
| 3.03%, 07/19/05 | 2,000 | 1,997 |
| 3.05%, 07/19/05 | 1,400 | 1,398 |
| 3.13%, 07/26/05 | 2,100 | 2,096 |
| 3.14%, 08/01/05 | 1,500 | 1,496 |
| 3.25%, 08/01/05 | 1,175 | 1,172 |
| 3.23%, 08/09/05 | 1,000 | 996 |
| 3.29%, 10/18/05 | 2,000 | 1,980 |

| Issuer Rate, maturity date | Face Amount (\$ x 1,000) | Value (\$ x 1,000) |
|-----------------------------------|-----------------------------|-----------------------|
| Tennessee Valley Authority | | |
| 3.01%, 07/14/05 | 4,000 | 3,996 |
| 3.03%, 07/14/05 | 10,000 | 9,989 |
| 3.09%, 07/21/05 | 5,000 | 4,991 |
| | | 101,806 |

Maturity Amount
(\$ x 1,000)

Other Investments 15.5% of net assets

Repurchase Agreements 15.5%

Credit Suisse First Boston L.L.C.

Tri-Party Repurchase Agreement

Collateralized by U.S. Treasury

Securities with a value of \$19,594

2.90%, issued 06/30/05

due 07/01/05 18,661 **18,660**

End of investments.

Statement of

Assets and Liabilities

As of June 30, 2005; unaudited. All numbers x 1,000 except NAV.

Assets

| | |
|---------------------------------|----------------|
| Investments, at value | \$101,806 |
| Repurchase agreements, at value | 18,660 |
| Receivables: | |
| Interest | 2 |
| Fund shares sold | + 333 |
| Total assets | 120,801 |

Liabilities

| | |
|---|------------|
| Payables: | |
| Dividend to shareholders | 129 |
| Fund shares redeemed | 583 |
| Investment advisory and administration fees | 4 |
| Trustees' fees | 2 |
| Accrued expenses | + 37 |
| Total liabilities | 755 |

Net Assets

| | |
|--------------------------|------------------|
| Total assets | 120,801 |
| Total liabilities | - 755 |
| Net assets | \$120,046 |

Net Assets by Source

| | |
|---------------------------------|---------|
| Capital received from investors | 120,060 |
| Net realized capital losses | (14) |

Net Asset Value (NAV)

| | | | | |
|-------------------|----------|---------------------------|----------|------------|
| Net Assets | ÷ | Shares Outstanding | = | NAV |
| \$120,046 | | 120,093 | | \$1.00 |

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$120,466.

Federal Tax Data**Cost basis of portfolio** \$120,466**As of December 31, 2004:****Unused capital losses:**

| | |
|-------------------|--------------|
| Expires 12/31 of: | Loss amount: |
| 2005 | \$1 |
| 2006 | 3 |
| 2007 | 9 |
| 2008 | + 1 |
| | \$14 |

Statement of

Operations

For January 1, 2005 through June 30, 2005; unaudited. All numbers x 1,000.

Investment Income

| | |
|----------|----------------|
| Interest | \$1,610 |
|----------|----------------|

Expenses

| | |
|---|------------|
| Investment adviser and administrator fees | 228 |
| Trustees' fees | 11 |
| Custodian and portfolio accounting fees | 10 |
| Professional fees | 15 |
| Shareholder reports | 25 |
| Other expenses | + |
| | 3 |
| Total expenses | 292 |

Increase in Net Assets from Operations

| | |
|---|----------------|
| Total investment income | 1,610 |
| Total expenses | - |
| | 292 |
| Net investment income | 1,318 |
| Increase in net assets from operations | \$1,318 |

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. These fees are paid to Charles Schwab Investment Management, Inc. (CSIM).

For the fund's independent trustees only.

The investment adviser (CSIM) guarantees to limit the annual operating expenses through April 29, 2006 to 0.50% of average daily net assets. This limit excludes 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

| | 1/1/05–6/30/05 | 1/1/04–12/31/04 |
|---|----------------|-----------------|
| Net investment income | \$1,318 | \$1,169 |
| Increase in net assets from operations | 1,318 | 1,169 |

Distributions Paid

| | | |
|--------------------------------------|--------------|--------------|
| Dividends from net investment income | 1,318 | 1,169 |
|--------------------------------------|--------------|--------------|

Transactions in Fund Shares

| | | |
|--|--------------|-----------------|
| Shares sold | 62,962 | 115,803 |
| Shares reinvested | 1,189 | 1,169 |
| Shares redeemed | + (60,165) | (141,823) |
| Net transactions in fund shares | 3,986 | (24,851) |

Net Assets

| | | |
|----------------------------|------------------|------------------|
| Beginning of period | 116,060 | 140,911 |
| Total increase or decrease | + 3,986 | (24,851) |
| End of period | \$120,046 | \$116,060 |

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/04 are:

| | |
|-------------------------|---------|
| Ordinary income | \$1,169 |
| 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 fund operations 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 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 Index 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 Schwab Funds® 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 Schwab Funds. 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 Schwab Funds.

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 which the fund belongs, to use for meeting shareholder redemptions or for extraordinary or emergency purposes. The Schwab Funds 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. There was no borrowing for the fund during the period.

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 the participating insurance company separate accounts 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 buys 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 may keep certain assets in segregated accounts, as 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.

Investment Advisory Agreement Approval

The Investment Company Act of 1940 (the “1940 Act”) requires that initial approval of, as well as the continuation of, a fund’s investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or “interested persons” of any party (the “Independent Trustees”), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund’s trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the advisory agreement. In addition, the Securities and Exchange Commission (the “SEC”) takes the position that, as part of their fiduciary duties with respect to fund fees, fund boards are required to evaluate the material factors applicable to a decision to approve an investment advisory agreement.

Consistent with these responsibilities, the Board of Trustees (the “Board”) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory agreement between Schwab Annuity Portfolios (the “Trust”) and CSIM (the “Agreement”) with respect to existing funds in the Trust, which includes the Schwab Money Market Portfolio, and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about CSIM’s affiliates, personnel and operations. The Board also receives extensive data

provided by third parties. This information is in addition to the detailed information about the funds that the Board reviews during the course of each year, including information that relates to fund operations and fund performance. The trustees also receive a memorandum from fund counsel regarding the responsibilities of trustees for the approval of investment advisory contracts. In addition, the Independent Trustees receive advice from independent counsel to the Independent Trustees, meet in executive session outside the presence of fund management and participate in question and answer sessions with representatives of CSIM.

At the May 24, 2005 meeting of the Board, the trustees, including a majority of the Independent Trustees, approved the renewal of the Agreement for an additional one year period. The Board’s approval of the Agreement was based on consideration and evaluation of a variety of specific factors discussed at that meeting and at prior meetings, including:

1. the nature, extent and quality of the services provided to the funds under the Agreement, including the resources of CSIM and its affiliates dedicated to the funds;
2. each fund’s investment performance and how it compared to that of certain other comparable mutual funds;
3. each fund’s expenses and how those expenses compared to those of certain other comparable mutual funds;
4. the profitability of CSIM and its affiliates, including Schwab, with respect to each fund, including both direct and indirect benefits accruing to CSIM and its affiliates; and
5. the extent to which economies of scale would be realized as the funds grow and whether fee levels in the Agreement reflect those economies of scale for the benefit of fund investors.

Nature, Extent and Quality of Services. The Board considered the nature, extent and quality of the services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds. In this regard, the trustees evaluated, among other things, CSIM's personnel, experience, track record and compliance program. The trustees considered the role of unaffiliated insurance companies in the distribution of the funds. The trustees also considered Schwab's excellent reputation as a full service brokerage firm and its overall financial condition, and how this affects the success of the funds. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the funds and the resources of CSIM and its affiliates dedicated to the funds supported renewal of the Agreement.

Fund Performance. The Board considered fund performance in determining whether to renew the Agreement. Specifically, the trustees considered each fund's performance relative to a peer group of other mutual funds and appropriate indices/benchmarks, in light of total return, yield and market trends. As part of this review, the trustees considered the composition of the peer group, selection criteria and the reputation of the third party who prepared the peer group analysis. In evaluating the performance of each fund, the trustees considered both risk and shareholder risk expectations for such fund. Following such evaluation, the Board concluded, within the context of its full deliberations, that the performance of the funds supported renewal of the Agreement.

Fund Expenses. With respect to the funds' expenses, the trustees considered the rate of compensation called for by the Agreement, and each fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual

funds, such peer groups and comparisons having been selected and calculated by an independent third party. The trustees considered the effects of CSIM's and Schwab's voluntary waiver of management and other fees to prevent total fund expenses from exceeding a specified cap. The trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, such as wrap accounts and offshore funds. However, the trustees accorded less weight to such comparisons due to the unique legal, regulatory, compliance and operating features of mutual funds as compared to such other types of accounts, and the unique insurance-dedicated distribution arrangements of the funds as compared to other funds managed by CSIM. Following such evaluation, the Board concluded, within the context of its full deliberations, that the expenses of the funds are reasonable and supported renewal of the Agreement.

Profitability. With regard to profitability, the trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly. In this connection, the trustees reviewed management's profitability analyses, together with certain commentary thereon from an independent accounting firm. The trustees also considered any other benefits derived by CSIM from its relationship with the funds, such as whether, by virtue of its management of the Funds, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. The trustees considered whether the varied levels of compensation and profitability under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to each fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreement.

Economies of Scale. The trustees considered the existence of any economies of scale and whether those are passed along to a fund's shareholders through a graduated investment advisory fee schedule or other means, including any fee waivers by CSIM and its affiliates. In this regard, and consistent with their consideration of fund expenses, the trustees considered that CSIM and Schwab have previously committed resources to minimize the effects on shareholders of diseconomies of scale during periods when fund assets were relatively small through their contractual expense waivers. For example, such diseconomies of scale may particularly affect newer funds or funds with investment strategies that are from time to time out of favor, but shareholders may benefit from the continued availability of such funds at subsidized expense levels. The trustees also considered CSIM's agreement to contractual investment advisory fee schedules which include lower fees at higher graduated asset levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the funds obtain reasonable benefit from economies of scale.

In the course of their deliberations, the trustees did not identify any particular information or factor that was all-important or controlling. Based on the trustees' deliberation and their evaluation of the information described above, the Board, including all of the Independent Trustees, unanimously approved the continuation of the Agreement and concluded that the compensation under the Agreement is fair and reasonable in light of such services and expenses and such other matters as the trustees have considered to be relevant in the exercise of their reasonable judgment.

Trustees and Officers

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 Schwab Funds®, 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 56 Schwab Funds 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.

Interested Trustees and Officers

| Name and Birthdate | Trust Position(s); Trustee Since | Main Occupations and Other Directorships and Affiliations |
|--|---|--|
| Charles R. Schwab ² 7/29/37 | Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994. | Chair, CEO, Director, The Charles Schwab Corp., Charles Schwab & Co., Inc.; Chair, Director, Charles Schwab Investment Management, Inc.; Chair, Charles Schwab Holdings (UK); Chair, Director, U.S. Trust Corp., United States Trust Co. of New York, U.S. Trust Co., N.A.; CEO, Director, Charles Schwab Holdings, Inc.; Chair, CEO Schwab (SIS) Holdings, Inc. I, Schwab International Holdings, Inc.; Director, Charles Schwab Bank, N.A., The Charles and Helen Schwab Foundation, All Kinds of Minds (education); Trustee, Stanford University. <i>Until 5/04:</i> Director, The Gap, Inc. (clothing retailer). <i>Until 5/03:</i> Co-CEO, The Charles Schwab Corp. <i>Until 3/02:</i> Director, Audiobase, Inc. (Internet audio solutions). <i>Until 5/02:</i> Director, Vodafone AirTouch PLC (telecommunications). <i>Until 7/01:</i> Director, The Charles Schwab Trust Co. |

¹ The Schwab Funds 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 his position with the investment adviser and the distributor, Mr. Schwab also owns stock of The Charles Schwab Corporation.

Interested Trustees but Not Officers

| Name and Birthdate | Trustee Since | Main Occupations and Other Directorships and Affiliations |
|-----------------------------------|--------------------|---|
| Randall W. Merk 7/25/54 | 2005 (all trusts). | EVP, President, AMPS Enterprise. <i>Until 7/04</i> : President, CEO, Charles Schwab Investment Management, Inc.; VP, Charles Schwab & Co., Inc. <i>Until 8/02</i> : President, Chief Investment Officer, American Century Management; Director, American Century Companies, Inc. <i>Until 6/01</i> : Chief Investment Officer, Fixed Income, American Century Companies, Inc. |

Officers of the Trust

| Name and Birthdate | Trust Office(s) Held | Main Occupations and Other Directorships and Affiliations |
|-------------------------------------|--|---|
| Evelyn Dilsaver 5/4/55 | President, CEO (all trusts). | EVP, President, Director, Charles Schwab Investment Management, Inc. <i>Until 7/04</i> : SVP for Development and Distribution, Asset Management Products and Services Enterprise. <i>Until 6/03</i> : EVP, CFO, Chief Administrative Officer, U.S. Trust. |
| Stephen B. Ward 4/5/55 | SVP, Chief Investment Officer (all trusts). | SVP, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co. |
| Kimon Daifotis 7/10/59 | SVP, Chief Investment Officer (all trusts). | <i>Since 9/04</i> : Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : SVP, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : VP, Charles Schwab Investment Management, Inc. |
| Jeffrey Mortimer 9/29/63 | SVP, Chief Investment Officer (all trusts). | <i>Since 5/04</i> : SVP, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc. <i>Since 6/04</i> : VP, Chief Investment Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 5/04</i> : VP, Charles Schwab Investment Management, Inc. |
| Randall Fillmore 11/11/60 | Chief Compliance Officer (all trusts). | <i>Since 9/04</i> : SVP, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 9/04</i> : VP, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. <i>Until 2002</i> : VP of Internal Audit, Charles Schwab & Co., Inc. <i>Prior to 2000</i> : PricewaterhouseCoopers. |
| 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. |
| George Pereira 6/9/64 | Treasurer, Principal Financial Officer (all trusts). | <i>Since 11/04</i> : SVP, CFO, Charles Schwab Investment Management, Inc. <i>Until 11/04</i> : SVP, Financial Reporting, Charles Schwab & Co., Inc. <i>Until 12/99</i> : CFO, Commerzbank Capital Markets. <i>Until 9/99</i> : Managing Director at the New York Stock Exchange. |

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 (real estate); Trustee, Stanford University, America First Cos., Omaha, NE (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. <i>Since 2/05:</i> Director, Pacific Mutual Holding Company (insurance). <i>Since 2004:</i> Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2001:</i> Stanford University, Special Assistant to the President. <i>From 1996-2001:</i> VP of Business Affairs, CFO. |
| 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. <i>Until 1996:</i> President, CEO, Allen & Dorward Advertising. |
| William A. Hasler 11/22/41 | 2000 (all trusts). | Dean Emeritus, Haas School of Business, University of California, Berkeley; Director, Apton Corp. (bio-pharmaceuticals); Non-Executive Chair, Soletron Corp. (manufacturing), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building); Public Governor, Member, executive committee, Pacific Stock & Options Exchange. <i>Since 2004:</i> Trustee, Laudus Trust, Laudus Variable Insurance Trust. <i>Until 2/04:</i> Co-CEO, Apton Corp. (bio-pharmaceuticals). |
| 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 advisory firm). |
| Gerald B. Smith 9/28/50 | 2000 (all trusts). | Chair, CEO, Founder, Smith Graham & Co. (investment advisers); Trustee, Cooper Industries (electrical products, tools and hardware); Chairman, audit committee, Northern Border Partners, L.P. (energy). |
| 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. (real estate investment and management, and other investments). |