

charles SCHWAB

Large Blend

**Schwab S&P 500
Index Portfolio**

(formerly Schwab S&P 500 Portfolio)

Large-Cap

Annual report for the year ended December 31, 2005

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 year ended December 31, 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, a vice president and senior portfolio manager of the investment adviser, 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

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

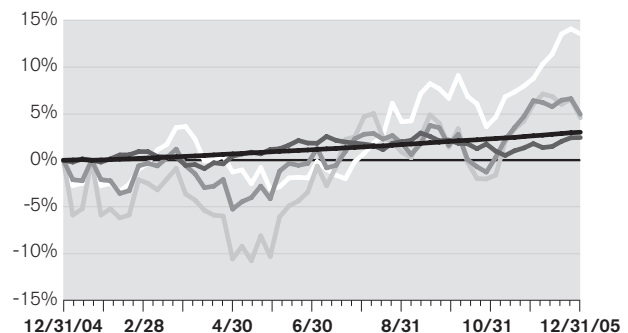
Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic

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.

- 3.00% **Three-Month U.S. Treasury Bills (T-Bills)**: measures short-term U.S. Treasury obligations
- 2.43% **Lehman Brothers U.S. Aggregate Bond Index**: measures the U.S. bond market
- 4.91% **S&P 500® Index**: measures U.S. large-cap stocks
- 4.55% **Russell 2000® Index**: measures U.S. small-cap stocks
- 13.54% **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.

effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks have held up extremely well. The S&P 500® Index posted gains of 4.91% for the one-year period ending on December 31, 2005 while the Russell 2000® Index also displayed a positive return of 4.55%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE® (Morgan Stanley Capital International, Inc. Europe, Australasia and Far East) Index also had an impressive return of 13.54% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 2.43%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we appeared to be in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

The Schwab S&P 500 Index Portfolio was up 4.75% for the one-year period, closely tracking its benchmark, the S&P 500 Index, which was up 4.91%. Bear in mind that the fund's return, unlike the index, includes the impact of operating expenses. Most of the fund's appreciation occurred during the second and third quarter of 2005. Within the portfolio, the best performing Sectors were Utilities and Energy. With the price of crude oil appreciating during the period, energy-related stocks were the overall top performers in the fund. On the downside, Telecommunication Services and Consumer Discretionary were the worst performing Sectors and slightly detracted from the fund's overall performance.

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.

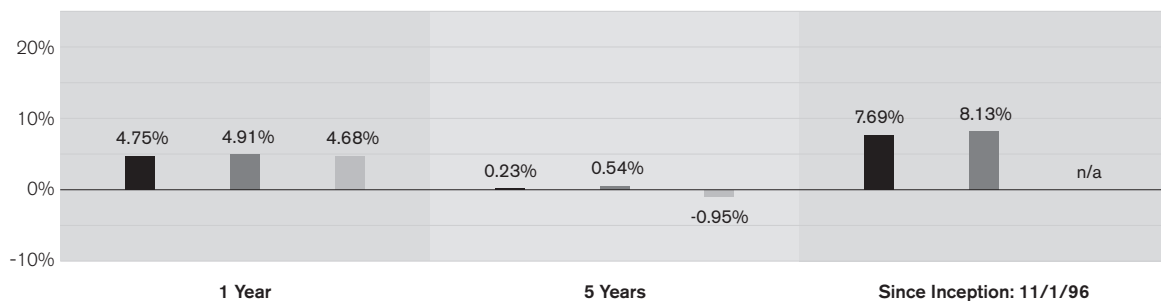
Schwab S&P 500 Index Portfolio

Performance as of 12/31/05

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**

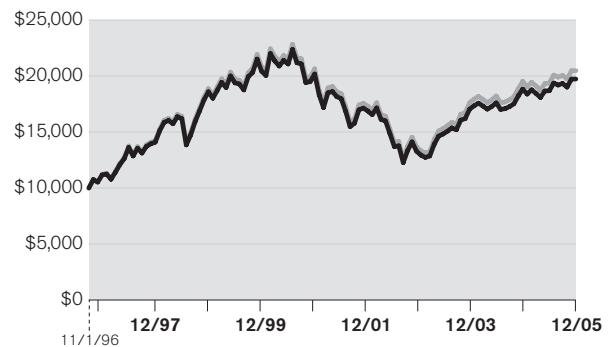


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance 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.

■ \$19,732 **Portfolio**
 ■ \$20,479 **S&P 500® Index**



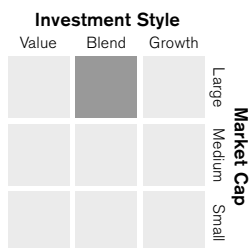
All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. Performance results less than one year are not annualized.

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 12/31/05

Style Assessment¹

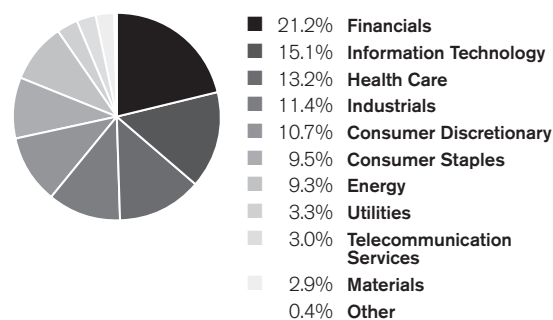
Statistics

Number of Holdings	503
Weighted Average Market Cap (\$ x 1,000,000)	\$90,148
Price/Earnings Ratio (P/E)	18.4
Price/Book Ratio (P/B)	2.9
Portfolio Turnover Rate	4%

Top Holdings²

Security	% of Net Assets
① General Electric Co.	3.3%
② Exxon Mobil Corp.	3.1%
③ Citigroup, Inc.	2.2%
④ Microsoft Corp.	2.1%
⑤ Procter & Gamble Co.	1.8%
⑥ Bank of America Corp.	1.6%
⑦ Johnson & Johnson	1.6%
⑧ American International Group, Inc.	1.6%
⑨ Pfizer, Inc.	1.5%
⑩ Altria Group, Inc.	1.4%
Total	20.2%

Sector Weightings % of Investments



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

Portfolio holdings may have changed since the report date.

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 12/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² This list is not a recommendation of any security by the investment adviser.

Portfolio Expenses (unaudited)

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 July 1, 2005 and held through December 31, 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 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period ² 7/1/05–12/31/05
Schwab S&P 500 Index Portfolio				
Actual Return	0.26%	\$1,000	\$1,055.90	\$1.35
Hypothetical 5% Return	0.26%	\$1,000	\$1,023.89	\$1.33

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 184 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– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
Per-Share Data (\$)					
Net asset value at beginning of period	17.56	16.06	12.66	16.54	19.02
Income or loss from investment operations:					
Net investment income	0.31	0.29	0.17	0.19	0.15
Net realized and unrealized gains or losses	0.53	1.40	3.40	(3.90)	(2.46)
Total income or loss from investment operations	0.84	1.69	3.57	(3.71)	(2.31)
Less distributions:					
Dividends from net investment income	(0.31)	(0.19)	(0.17)	(0.17)	(0.17)
Distributions from net realized gains	—	—	—	—	—
Total distributions	(0.31)	(0.19)	(0.17)	(0.17)	(0.17)
Net asset value at end of period	18.09	17.56	16.06	12.66	16.54
Total return (%)	4.75	10.53	28.22	(22.43)	(12.16)
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses	0.27	0.28	0.28	0.28	0.28
Gross operating expenses	0.30	0.31	0.32	0.35	0.33
Net investment income	1.59	1.75	1.50	1.33	1.09
Portfolio turnover rate	4	4	2	11	5
Net assets, end of period (\$ x 1,000,000)	157	162	146	98	128

Portfolio Holdings as of December 31, 2005

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
- ▲ All or a portion of this security is held as collateral for open futures contracts

Holdings by Category	Cost (\$ x 1,000)	Value (\$ x 1,000)
99.3% Common Stock	123,199	156,213
0.3% Short-Term Investment	449	449
0.1% U.S. Treasury Obligation	159	159
99.7% Total Investments	123,807	156,821
4.0% Collateral Invested for Securities on Loan	6,291	6,291
(3.7)% Other Assets and Liabilities, Net		(5,726)
100.0% Total Net Assets		157,386

Security and Number of Shares

Common Stock 99.3% of net assets

Automobiles & Components 0.5%

Cooper Tire & Rubber Co.	400	6
Dana Corp.	678	5
Ford Motor Co.	26,412	204
■ General Motors Corp.	7,700	149
■ Goodyear Tire & Rubber Co.	2,500	43
■ Harley-Davidson, Inc.	3,800	196
Johnson Controls, Inc.	2,600	190

793

Security and Number of Shares

Value
(\$ x 1,000)

Banks 7.3%

AmSouth Bancorp.	4,153	109
■⑥ Bank of America Corp.	55,784	2,574
■ BB&T Corp.	7,800	327
Comerica, Inc.	2,330	132
Compass Bancshares, Inc.	1,810	87
Countrywide Financial Corp.	8,000	274
Fannie Mae	13,590	663
■ Fifth Third Bancorp	7,405	279
First Horizon National Corp.	1,400	54
Freddie Mac	9,700	634
Golden West Financial Corp.	3,600	238
■ Huntington Bancshares, Inc.	3,256	77
KeyCorp, Inc.	5,900	194
M&T Bank Corp.	1,131	123
■ Marshall & Ilsley Corp.	2,738	118
MGIC Investment Corp.	1,400	92
National City Corp.	7,900	265
North Fork Bancorp., Inc.	6,200	170
PNC Financial Services Group, Inc.	4,070	252
Regions Financial Corp.	6,127	209
Sovereign Bancorp, Inc.	4,900	106
SunTrust Banks, Inc.	4,800	349
Synovus Financial Corp.	4,300	116
U.S. Bancorp	25,820	772
Wachovia Corp.	21,957	1,161
Washington Mutual, Inc.	13,945	607
Wells Fargo & Co.	23,399	1,470
Zions Bancorp.	1,200	91
		11,543

Capital Goods 8.8%

3M Co.	10,650	825
American Power Conversion Corp.	2,525	56
American Standard Cos., Inc.	2,600	104
The Boeing Co.	11,396	800
Caterpillar, Inc.	9,400	543
Cooper Industries Ltd., Class A	1,300	95
Cummins, Inc.	600	54
■ Danaher Corp.	3,326	185
Deere & Co.	3,300	225
Dover Corp.	2,800	113
Eaton Corp.	1,740	117
Emerson Electric Co.	5,900	441
Fluor Corp.	1,100	85

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
General Dynamics Corp. 2,770	316	Fortune Brands, Inc. 2,000	156
▲ General Electric Co. 146,580	5,138	Hasbro, Inc. 2,525	51
Goodrich Corp. 1,660	68	Jones Apparel Group, Inc. 1,500	46
Honeywell International, Inc. 11,937	445	KB Home 960	70
■ Illinois Tool Works, Inc. 2,922	257	Leggett & Platt, Inc. 2,300	53
Ingersoll-Rand Co., Class A 4,800	194	Lennar Corp., Class A 1,800	110
ITT Industries, Inc. 1,240	127	Liz Claiborne, Inc. 997	36
L-3 Communications Holdings, Inc. 1,500	111	Mattel, Inc. 5,300	84
Lockheed Martin Corp. 5,170	329	Maytag Corp. 1,120	21
Masco Corp. 6,300	190	■ Newell Rubbermaid, Inc. 3,924	93
• Navistar International Corp. 1,000	29	Nike, Inc., Class B 2,660	231
Northrop Grumman Corp. 5,114	307	Pulte Homes, Inc. 3,000	118
Paccar, Inc. 2,350	163	Reebok International Ltd. 800	46
Pall Corp. 1,400	38	Snap-On, Inc. 800	30
Parker Hannifin Corp. 1,650	109	■ The Stanley Works 1,100	53
Raytheon Co. 6,280	252	VF Corp. 1,410	78
Rockwell Automation, Inc. 2,550	151	Whirlpool Corp. 900	75
Rockwell Collins, Inc. 2,500	116		2,009
Textron, Inc. 1,900	146		
Tyco International Ltd. 28,329	818	Diversified Financials 8.3%	
United Technologies Corp. 14,200	794	American Express Co. 17,260	888
W.W. Grainger, Inc. 1,100	78	Ameriprise Financial, Inc. 3,278	134
	13,819	The Bank of New York Co., Inc. 10,900	347
Commercial Services & Supplies 0.9%		The Bear Stearns Cos., Inc. 1,512	175
• Allied Waste Industries, Inc. 525	5	Capital One Financial Corp. 3,980	344
■ Apollo Group, Inc., Class A 2,000	121	■ The Charles Schwab Corp. 14,546	213
Avery Dennison Corp. 1,300	72	CIT Group, Inc. 2,900	150
• CCE Spinco, Inc. 57	1	▲ Citigroup, Inc. 71,743	3,482
Cendant Corp. 14,902	257	• E*TRADE Financial Corp. 5,160	108
Cintas Corp. 1,912	79	Federated Investors, Inc., Class B 1,500	55
Equifax, Inc. 2,000	76	Franklin Resources, Inc. 2,100	197
H&R Block, Inc. 4,200	103	Goldman Sachs Group, Inc. 6,357	812
• Monster Worldwide, Inc. 1,704	69	Janus Capital Group, Inc. 1,941	36
Pitney Bowes, Inc. 3,200	135	JPMorgan Chase & Co. 48,805	1,937
R.R. Donnelley & Sons Co. 2,960	101	Lehman Brothers Holdings, Inc. 3,850	493
Robert Half International, Inc. 2,400	91	MBNA Corp. 17,743	482
Waste Management, Inc. 7,857	238	Mellon Financial Corp. 6,000	206
	1,348	Merrill Lynch & Co., Inc. 12,880	872
Consumer Durables & Apparel 1.3%		Moody's Corp. 3,480	214
Black & Decker Corp. 1,210	105	Morgan Stanley 15,050	854
■ Brunswick Corp. 1,200	49	Northern Trust Corp. 2,870	149
Centex Corp. 1,600	114	Principal Financial Group, Inc. 3,874	184
• Coach, Inc. 5,400	180	SLM Corp. 6,000	331
D.R. Horton, Inc. 3,800	136	State Street Corp. 4,800	266
■ Eastman Kodak Co. 3,155	74	T. Rowe Price Group, Inc. 1,700	122
			13,051

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Energy 9.3%		Food Beverage & Tobacco 4.6%	
Amerada Hess Corp. 1,200	152	⑩ Altria Group, Inc. 28,780	2,150
Anadarko Petroleum Corp. 3,347	317	Anheuser-Busch Cos., Inc. 10,810	464
Apache Corp. 4,484	307	Archer-Daniels-Midland Co. 9,300	229
Baker Hughes, Inc. 4,700	286	Brown-Forman Corp., Class B 1,304	90
BJ Services Co. 4,600	169	Campbell Soup Co. 2,300	69
Burlington Resources, Inc. 5,474	472	The Coca-Cola Co. 28,822	1,162
ChevronTexaco Corp. 31,307	1,777	Coca-Cola Enterprises, Inc. 5,000	96
ConocoPhillips 19,328	1,125	ConAgra Foods, Inc. 6,770	137
Devon Energy Corp. 6,263	392	• Constellation Brands, Inc., Class A 2,300	60
El Paso Corp. 9,109	111	General Mills, Inc. 4,880	241
EOG Resources, Inc. 3,214	236	H.J. Heinz Co. 5,000	169
▲② Exxon Mobil Corp. 87,260	4,901	Hershey Foods Corp. 2,244	124
Halliburton Co. 7,100	440	Kellogg Co. 3,600	156
Kerr-McGee Corp. 1,676	152	McCormick & Co., Inc. 1,700	53
Kinder Morgan, Inc. 1,350	124	Molson Coors Brewing Co., Class B 800	54
Marathon Oil Corp. 5,032	307	The Pepsi Bottling Group, Inc. 1,902	54
Murphy Oil Corp. 2,300	124	PepsiCo, Inc. 23,170	1,369
• Nabors Industries Ltd. 2,000	151	Reynolds American, Inc. 1,028	98
• National-Oilwell Varco, Inc. 2,400	150	Sara Lee Corp. 10,600	200
Noble Corp. 1,800	127	Tyson Foods, Inc., Class A 3,500	60
Occidental Petroleum Corp. 5,600	447	UST, Inc. 2,200	90
• Rowan Cos., Inc. 1,400	50	Wm. Wrigley Jr. Co. 2,500	166
Schlumberger Ltd. 8,170	794		7,291
Sunoco, Inc. 1,940	152	Health Care Equipment & Services 5.2%	
• Transocean, Inc. 4,614	322	Aetna, Inc. 4,070	384
Valero Energy Corp. 8,560	442	AmerisourceBergen Corp. 3,120	129
• Weatherford International Ltd. 3,480	126	Bausch & Lomb, Inc. 800	54
Williams Cos., Inc. 7,900	183	Baxter International, Inc. 8,690	327
XTO Energy, Inc. 4,933	217	Becton Dickinson & Co. 3,600	216
	14,553	Biomet, Inc. 3,425	125
Food & Staples Retailing 2.4%		• Boston Scientific Corp. 7,531	184
Albertson's, Inc. 5,275	113	C.R. Bard, Inc. 1,520	100
Costco Wholesale Corp. 6,500	322	Cardinal Health, Inc. 5,965	410
CVS Corp. 11,400	301	• Caremark Rx, Inc. 6,413	332
• Kroger Co. 10,200	193	CIGNA Corp. 1,860	208
Safeway, Inc. 6,200	147	• Coventry Health Care, Inc. 2,350	134
Supervalu, Inc. 2,410	78	• Express Scripts, Inc. 2,040	171
Sysco Corp. 8,800	273	• Fisher Scientific International, Inc. 1,605	99
Wal-Mart Stores, Inc. 34,600	1,619	Guidant Corp. 4,500	291
Walgreen Co. 14,140	626	HCA, Inc. 4,890	247
Whole Foods Market, Inc. 1,000	77	Health Management Associates, Inc., Class A 3,300	73
	3,749		

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Hospira, Inc. 2,400	103	The Allstate Corp. 9,230	499
• Humana, Inc. 2,100	114	AMBAC Financial Group, Inc. 1,392	107
IMS Health, Inc. 3,300	82	⑧ American International Group, Inc. 36,038	2,459
• Laboratory Corp. of America Holdings 1,504	81	AON Corp. 4,550	164
Manor Care, Inc. 1,100	44	Chubb Corp. 2,780	272
McKesson Corp. 4,296	222	Cincinnati Financial Corp. 2,335	104
• Medco Health Solutions, Inc. 3,888	217	Genworth Financial, Inc., Class A 5,000	173
Medtronic, Inc. 17,000	979	Hartford Financial Services Group, Inc. 4,130	355
• Millipore Corp. 800	53	Jefferson-Pilot Corp. 1,850	105
• Patterson Cos., Inc. 980	33	Lincoln National Corp. 2,400	127
PerkinElmer, Inc. 1,700	40	Loews Corp. 1,880	178
Quest Diagnostics 2,560	132	Marsh & McLennan Cos., Inc. 7,200	229
• St. Jude Medical, Inc. 5,070	255	■ MBIA, Inc. 1,750	105
Stryker Corp. 4,100	182	Metlife, Inc. 10,507	515
• Tenet Healthcare Corp. 6,500	50	The Progressive Corp. 2,750	321
• Thermo Electron Corp. 2,200	66	Prudential Financial, Inc. 7,300	534
UnitedHealth Group, Inc. 17,530	1,089	Safeco Corp. 1,900	107
• Waters Corp. 1,700	64	The St. Paul Travelers Cos., Inc. 9,399	420
• WellPoint, Inc. 8,472	676	Torchmark Corp. 1,500	83
• Zimmer Holdings, Inc. 3,184	215	■ UnumProvident Corp. 4,276	97
	8,181	XL Capital Ltd., Class A 1,900	128
			7,617
Hotels Restaurants & Leisure 1.5%		Materials 2.9%	
Carnival Corp. 6,130	328	Air Products & Chemicals, Inc. 3,100	183
Darden Restaurants, Inc. 2,090	81	Alcoa, Inc. 12,272	363
Harrah's Entertainment, Inc. 2,400	171	Allegheny Technologies, Inc. 1,260	45
Hilton Hotels Corp. 4,810	116	Ashland, Inc. 900	52
International Game Technology 4,700	145	Ball Corp. 1,400	56
Marriott International, Inc., Class A 2,396	160	Bemis Co. 1,400	39
McDonald's Corp. 17,500	590	The Dow Chemical Co. 13,355	585
• Starbucks Corp. 10,520	316	E.I. du Pont de Nemours & Co. 12,814	545
Starwood Hotels & Resorts Worldwide, Inc. 2,900	185	■ Eastman Chemical Co. 1,000	52
Wendy's International, Inc. 1,500	83	Ecolab, Inc. 2,604	94
Yum! Brands, Inc. 4,100	192	Engelhard Corp. 972	29
	2,367	Freeport-McMoran Copper & Gold, Inc., Class B 2,400	129
Household & Personal Products 2.5%		• Hercules, Inc. 700	8
Alberto-Culver Co., Class B 1,000	46	International Flavors & Fragrances, Inc. 1,400	47
Avon Products, Inc. 6,300	180	■ International Paper Co. 6,498	218
Clorox Co. 2,100	119	Louisiana-Pacific Corp. 1,560	43
Colgate-Palmolive Co. 7,300	400	MeadWestvaco Corp. 2,549	71
Kimberly-Clark Corp. 6,800	406	Monsanto Co. 3,725	289
▲⑤ Procter & Gamble Co. 47,683	2,760	Newmont Mining Corp. 6,186	330
	3,911	■ Nucor Corp. 2,200	147
Insurance 4.8%		• Pactiv Corp. 1,800	40
ACE Ltd. 3,900	209	Phelps Dodge Corp. 1,345	193
AFLAC, Inc. 7,010	326		

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
PPG Industries, Inc. 2,300	133	• Medimmune, Inc. 3,400	119
Praxair, Inc. 4,165	221	Merck & Co., Inc. 30,520	971
Rohm & Haas Co. 2,105	102	Mylan Laboratories, Inc. 3,091	62
• Sealed Air Corp. 1,214	68	▲ Pfizer, Inc. 102,351	2,387
Sigma-Aldrich Corp. 641	41	Schering-Plough Corp. 20,490	427
Temple-Inland, Inc. 1,600	72	• Watson Pharmaceuticals, Inc. 1,500	49
United States Steel Corp. 1,500	72	Wyeth 18,600	857
Vulcan Materials Co. 1,500	102		12,459
Weyerhaeuser Co. 3,400	226		
	4,595	Real Estate 0.7%	
Media 3.4%		Apartment Investment & Management Co., Class A 1,300	49
Clear Channel Communications, Inc. 7,096	223	Archstone-Smith Trust 2,700	113
• Comcast Corp., Class A 30,959	804	Equity Office Properties Trust 5,600	170
■ Dow Jones & Co., Inc. 800	28	Equity Residential 4,000	157
The E.W. Scripps Co., Class A 1,000	48	Plum Creek Timber Co., Inc. 2,560	92
Gannett Co., Inc. 3,360	204	ProLogis 2,600	121
Interpublic Group of Cos., Inc. 4,900	47	Public Storage, Inc. 1,100	75
■ Knight-Ridder, Inc. 800	51	■ Simon Property Group, Inc. 2,600	199
The McGraw-Hill Cos., Inc. 5,400	279	Vornado Realty Trust 1,600	134
Meredith Corp. 700	37		1,110
■ New York Times Co., Class A 1,900	50	Retailing 3.9%	
News Corp, Inc., Class A 34,300	533	• Amazon.com, Inc. 1,000	47
Omnicom Group, Inc. 2,600	221	• Autonation, Inc. 3,100	67
Time Warner, Inc. 65,450	1,141	• AutoZone, Inc. 700	64
Tribune Co. 3,700	112	• Bed, Bath & Beyond, Inc. 4,200	152
• Univision Communications, Inc., Class A 3,225	95	Best Buy Co., Inc. 5,675	247
• Viacom, Inc., Class B 21,961	716	• Big Lots, Inc. 1,400	17
The Walt Disney Co. 27,870	668	Circuit City Stores, Inc. 1,174	27
	5,257	Dillards, Inc., Class A 600	15
Pharmaceuticals & Biotechnology 7.9%		■ Dollar General Corp. 4,263	81
Abbott Laboratories 21,800	859	• eBay, Inc. 15,688	678
Allergan, Inc. 1,880	203	Family Dollar Stores, Inc. 2,000	50
• Amgen, Inc. 17,104	1,349	Federated Department Stores, Inc. 3,761	249
Applied Biosystems Group — Applera Corp. 2,800	74	The Gap, Inc. 8,162	144
• Biogen Idec, Inc. 4,700	213	Genuine Parts Co. 2,500	110
Bristol-Myers Squibb Co. 27,410	630	Home Depot, Inc. 29,770	1,205
• Chiron Corp. 1,500	67	J.C. Penney Co., Inc. Holding Co. 3,700	206
Eli Lilly & Co. 15,770	892	• Kohl's Corp. 4,610	224
• Forest Laboratories, Inc. 4,800	195	Limited Brands, Inc. 3,908	87
• Genzyme Corp. 3,500	248	Lowe's Cos., Inc. 11,000	733
• Gilead Sciences, Inc. 6,000	316	■ Nordstrom, Inc. 3,250	122
⑦ Johnson & Johnson 41,308	2,482	• Office Depot, Inc. 4,500	141
• King Pharmaceuticals, Inc. 3,466	59	OfficeMax, Inc. 900	23
		RadioShack Corp. 1,900	40

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
• Sears Holdings Corp. 1,275	147	Electronic Data Systems Corp. 7,220	174
The Sherwin-Williams Co. 1,133	51	First Data Corp. 10,759	463
Staples, Inc. 10,500	238	• Fiserv, Inc. 2,700	117
Target Corp. 12,200	671	• Intuit, Inc. 2,520	134
Tiffany & Co. 2,000	77	• Mercury Interactive Corp. 1,200	33
TJX Cos., Inc. 6,310	147	▲ ④ Microsoft Corp. 127,480	3,334
	6,060	• Novell, Inc. 5,200	46
Semiconductors & Semiconductor Equipment 3.2%		• Oracle Corp. 52,360	639
• Advanced Micro Devices, Inc. 5,530	169	• Parametric Technology Corp. 6,210	38
• Altera Corp. 5,480	102	Paychex, Inc. 4,650	177
Analog Devices, Inc. 5,200	186	Sabre Holdings Corp., Class A 1,883	45
▲ Applied Materials, Inc. 23,100	414	Siebel Systems, Inc. 7,000	74
• Applied Micro Circuits Corp. 782	2	• Symantec Corp. 15,341	269
• Broadcom Corp., Class A 4,110	194	• Unisys Corp. 4,700	27
• Freescale Semiconductor, Inc., Class B 5,566	140	• Yahoo! Inc. 17,400	682
Intel Corp. 84,621	2,112		7,845
KLA-Tencor Corp. 2,700	133	Technology Hardware & Equipment 6.8%	
Linear Technology Corp. 4,400	159	• ADC Telecommunications, Inc. 971	22
• LSI Logic Corp. 5,410	43	• Agilent Technologies, Inc. 6,867	229
Maxim Integrated Products, Inc. 4,500	163	• Andrew Corp. 1,450	16
• Micron Technology, Inc. 8,800	117	• Apple Computer, Inc. 11,500	827
National Semiconductor Corp. 5,000	130	• Avaya, Inc. 5,632	60
• Novellus Systems, Inc. 1,900	46	• CIENA Corp. 6,700	20
• Nvidia Corp. 2,400	88	• Cisco Systems, Inc. 88,760	1,520
• PMC – Sierra, Inc. 3,390	26	• Comverse Technology, Inc. 2,700	72
• Teradyne, Inc. 2,100	31	• Corning, Inc. 20,650	406
Texas Instruments, Inc. 22,580	724	• Dell, Inc. 33,520	1,005
Xilinx, Inc. 4,400	111	• EMC Corp. 33,472	456
	5,090	■ Gateway, Inc. 1,000	2
Software & Services 5.0%		Hewlett-Packard Co. 39,777	1,139
Adobe Systems, Inc. 6,500	240	International Business Machines Corp. 22,145	1,820
■ Affiliated Computer Services, Inc., Class A 1,791	106	• Jabil Circuit, Inc. 2,727	101
Autodesk, Inc. 3,320	143	• JDS Uniphase Corp. 20,155	48
Automatic Data Processing, Inc. 7,920	363	• Lexmark International, Inc., Class A 1,600	72
• BMC Software, Inc. 3,200	66	• Lucent Technologies, Inc. 60,295	160
• Citrix Systems, Inc. 2,360	68	Molex, Inc. 2,300	60
Computer Associates International, Inc. 6,444	182	Motorola, Inc. 34,235	773
• Computer Sciences Corp. 2,700	137	• NCR Corp. 2,800	95
• Compuware Corp. 6,150	55	• Network Appliance, Inc. 4,800	130
• Convergys Corp. 1,354	21	• QLogic Corp. 1,295	42
• Electronic Arts, Inc. 4,058	212	Qualcomm, Inc. 22,590	973
		• Sanmina – SCI Corp. 7,400	31
		Scientific-Atlanta, Inc. 2,200	95
		• Solectron Corp. 13,490	49

Security and Number of Shares	Value (\$ x 1,000)
• Sun Microsystems, Inc. 45,800	192
Symbol Technologies, Inc. 2,212	28
Tektronix, Inc. 1,100	31
• Tellabs, Inc. 6,230	68
■ Xerox Corp. 13,600	199
	10,741

Telecommunication Services 3.0%

Alltel Corp. 5,340	337
AT&T, Inc. 54,641	1,338
BellSouth Corp. 25,400	688
CenturyTel, Inc. 1,900	63
Citizens Communications Co. 4,718	58
■ Qwest Communications International, Inc. 21,216	120
Sprint Corp. (FON Group) 40,649	950
Verizon Communications, Inc. 38,350	1,155
	4,709

Transportation 1.8%

Burlington Northern Santa Fe Corp. 5,200	368
CSX Corp. 3,010	153
FedEx Corp. 4,220	436
Norfolk Southern Corp. 5,600	251
Ryder Systems, Inc. 900	37
Southwest Airlines Co. 9,728	160
Union Pacific Corp. 3,700	298
United Parcel Service, Inc., Class B 15,415	1,159
	2,862

Utilities 3.3%

• The AES Corp. 8,800	139
• Allegheny Energy, Inc. 2,241	71
Ameren Corp. 2,700	138
American Electric Power Co., Inc. 5,470	203
■ Centerpoint Energy, Inc. 4,150	53
Cinergy Corp. 2,600	110
• CMS Energy Corp. 4,120	60
Consolidated Edison, Inc. 3,300	153
Constellation Energy Group, Inc. 2,500	144
Dominion Resources, Inc. 4,880	377
DTE Energy Co. 2,400	104
■ Duke Energy Corp. 13,234	363
■ Dynegy, Inc., Class A 5,200	25
Edison International 4,700	205
Entergy Corp. 2,920	200

Security and Number of Shares	Value (\$ x 1,000)
Exelon Corp. 9,230	490
FirstEnergy Corp. 4,588	225
FPL Group, Inc. 5,400	224
KeySpan Corp. 2,300	82
Nicor, Inc. 1,010	40
NiSource, Inc. 3,546	74
Peoples Energy Corp. 500	18
PG&E Corp. 5,100	189
Pinnacle West Capital Corp. 1,200	50
PPL Corp. 5,260	155
Progress Energy, Inc. 3,502	154
Public Service Enterprise Group, Inc. 3,300	214
Sempra Energy 3,141	141
The Southern Co. 10,300	356
TECO Energy, Inc. 2,840	49
TXU Corp. 6,844	344
■ Xcel Energy, Inc. 5,605	103
	5,253

Security Rate, Maturity Date	Face Amount (\$ x 1,000)
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U.S. Treasury Obligation
0.1% of net assets

▲ U.S. Treasury Bill		
3.86%, 03/16/06	160	159

Short-Term Investment
0.3% of net assets

Bank of America, London Time Deposit		
3.40%, 01/03/06	449	449

End of investments.

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
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Collateral Invested for Securities on Loan
4.0% of net assets

Short-Term Investment 4.0%

Securities Lending Investments	
Fund 6,291,310	6,291

End of collateral invested for securities on loan.

In addition to the above, the fund held the following at 12/31/05. All numbers x 1,000 except number of contracts.

Futures Contracts

	Number of Contracts	Contract Value	Unrealized Losses
S&P 500 Index, e-mini, Long Expires 3/18/06	7	439	(10)

Statement of

Assets and Liabilities

As of December 31, 2005. All numbers x 1,000 except NAV.

Assets

Investments, at value (including \$6,097 of securities on loan)	\$156,821
Collateral invested for securities on loan	6,291
Receivables:	
Fund shares sold	582
Dividends	206
Investments sold	21
Income from securities on loan	1
Prepaid expenses	+ 1
Total assets	163,923

Liabilities

Collateral invested for securities on loan	6,291
Payables:	
Fund shares redeemed	18
Investments bought	174
Due to brokers for futures	3
Investment adviser and administrator fees	2
Accrued expenses	+ 49
Total liabilities	6,537

Net Assets

Total assets	163,923
Total liabilities	- 6,537
Net assets	\$157,386

Net Assets by Source

Capital received from investors	136,516
Net investment income not yet distributed	2,495
Net realized capital losses	(14,629)
Net unrealized capital gains	33,004

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$157,386		8,701		\$18.09

Unless stated, all numbers are x 1,000.

The fund paid \$123,807 for these securities.

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

Purchases	\$5,742
Sales/maturities	\$13,074

These derive from investments and futures.

Federal Tax Data

Portfolio cost	\$124,892
Net unrealized gains and losses:	
Gains	\$48,858
Losses	+ (16,929)
	\$31,929

Net undistributed earnings:

Ordinary income	\$2,495
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
2013	+ 2,130
	\$12,822

Deferred capital losses	\$732
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Statement of

Operations

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

Unless stated, all numbers are x 1,000.

Investment Income

Dividends	\$2,870
Interest	28
Securities on loan	+ 15
Total investment income	2,913

Net Realized Gains and Losses

Net realized losses on investments	(3,412)
Net realized gains on futures contracts	+ 106
Net realized losses	(3,306)

Net Unrealized Gains and Losses

Net unrealized gains on investments	7,954
Net unrealized losses on futures contracts	+ (53)
Net unrealized gains	7,901

Expenses

Investment adviser and administrator fees	314
Trustees' fees	25
Custodian fees	20
Portfolio accounting fees	24
Professional fees	32
Shareholder reports	30
Other expenses	+ 21
Total expenses	466
Expense reduction	- 43
Net expenses	423

Increase in Net Assets From Operations

Total investment income	2,913
Net expenses	- 423
Net investment income	2,490
Net realized losses	(3,306)
Net unrealized gains	+ 7,901
Increase in net assets from operations	\$7,085

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 net 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 gain on investments of \$4,595.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.

Operations

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$2,490	\$2,650
Net realized losses	(3,306)	(12)
Net unrealized gains	+ 7,901	12,681
Increase in net assets from operations	7,085	15,319

Distributions Paid

Dividends from net investment income	\$2,644	\$1,720
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Transactions in Fund Shares

	1/1/05–12/31/05		1/1/04–12/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	1,528	\$26,939	2,284	\$37,513
Shares reinvested	144	2,644	100	1,720
Shares redeemed	+ (2,193)	(38,629)	(2,259)	(36,911)
Net transactions in fund shares	(521)	(\$9,046)	125	\$2,322

Shares Outstanding and Net Assets

	1/1/05–12/31/05		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	+ (521)	(4,605)	125	15,921
End of period	8,701	\$157,386	9,222	\$161,991

Unless stated, all numbers are x 1,000.

Unaudited

For corporations, 100% of the fund's dividends for the report period qualify for the dividends received deductions.

The fund designates \$2,673 of the dividend distribution for the fiscal year ended 12/31/05 as qualified dividends for the purpose of the maximum rate under Section 1 (h) (ii) of the Internal Revenue Code.

The tax-basis components of distributions paid are:

Current Period

Ordinary income	\$2,644
Long-term capital gains	\$—

Prior Period

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 \$2,495 and \$2,649 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 ("due to/from broker").

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 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 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 an index, which the fund uses as part of an indexing strategy.

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 12/31/05 (\$ × 1,000)	Average Borrowing* (\$ × 1,000)	Weighted Average Interest Rate* (%)
—	370	3.85

*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.

Report of independent registered public accounting firm
To the Board of Trustees and Shareholders of:
Schwab S&P 500 Index Portfolio

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab S&P 500 Index Portfolio (one of the portfolios constituting Schwab Annuity Portfolios, hereafter referred to as the “Fund”) at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
San Francisco, California
February 14, 2006

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.

Independent Trustees

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. ²

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 This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Donald F. Dorward 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
William A. Hasler 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. ³ Non-Executive Chairman, Soletron Corporation (manufacturing).
Robert G. Holmes 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
Donald R. Stephens 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
Michael W. Wilsey 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ⁴ 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
Randall W. Merk ⁴ 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment 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 Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Kimon Daifotis 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
Randall Fillmore 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
Koji E. Felton 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
George Pereira 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

Large-Cap Blend

charles SCHWAB

**Schwab MarketTrack
Growth Portfolio II™**

Balanced

Annual report for the year ended December 31, 2005

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 year ended December 31, 2005



Larry Mano, a vice president and senior portfolio manager of the investment adviser, 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

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

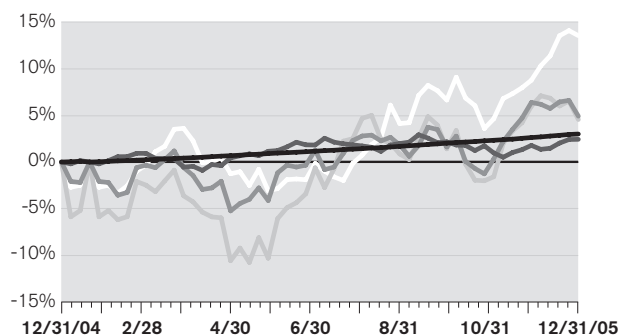
Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

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.

- 3.00% **Three-Month U.S. Treasury Bills (T-Bills):** measures short-term U.S. Treasury obligations
- 2.43% **Lehman Brothers U.S. Aggregate Bond Index:** measures the U.S. bond market
- 4.91% **S&P 500® Index:** measures U.S. large-cap stocks
- 4.55% **Russell 2000® Index:** measures U.S. small-cap stocks
- 13.54% **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.



Matthew Hastings, CFA, a vice president and senior portfolio manager, has day-to-day co-management responsibility for the portfolio. He joined the firm in 1999 and has worked in fixed income and asset management since 1996.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

Despite tragic hurricanes, rising interest rates, and soaring energy prices, the funds and their respective benchmarks have held up extremely well. The S&P 500® Index posted gains of 4.91% for the one-year period ending on December 31, 2005 while the Russell 2000® Index also displayed a positive return of 4.55%. As improving fundamentals and attractive valuations have strengthened investor interest in emerging markets, the MSCI EAFE® (Morgan Stanley Capital International, Inc. Europe, Australasia and Far East) Index also had an impressive return of 13.54% for the one-year report period.

Although bonds did not fare nearly as well as equities this period, performance was still positive, up by 2.43%, as measured by the Lehman Brothers U.S. Aggregate Bond Index. This differential is not unusual, given that we appeared to be in the midst of an economic recovery during the period. When the economy is strong and job growth is robust, investors expect to see inflation, which generally leads to higher interest rates and ultimately brings down prices for bonds. In summary, the markets have seen quite a few events with the potential to diminish investor confidence, but as of the end of the period, significant negative impacts had not materialized.

The Schwab MarketTrack Growth Portfolio II incorporates a mix of different asset classes. Accordingly, its returns over a given period will reflect a blend of the returns of those asset classes, and will depend on their relative weightings within the portfolio. By spreading its exposure over various asset classes, The MarketTrack Growth Portfolio II is designed to provide more stable returns while seeking to reduce risk over various market cycles.

The portfolio was up 5.77% for the one-year period, compared to a 7.10% return for the Growth Composite Index. The portfolio has an 80% target stock allocation that is divided amongst large-cap, small-cap, and international stocks. The 20% target allocation to fixed income is designed to reduce volatility and risk over the long term. In this report period, due to strong equity markets and increased interest in emerging markets, the fund benefited from its emphasis on equities.

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.

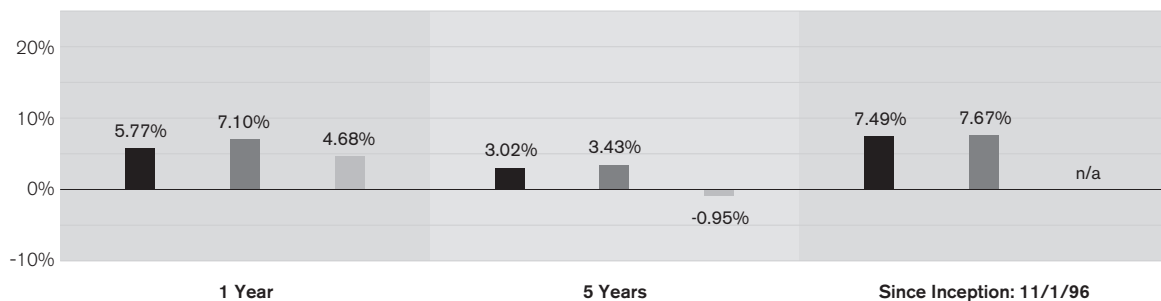
Schwab MarketTrack Growth Portfolio II

Performance as of 12/31/05

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

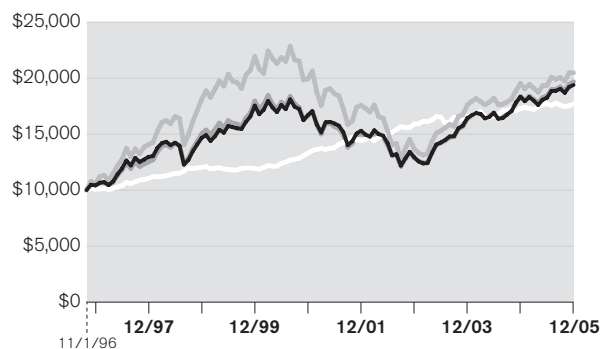


The performance data quoted represents past performance. Past performance does not guarantee future results. Investment returns and principal value will fluctuate so that an investor's shares may be worth more or less than their original cost. Current performance may be lower or higher than performance 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.

\$19,390 Portfolio
\$19,683 Growth Composite Index
\$20,479 S&P 500® Index
\$17,700 Lehman Brothers U.S. Aggregate Bond Index

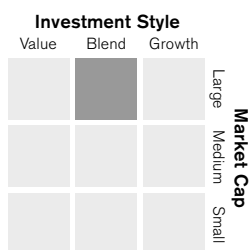


All portfolio and index figures on this page assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged, and you cannot invest in them directly. The portfolio's share price and principal values change, 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 based on a comparable portfolio asset allocation and calculated using the following portion allocations: 60% Dow Jones Wilshire 5000 Composite IndexSM, 20% MSCI EAFE[®] Index, 15% Lehman Brothers U.S. Aggregate Bond Index, and 5% Morningstar 3-Month T-Bill Index.

Portfolio Facts as of 12/31/05

Style Assessment¹

Statistics

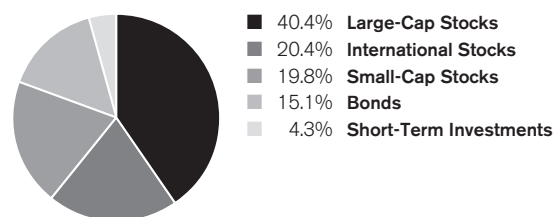
Number of Holdings	516
Weighted Average Market Cap (\$ x 1,000,000)	\$60,714
Price/Earnings Ratio (P/E)	21.3
Price/Book Ratio (P/B)	2.7
Portfolio Turnover Rate	5%

Top Holdings²

Security	% of Net Assets
① Schwab International Index Fund*, Select Shares*	20.5%
② Schwab Small-Cap Index Fund*, Select Shares	19.8%
③ Schwab Total Bond Market Fund™	15.2%
④ Schwab Value Advantage Money Fund®, Select Shares	3.3%
⑤ General Electric Co.	1.3%
⑥ Exxon Mobil Corp.	1.3%
⑦ Citigroup, Inc.	0.9%
⑧ Microsoft Corp.	0.9%
⑨ Procter & Gamble Co.	0.7%
⑩ Bank of America Corp.	0.7%
Total	64.6%

Asset Class Weightings % of Investments

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



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 12/31/05, which may have changed since then, and is not a precise indication of risk or performance—past, present, or future.

² This list is not a recommendation of any security by the investment adviser.

Portfolio Expenses (unaudited)

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 July 1, 2005 and held through December 31, 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 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period ² 7/1/05–12/31/05
Schwab MarketTrack Growth Portfolio II				
Actual Return	0.47%	\$1,000	\$1,062.00	\$2.44
Hypothetical 5% Return	0.47%	\$1,000	\$1,022.84	\$2.40

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 184 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– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
Per-Share Data (\$)					
Net asset value at beginning of period	14.87	13.49	10.75	12.99	14.81
Income or loss from investment operations:					
Net investment income	0.24	0.21	0.16	0.17	0.18
Net realized and unrealized gains or losses	0.62	1.35	2.74	(2.17)	(1.43)
Total income or loss from investment operations	0.86	1.56	2.90	(2.00)	(1.25)
Less distributions:					
Dividends from net investment income	(0.20)	(0.18)	(0.16)	(0.20)	(0.35)
Distributions from net realized gains	—	—	—	(0.04)	(0.22)
Total distributions	(0.20)	(0.18)	(0.16)	(0.24)	(0.57)
Net asset value at end of period	15.53	14.87	13.49	10.75	12.99
Total return (%)	5.77	11.58	26.97	(15.44)	(8.40)
Ratios/Supplemental Data (%)					
Ratios to average net assets:					
Net operating expenses ¹	0.48	0.50	0.50	0.50	0.50
Gross operating expenses ¹	0.68	0.69	0.87	1.00	0.82
Net investment income	1.66	1.52	1.70	1.59	1.67
Portfolio turnover rate	5	8	10	30	13
Net assets, end of period (\$ x 1,000,000)	37	34	30	20	22

¹ 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.

Portfolio Holdings as of December 31, 2005

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)
58.8% Other Investment Companies	17,968	21,620
40.5% Common Stock	12,043	14,867
1.0% Short-Term Investment	369	369
100.3% Total Investments	30,380	36,856
(0.3)% Other Assets and Liabilities, Net		(107)
100.0% Total Net Assets		36,749

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

Common Stock 40.5% of net assets**Automobiles & Components** 0.2%

Cooper Tire & Rubber Co.	100	2
Dana Corp.	180	1
Ford Motor Co.	2,398	19
General Motors Corp.	650	13
• Goodyear Tire & Rubber Co.	300	5
Harley-Davidson, Inc.	350	18
Johnson Controls, Inc.	240	17
		75

Banks 3.0%

AmSouth Bancorp.	430	11
⑩ Bank of America Corp.	5,240	242

Security and Number of Shares	Value (\$ x 1,000)
BB&T Corp. 626	26
Comerica, Inc. 200	11
Compass Bancshares, Inc. 100	5
Countrywide Financial Corp. 660	23
Fannie Mae 1,345	66
Fifth Third Bancorp 667	25
First Horizon National Corp. 150	6
Freddie Mac 1,000	65
Golden West Financial Corp. 350	23
Huntington Bancshares, Inc. 333	8
KeyCorp, Inc. 500	16
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	16
PNC Financial Services Group, Inc. 340	21
Regions Financial Corp. 595	20
Sovereign Bancorp, Inc. 500	11
SunTrust Banks, Inc. 420	31
Synovus Financial Corp. 325	9
U.S. Bancorp 2,474	74
Wachovia Corp. 2,282	121
Washington Mutual, Inc. 1,190	52
Wells Fargo & Co. 2,200	138
Zions Bancorp. 100	7
	1,090

Capital Goods 3.5%

3M Co.	925	72
American Power Conversion Corp.	275	6
American Standard Cos., Inc.	300	12
The Boeing Co.	1,038	73
Caterpillar, Inc.	800	46
Cooper Industries Ltd., Class A	100	7
Crane Co.	100	4
Cummins, Inc.	50	4
Danaher Corp.	350	20
Deere & Co.	350	24
Dover Corp.	460	19
Eaton Corp.	200	13
Emerson Electric Co.	500	37
Fluor Corp.	100	8
General Dynamics Corp.	250	29
⑤ General Electric Co.	13,670	479
Goodrich Corp.	100	4
Honeywell International, Inc.	1,187	44
Illinois Tool Works, Inc.	350	31

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)
Ingersoll-Rand Co., Class A 400	16
ITT Industries, Inc. 100	10
L-3 Communications Holdings, Inc. 100	7
Lockheed Martin Corp. 540	34
Masco Corp. 500	15
• Navistar International Corp. 300	9
Northrop Grumman Corp. 428	26
Paccar, Inc. 187	13
Pall Corp. 100	3
Parker Hannifin Corp. 150	10
• Power-One, Inc. 226	1
Raytheon Co. 500	20
Rockwell Automation, Inc. 200	12
Rockwell Collins, Inc. 200	9
Textron, Inc. 150	12
• Thomas & Betts Corp. 80	3
Tyco International Ltd. 2,860	83
United Technologies Corp. 1,260	70
W.W. Grainger, Inc. 100	7
	1,292

Commercial Services & Supplies 0.4%

• ACCO Brands Corp. 41	1
• Allied Waste Industries, Inc. 400	3
• Apollo Group, Inc., Class A 200	12
Avery Dennison Corp. 150	8
Cendant Corp. 1,390	24
Cintas Corp. 182	7
Deluxe Corp. 100	3
Equifax, Inc. 375	14
H&R Block, Inc. 400	10
• Monster Worldwide, Inc. 95	4
• PHH Corp. 59	2
Pitney Bowes, Inc. 250	11
R.R. Donnelley & Sons Co. 300	10
Robert Half International, Inc. 200	8
Waste Management, Inc. 720	22
	139

Consumer Durables & Apparel 0.6%

Black & Decker Corp. 100	9
Brunswick Corp. 100	4
Centex Corp. 150	11
• Coach, Inc. 600	20
D.R. Horton, Inc. 330	12
Eastman Kodak Co. 300	7
Fortune Brands, Inc. 175	14
Hasbro, Inc. 200	4
Jones Apparel Group, Inc. 150	5

Security and Number of Shares	Value (\$ x 1,000)
KB Home 100	7
Leggett & Platt, Inc. 200	5
Lennar Corp., Class A 170	10
Liz Claiborne, Inc. 100	3
Mattel, Inc. 500	8
Maytag Corp. 300	6
Newell Rubbermaid, Inc. 300	7
Nike, Inc., Class B 300	26
Pulte Homes, Inc. 300	12
Reebok International Ltd. 100	6
Snap-On, Inc. 275	10
The Stanley Works 300	14
VF Corp. 100	5
Whirlpool Corp. 100	8
	213

Diversified Financials 3.4%

American Express Co. 1,610	83
Ameriprise Financial, Inc. 322	13
The Bank of New York Co., Inc. 1,100	35
The Bear Stearns Cos., Inc. 110	13
Capital One Financial Corp. 490	42
■ The Charles Schwab Corp. 1,575	23
CIT Group, Inc. 200	10
⑦ Citigroup, Inc. 6,722	326
• E*TRADE Financial Corp. 400	8
Federated Investors, Inc., Class B 100	4
Franklin Resources, Inc. 300	28
Goldman Sachs Group, Inc. 562	72
Janus Capital Group, Inc. 300	6
JPMorgan Chase & Co. 4,586	182
Lehman Brothers Holdings, Inc. 350	45
MBNA Corp. 1,687	46
Mellon Financial Corp. 525	18
Merrill Lynch & Co., Inc. 1,150	78
Moody's Corp. 350	21
Morgan Stanley 1,530	87
Northern Trust Corp. 450	23
Principal Financial Group, Inc. 581	28
SLM Corp. 550	30
State Street Corp. 400	22
T. Rowe Price Group, Inc. 150	11
	1,254

Energy 3.7%

Amerada Hess Corp. 100	13
Anadarko Petroleum Corp. 295	28
Apache Corp. 386	26
Baker Hughes, Inc. 431	26

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
BJ Services Co. 400	15	ConAgra Foods, Inc. 650	13
Burlington Resources, Inc. 700	60	• Constellation Brands, Inc., Class A 240	6
ChevronTexaco Corp. 2,915	165	General Mills, Inc. 450	22
ConocoPhillips 1,810	105	H.J. Heinz Co. 400	13
Devon Energy Corp. 580	36	Hershey Foods Corp. 300	17
El Paso Corp. 896	11	Kellogg Co. 500	22
EOG Resources, Inc. 264	19	McCormick & Co., Inc. 200	6
⑥ Exxon Mobil Corp. 8,290	466	Molson Coors Brewing Co., Class B 25	2
Halliburton Co. 610	38	The Pepsi Bottling Group, Inc. 312	9
Kerr-McGee Corp. 100	9	PepsiCo, Inc. 2,255	133
Kinder Morgan, Inc. 156	14	Reynolds American, Inc. 200	19
Marathon Oil Corp. 423	26	Sara Lee Corp. 900	17
Murphy Oil Corp. 300	16	Tyson Foods, Inc., Class A 400	7
• Nabors Industries Ltd. 175	13	UST, Inc. 200	8
• National-Oilwell Varco, Inc. 210	13	Wm. Wrigley Jr. Co. 250	17
Noble Corp. 200	14		726
Occidental Petroleum Corp. 465	37	Health Care Equipment & Services 2.2%	
• Rowan Cos., Inc. 100	4	Aetna, Inc. 400	38
Schlumberger Ltd. 700	68	AmerisourceBergen Corp. 300	12
Sunoco, Inc. 200	16	Bausch & Lomb, Inc. 100	7
• Transocean, Inc. 358	25	Baxter International, Inc. 725	27
Valero Energy Corp. 1,000	52	Becton Dickinson & Co. 300	18
• Weatherford International Ltd. 340	12	Biomet, Inc. 325	12
Williams Cos., Inc. 800	19	• Boston Scientific Corp. 988	24
XTO Energy, Inc. 400	18	C.R. Bard, Inc. 100	7
	1,364	Cardinal Health, Inc. 525	36
Food & Staples Retailing 1.0%		• Caremark Rx, Inc. 535	28
Albertson's, Inc. 400	8	CIGNA Corp. 175	20
Costco Wholesale Corp. 560	28	• Coventry Health Care, Inc. 300	17
CVS Corp. 980	26	• Express Scripts, Inc. 200	17
• Kroger Co. 900	17	• Fisher Scientific International, Inc. 100	6
Safeway, Inc. 500	12	Guidant Corp. 550	36
Supervalu, Inc. 175	6	HCA, Inc. 400	20
Sysco Corp. 700	22	Health Management Associates, Inc., Class A 300	7
Wal-Mart Stores, Inc. 4,030	188	• Hospira, Inc. 186	8
Walgreen Co. 1,375	61	• Humana, Inc. 200	11
Whole Foods Market, Inc. 100	8	IMS Health, Inc. 500	12
• Winn-Dixie Stores, Inc. 100	—	• Laboratory Corp. of America Holdings 200	11
	376	Manor Care, Inc. 100	4
Food Beverage & Tobacco 2.0%		McKesson Corp. 374	19
Altria Group, Inc. 2,740	205	• Medco Health Solutions, Inc. 337	19
Anheuser-Busch Cos., Inc. 975	42	Medtronic, Inc. 1,640	94
Archer-Daniels-Midland Co. 774	19	• Millipore Corp. 75	5
Brown-Forman Corp., Class B 150	10	• Patterson Cos., Inc. 100	3
Campbell Soup Co. 500	15	PerkinElmer, Inc. 118	3
The Coca-Cola Co. 2,825	114	Quest Diagnostics 278	14
Coca-Cola Enterprises, Inc. 550	10	• St. Jude Medical, Inc. 400	20

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
Stryker Corp. 464	21	Metlife, Inc. 915	45
• Tenet Healthcare Corp. 450	3	The Progressive Corp. 465	54
• Thermo Electron Corp. 175	5	Prudential Financial, Inc. 650	48
UnitedHealth Group, Inc. 1,720	107	Safeco Corp. 150	9
• Waters Corp. 350	13	The St. Paul Travelers Cos., Inc. 797	36
• WellPoint, Inc. 900	72	Torchmark Corp. 350	19
• Zimmer Holdings, Inc. 275	19	UnumProvident Corp. 323	7
	795	XL Capital Ltd., Class A 155	10
			714
Hotels Restaurants & Leisure 0.6%		Materials 1.2%	
Carnival Corp. 725	39	Air Products & Chemicals, Inc. 250	15
Darden Restaurants, Inc. 150	6	Alcoa, Inc. 1,000	30
Harrah's Entertainment, Inc. 220	16	Allegheny Technologies, Inc. 100	4
Hilton Hotels Corp. 400	9	Ashland, Inc. 100	6
International Game Technology 413	13	Ball Corp. 200	8
Marriott International, Inc., Class A 250	17	Bemis Co. 100	3
McDonald's Corp. 1,850	62	Chemtura Corp. 222	3
• Starbucks Corp. 940	28	The Dow Chemical Co. 1,321	58
Starwood Hotels & Resorts Worldwide, Inc. 260	16	E.I. du Pont de Nemours & Co. 1,169	50
Wendy's International, Inc. 140	8	Eastman Chemical Co. 100	5
Yum! Brands, Inc. 320	15	Ecolab, Inc. 275	10
	229	Engelhard Corp. 160	5
		Freeport-McMoran Copper & Gold, Inc., Class B 200	11
Household & Personal Products 1.0%		• Hercules, Inc. 100	1
Alberto-Culver Co., Class B 150	7	International Flavors & Fragrances, Inc. 100	3
Avon Products, Inc. 540	15	International Paper Co. 570	19
Clorox Co. 250	14	Louisiana-Pacific Corp. 100	3
Colgate-Palmolive Co. 650	36	MeadWestvaco Corp. 197	5
Kimberly-Clark Corp. 600	36	Monsanto Co. 314	24
• Procter & Gamble Co. 4,610	267	Neenah Paper, Inc. 18	—
	375	Newmont Mining Corp. 500	27
		Nucor Corp. 400	27
Insurance 1.9%		• Pactiv Corp. 200	4
ACE Ltd. 340	18	Phelps Dodge Corp. 100	14
AFLAC, Inc. 600	28	PPG Industries, Inc. 200	12
The Allstate Corp. 840	45	Praxair, Inc. 400	21
AMBAC Financial Group, Inc. 123	10	Rohm & Haas Co. 300	14
American International Group, Inc. 3,406	232	• Sealed Air Corp. 103	6
AON Corp. 325	12	Sigma-Aldrich Corp. 100	6
Chubb Corp. 240	23	Temple-Inland, Inc. 100	4
Cincinnati Financial Corp. 220	10	United States Steel Corp. 100	5
Genworth Financial, Inc., Class A 300	10	Vulcan Materials Co. 100	7
Hartford Financial Services Group, Inc. 340	29	Weyerhaeuser Co. 250	17
Jefferson-Pilot Corp. 175	10	Worthington Industries, Inc. 100	2
Lincoln National Corp. 200	11		429
Loews Corp. 200	19		
Marsh & McLennan Cos., Inc. 625	20		
MBIA, Inc. 150	9		

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

Media 1.4%

Clear Channel Communications, Inc.	729	23
• Comcast Corp., Class A	2,876	75
Dow Jones & Co., Inc.	100	4
The E.W. Scripps Co., Class A	100	5
Gannett Co., Inc.	325	20
Interpublic Group of Cos., Inc.	500	5
Knight-Ridder, Inc.	100	6
The McGraw-Hill Cos., Inc.	450	23
Meredith Corp.	50	3
New York Times Co., Class A	200	5
News Corp, Inc., Class A	3,470	54
Omnicom Group, Inc.	220	19
Time Warner, Inc.	6,100	106
Tribune Co.	400	12
• Univision Communications, Inc., Class A	354	10
• Viacom, Inc., Class B	1,992	65
The Walt Disney Co.	2,630	63
		498

Pharmaceuticals & Biotechnology 3.2%

Abbott Laboratories	2,060	81
Allergan, Inc.	150	16
• Amgen, Inc.	1,670	132
Applied Biosystems Group — Applera Corp.	200	5
• Biogen Idec, Inc.	380	17
Bristol-Myers Squibb Co.	2,600	60
• Chiron Corp.	200	9
Eli Lilly & Co.	1,520	86
• Forest Laboratories, Inc.	450	18
• Genzyme Corp.	450	32
• Gilead Sciences, Inc.	650	34
Johnson & Johnson	3,836	231
• King Pharmaceuticals, Inc.	233	4
• Medimmune, Inc.	300	10
Merck & Co., Inc.	2,850	91
Mylan Laboratories, Inc.	300	6
Pfizer, Inc.	9,659	225
Schering-Plough Corp.	1,900	40
• Watson Pharmaceuticals, Inc.	100	3
Wyeth	1,800	83
		1,183

Real Estate 0.3%

Apartment Investment & Management Co., Class A	100	4
Archstone-Smith Trust	200	8
Equity Office Properties Trust	500	15

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

Equity Residential	300	12
Plum Creek Timber Co., Inc.	200	7
ProLogis	400	19
Public Storage, Inc.	200	14
Simon Property Group, Inc.	240	18
Vornado Realty Trust	200	17
		114

Retailing 1.5%

• Amazon.com, Inc.	200	9
• Autonation, Inc.	300	7
• AutoZone, Inc.	100	9
• Bed, Bath & Beyond, Inc.	350	13
Best Buy Co., Inc.	585	25
• Big Lots, Inc.	88	1
Circuit City Stores, Inc.	200	5
Dillard's, Inc., Class A	100	2
Dollar General Corp.	395	8
• eBay, Inc.	1,468	63
Family Dollar Stores, Inc.	200	5
Federated Department Stores, Inc.	309	21
The Gap, Inc.	1,037	18
Genuine Parts Co.	200	9
Home Depot, Inc.	2,800	113
J.C. Penney Co., Inc. Holding Co.	300	17
• Kohl's Corp.	400	19
Limited Brands, Inc.	521	12
Lowe's Cos., Inc.	940	63
Nordstrom, Inc.	400	15
• Office Depot, Inc.	325	10
OfficeMax, Inc.	75	2
RadioShack Corp.	200	4
• Sears Holdings Corp.	94	11
The Sherwin-Williams Co.	175	8
Staples, Inc.	900	20
Target Corp.	1,090	60
Tiffany & Co.	150	6
TJX Cos., Inc.	600	14
		569

Semiconductors & Semiconductor Equipment 1.3%

• Advanced Micro Devices, Inc.	400	12
• Altera Corp.	464	9
Analog Devices, Inc.	450	16
Applied Materials, Inc.	2,200	39
• Applied Micro Circuits Corp.	221	1
• Broadcom Corp., Class A	355	17
• Freescale Semiconductor, Inc., Class B	600	15
Intel Corp.	8,035	201

Portfolio Holdings continued

Security and Number of Shares	Value (\$ x 1,000)	Security and Number of Shares	Value (\$ x 1,000)
KLA-Tencor Corp. 240	12	• Apple Computer, Inc. 1,000	72
Linear Technology Corp. 600	22	• Avaya, Inc. 513	5
• LSI Logic Corp. 600	5	• CIENA Corp. 800	2
Maxim Integrated Products, Inc. 400	15	• Cisco Systems, Inc. 8,225	141
• Micron Technology, Inc. 850	11	• Comverse Technology, Inc. 200	5
National Semiconductor Corp. 400	10	• Corning, Inc. 1,950	38
• Novellus Systems, Inc. 175	4	• Dell, Inc. 3,125	94
• Nvidia Corp. 200	7	• EMC Corp. 3,150	43
• PMC – Sierra, Inc. 400	3	• Gateway, Inc. 200	1
• Teradyne, Inc. 200	3	Hewlett-Packard Co. 3,962	113
Texas Instruments, Inc. 2,050	66	International Business Machines Corp. 2,140	176
Xilinx, Inc. 375	9	• Jabil Circuit, Inc. 208	8
	477	• JDS Uniphase Corp. 2,154	5
Software & Services 2.0%		• Lexmark International, Inc., Class A 150	7
Adobe Systems, Inc. 500	19	• Lucent Technologies, Inc. 5,855	16
• Affiliated Computer Services, Inc., Class A 203	12	Molex, Inc. 225	6
Autodesk, Inc. 400	17	Motorola, Inc. 3,251	73
Automatic Data Processing, Inc. 700	32	• NCR Corp. 200	7
• BMC Software, Inc. 200	4	• Network Appliance, Inc. 400	11
• Citrix Systems, Inc. 175	5	• QLogic Corp. 313	10
Computer Associates International, Inc. 700	20	Qualcomm, Inc. 2,100	90
• Computer Sciences Corp. 200	10	• Sanmina – SCI Corp. 700	3
• Compuware Corp. 600	5	Scientific-Atlanta, Inc. 175	8
• Convergys Corp. 137	2	• Solectron Corp. 1,300	5
• Electronic Arts, Inc. 354	19	• Sun Microsystems, Inc. 4,475	19
Electronic Data Systems Corp. 750	18	Symbol Technologies, Inc. 298	4
First Data Corp. 1,032	44	Tektronix, Inc. 100	3
• Fiserv, Inc. 225	10	• Tellabs, Inc. 500	5
• Intuit, Inc. 244	13	• Xerox Corp. 1,300	19
• Mercury Interactive Corp. 100	3		1,012
⑧ Microsoft Corp. 12,105	317	Telecommunication Services 1.2%	
• Novell, Inc. 600	5	Alltel Corp. 600	38
• Oracle Corp. 5,330	65	AT&T, Inc. 5,140	126
• Parametric Technology Corp. 400	3	BellSouth Corp. 2,380	64
Paychex, Inc. 425	16	CenturyTel, Inc. 150	5
Sabre Holdings Corp., Class A 372	9	Citizens Communications Co. 358	4
Siebel Systems, Inc. 600	6	• Qwest Communications International, Inc. 2,227	13
• Symantec Corp. 1,562	27	Sprint Corp. (FON Group) 3,778	88
• Unisys Corp. 350	2	Verizon Communications, Inc. 3,613	109
• Yahoo! Inc. 1,580	62		447
	745	Transportation 0.7%	
Technology Hardware & Equipment 2.8%		Burlington Northern Santa Fe Corp. 400	28
• ADC Telecommunications, Inc. 100	2	CSX Corp. 225	11
• Agilent Technologies, Inc. 566	19	Delta Air Lines, Inc. 100	–
• Andrew Corp. 200	2	FedEx Corp. 350	36
		Norfolk Southern Corp. 480	22

Security and Number of Shares	Value (\$ x 1,000)
Ryder Systems, Inc. 75	3
Southwest Airlines Co. 900	15
Union Pacific Corp. 295	24
United Parcel Service, Inc., Class B 1,547	116
	255

Utilities 1.4%

• The AES Corp. 850	13
• Allegheny Energy, Inc. 278	9
Ameren Corp. 200	10
American Electric Power Co., Inc. 460	17
Centerpoint Energy, Inc. 600	8
Cinergy Corp. 200	8
• CMS Energy Corp. 500	7
Consolidated Edison, Inc. 300	14
Constellation Energy Group, Inc. 200	12
Dominion Resources, Inc. 396	31
DTE Energy Co. 200	9
Duke Energy Corp. 1,250	34
• Dynegy, Inc., Class A 500	2
Edison International 400	17
Entergy Corp. 250	17
Exelon Corp. 974	52
FirstEnergy Corp. 391	19
FPL Group, Inc. 600	25
KeySpan Corp. 200	7
Nicor, Inc. 250	10
NiSource, Inc. 557	12
Peoples Energy Corp. 50	2
PG&E Corp. 500	19
Pinnacle West Capital Corp. 100	4
PPL Corp. 400	12
Progress Energy, Inc. 277	12
Public Service Enterprise Group, Inc. 300	19
Sempra Energy 285	13
The Southern Co. 875	30
TECO Energy, Inc. 450	8
TXU Corp. 700	35
Xcel Energy, Inc. 505	9
	496

Security and Number of Shares	Value (\$ x 1,000)
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Other Investment Companies
 58.8% of net assets

■ 1 Schwab International Index Fund, Select Shares 423,210	7,525
■ 2 Schwab Small-Cap Index Fund, Select Shares 317,040	7,270
■ 3 Schwab Total Bond Market Fund 565,394	5,592
■ 4 Schwab Value Advantage Money Fund, Select Shares 1,233,253	1,233
	21,620

Security Rate, Maturity Date	Face Amount (\$ x 1,000)
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Short-Term Investment
 1.0% of net assets

Bank of America, London Time Deposit 3.40%, 01/03/05	369	369
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End of investments.

Statement of

Assets and Liabilities

As of December 31, 2005. All numbers x 1,000 except NAV.

Assets

Investments in affiliated underlying funds, at value	\$21,620
Investments, at value	15,236
Receivables:	
Fund shares sold	31
Interest	2
Dividends	47
Investments sold	2
Total assets	36,938

Liabilities

Payables:	
Fund shares redeemed	97
Investments bought	65
Accrued expenses	27
Total liabilities	189

Net Assets

Total assets	36,938
Total liabilities	189
Net assets	\$36,749

Net Assets by Source

Capital received from investors	30,574
Net investment income not yet distributed	576
Net realized capital losses	(877)
Net unrealized capital gains	6,476

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$36,749		2,366		\$15.53

Unless stated, all numbers x 1,000.

The fund paid \$30,380 for these securities.

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

Purchases	\$3,407
Sales/maturities	\$1,576

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	0.9%
International Index Fund	0.9%

Schwab Bond Funds

Total Bond Market Fund	0.5%
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Schwab Money Funds

Value Advantage Money Fund	0.1%
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Federal Tax Data

Portfolio cost	\$30,661
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Net unrealized gains and losses:

Gains	\$7,910
Losses	(1,715)
	\$6,195

Net undistributed earnings:

Ordinary income	\$576
Long-term capital gains	\$—

Unused capital losses:

Expires 12/31 of:	Loss amount
2010	\$293
2011	200
2012	103
	\$596

Capital losses utilized	\$54
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Reclassifications:

Capital received from investors	\$2
Reclassified as:	
Net realized capital losses	(\$2)

Statement of

Operations

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

Unless stated, all numbers x 1,000.

Investment Income

Dividends received from affiliated underlying funds	\$468
Dividends	252
Interest	+ 23
Total investment income	743

Net Realized Gains and Losses

Net realized losses on sales of affiliated funds	(20)
Net realized gains received from affiliated underlying funds	47
Net realized gains on investments	+ 129
Net realized gains	156

Net Unrealized Gains and Losses

Net unrealized gains on affiliated funds	986
Net unrealized gains on investments	+ 269
Net unrealized gains	1,255

Expenses

Investment adviser and administrator fees	152
Trustees' fees	14
Custodian fees	8
Portfolio accounting fees	5
Professional fees	31
Shareholder reports	22
Other expenses	+ 4
Total expenses	236
Expense reduction	- 69
Net expenses	167

Increase in Net Assets From Operations

Total investment income	743
Net expenses	- 167
Net investment income	576
Net realized gains	156
Net unrealized gains	+ 1,255
Increase in net assets from operations	\$1,987

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 net 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 gain on investments of \$1,411.

Statements of

Changes in Net Assets

For the current and prior report periods. All numbers x 1,000.

Operations

	1/1/05-12/31/05	1/1/04-12/31/04
Net investment income	\$576	\$467
Net realized gains	156	78
Net unrealized gains	+ 1,255	2,883
Increase in net assets from operations	1,987	3,428

Distributions Paid

Dividends from net investment income	\$466	\$394
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Transactions in Fund Shares

	1/1/05-12/31/05		1/1/04-12/31/04	
	SHARES	VALUE	SHARES	VALUE
Shares sold	339	\$5,081	319	\$4,455
Shares reinvested	29	466	27	394
Shares redeemed	+ (278)	(4,162)	(288)	(3,967)
Net transactions in fund shares	90	\$1,385	58	\$882

Shares Outstanding and Net Assets

	1/1/05-12/31/05		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	+ 90	2,906	58	3,916
End of period	2,366	\$36,749	2,276	\$33,843

Unless stated, all numbers x 1,000.

Unaudited

For corporations, 51% of the fund's dividends for the report period qualify for the dividends received deductions.

The fund designates \$393 of the dividend distribution for the fiscal year ended 12/31/05 as qualified dividends for the purpose of the maximum rate under Section 1 (h) (ii) of the Internal Revenue Code.

The tax-basis components of distributions paid are:

Current Period

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

Prior Period

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 \$576 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 ("due to/from broker").

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.

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

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 an index which, the fund uses as part of an indexing strategy.

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 Investment Company Act of 1940.
- **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.

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders of:

Schwab MarketTrack Growth Portfolio II

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab MarketTrack Growth Portfolio II (one of the portfolios constituting Schwab Annuity Portfolios, hereafter referred to as the “Fund”) at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2006

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.

Independent Trustees

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001:</i> Special Advisor to the President, Stanford University. <i>From 1996-2001:</i> Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. ²

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 This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Donald F. Dorward 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
William A. Hasler 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Aphton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Aphton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. ³ Non-Executive Chairman, Soletron Corporation (manufacturing).
Robert G. Holmes 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
Donald R. Stephens 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
Michael W. Wilsey 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ⁴ 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
Randall W. Merk ⁴ 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment 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 Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Kimon Daifotis 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
Randall Fillmore 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
Koji E. Felton 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
George Pereira 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.

charles SCHWAB

Money Market

**Schwab Money
Market Portfolio™**

Money Market

Annual report for the year ended December 31, 2005

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 year ended December 31, 2005



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

The Investment Environment and the Fund

Despite having witnessed a turbulent year in the news, the markets remained in a steady growth mode and ended the one-year report period with positive results. Oil prices hit highs never seen before and the Federal Reserve continued to raise short-term interest rates to curb inflationary pressures, raising the rates eight consecutive times in the one-year report period and bringing the benchmark rate up to 4.25%. The moves had a limited impact on overall economic growth, due primarily to the low level of rates from which the increases began.

Regardless of the concerns of high energy prices, which remained a significant headwind for economic performance throughout the period, corporate earnings remained strong throughout the year. Additionally, with the unemployment rate hovering around 5% and GDP growth around 3.5%, job and income growth remained positive and investors remained optimistic. Productivity gains and more restrictive monetary policy kept a lid on core inflation. The productivity gains, coupled with foreign investors buying large amounts of U.S. government securities, helped to contain increases in long-term interest rates. These conditions caused the dollar to rally, which took pressure off the price of imported goods.

The big news for the past two quarters was the impact of Hurricanes Katrina and Rita. The devastation caused by these storms was particularly heavy with respect to the energy infrastructures in the South. Oil prices rose sharply in the aftermath of the hurricanes, with crude oil peaking above \$71 per barrel in early September, although softening oil demand and quick action by the federal government to release Strategic Petroleum Reserves led to a subsequent decline off that peak. During the fourth quarter, oil had dropped to as low as \$58 a barrel, but then rebounded back to \$64 as of the end of the period. While the full economic effect of the hurricanes remains unknown, the damage appears to be limited to the regions in the hurricanes' path and to the energy infrastructures in those areas.

Another significant event that happened during the report period was the appointment of Ben Bernanke to succeed Alan Greenspan as Chairman of the Federal Reserve Board. Although he had not yet been confirmed into office as of the end of the report period, Bernanke's experience on the Federal Open Market Committee and his expertise in monetary economics has eased the concerns of the markets and caused investors to expect a smooth transition.

As noted above, the Fed continued in its tightening cycle throughout the year, raising short-term interest rates 0.25% at each of its eight meetings. At the end of the one-year report period, the benchmark rate was up to 4.25%. Over the course of the 2005, as the Fed continued raising its benchmark rate, the yield curve continued to flatten and briefly inverted towards the end of the December. Nonetheless, the higher rates succeeded in moving money fund yields higher, making them a more attractive investment vehicle.

In this market environment, our strategy was to position the Schwab Money Market Portfolio for a continued rise in interest rates. To take advantage of the rising-rate environment, we maintained our weighted average maturity (WAM) relatively short, at around 30 days. Keeping the WAM short provided flexibility to adapt and respond to the changes in interest rates. This is a similar strategy to 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 12/31/05

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	3.83%	Weighted Average Maturity	33 days
Seven-Day Effective Yield	3.90%	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 (unaudited)

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 July 1, 2005 and held through December 31, 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 7/1/05	Ending Account Value (Net of Expenses) at 12/31/05	Expenses Paid During Period ² 7/1/05–12/31/05
Schwab Money Market Portfolio				
Actual Return	0.46%	\$1,000	\$1,016.40	\$2.34
Hypothetical 5% Return	0.46%	\$1,000	\$1,022.89	\$2.35

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 184 days of the period, and divided by 365 days of the fiscal year.

Schwab Money Market Portfolio

Financial Statements

Financial Highlights

	1/1/05– 12/31/05	1/1/04– 12/31/04	1/1/03– 12/31/03	1/1/02– 12/31/02	1/1/01– 12/31/01
Per-share data (\$)					
Net asset value at beginning of period	1.00	1.00	1.00	1.00	1.00
Income from investment operations:					
Net investment income	0.03	0.01	0.01	0.01	0.04
Less distributions:					
Dividends from net investment income	(0.03)	(0.01)	(0.01)	(0.01)	(0.04)
Net asset value at end of period	1.00	1.00	1.00	1.00	1.00
Total return (%)	2.75	0.90	0.74	1.31	3.72
Ratios/supplemental data (%)					
Ratios to average net assets:					
Net operating expenses	0.47	0.46	0.44	0.48	0.49
Gross operating expenses	0.47	0.46	0.44	0.48	0.50
Net investment income	2.74	0.89	0.75	1.31	3.55
Net assets, end of period (\$ x 1,000,000)	133	116	141	215	204

Portfolio Holdings as of December 31, 2005

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.

We use the symbols below to designate certain characteristics of the securities.

- ◆ Asset-backed security
- ✚ Credit-enhanced security
- Illiquid and/or restricted security

For fixed-rate obligations, the rate shown is the effective yield at the time of purchase, except 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.

Holdings by Category	Cost (\$x1,000)	Value (\$x1,000)
84.5% U.S. Government Securities	112,467	112,467
13.4% Other Investments	17,796	17,796
97.9% Total Investments	130,263	130,263
2.1% Other Assets and Liabilities		2,783
100.0% Net Assets		133,046

Issuer Rate, Maturity Date	Face Amount (\$ x 1,000)	Value (\$ x 1,000)
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U.S. Government Securities 84.5% of net assets**Discount Notes** 84.5%**Fannie Mae**

4.23%, 01/03/06	1,700	1,700
4.22%, 01/11/06	1,105	1,104
4.11%, 01/18/06	1,000	998
4.22%, 01/23/06	2,000	1,995
4.27%, 01/27/06	3,000	2,991
4.24%, 02/01/06	5,000	4,982
4.25%, 02/10/06	2,600	2,588
4.29%, 02/15/06	3,434	3,416
4.30%, 02/22/06	4,000	3,975
4.31%, 02/22/06	2,000	1,988

Federal Farm Credit Bank

4.06%, 01/13/06	1,000	999
4.23%, 02/08/06	3,300	3,285
4.32%, 03/14/06	4,000	3,966
4.36%, 03/14/06	1,450	1,437

Federal Home Loan Bank

4.19%, 01/04/06	5,000	4,998
4.21%, 01/13/06	1,000	999
4.22%, 01/20/06	2,100	2,095
4.22%, 01/27/06	2,708	2,700
4.26%, 02/10/06	3,000	2,986
4.28%, 02/10/06	2,000	1,991
4.26%, 02/24/06	1,000	994
4.28%, 02/24/06	2,000	1,987
4.34%, 03/08/06	3,000	2,976
4.51%, 06/02/06	1,000	981

Freddie Mac

3.95%, 01/10/06	2,900	2,897
4.03%, 01/10/06	2,749	2,746
4.24%, 01/30/06	4,000	3,986
4.24%, 01/31/06	4,000	3,986
4.27%, 02/07/06	1,585	1,578
4.25%, 02/14/06	3,000	2,985
4.26%, 02/14/06	2,000	1,990
4.29%, 02/14/06	1,529	1,521
4.29%, 02/16/06	2,085	2,074
4.34%, 03/07/06	5,000	4,961

Tennessee Valley Authority

4.09%, 01/19/06	11,700	11,676
4.22%, 02/09/06	14,000	13,936

112,467

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

Other Investments	13.4% of net assets
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Repurchase Agreements 13.4%

Credit Suisse First Boston L.L.C.		
Tri-Party Repurchase Agreement		
Collateralized by U.S. Treasury		
Securities with a value of \$18,689		
3.45%, issued 12/30/05		
due 01/03/06	17,803	17,796

End of investments.

Statement of

Assets and Liabilities

As of December 31, 2005. All numbers x 1,000 except NAV.

Assets

Investments, at value	\$112,467
Repurchase agreements, at value	17,796
Receivables:	
Interest	7
Fund shares sold	3,300
Prepaid expenses	+ 5
Total assets	133,575

Liabilities

Payables:	
Fund shares redeemed	476
Investment advisory and administration fees	4
Trustees' fees	6
Accrued expenses	+ 43
Total liabilities	529

Net Assets

Total assets	133,575
Total liabilities	- 529
Net assets	\$133,046

Net Assets by Source

Capital received from investors	133,059
Net realized capital losses	(13)

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$133,046		133,093		\$1.00

Unless stated, all numbers x 1,000.

The amortized cost for the fund's securities was \$130,263.

Federal Tax Data

Cost basis of portfolio \$130,263

Unused capital losses:

Expires 12/31 of:	Loss amount:
2006	3
2007	9
2008	+ 1
	\$13

Reclassifications:

Net realized capital losses	\$1
Reclassified as:	
Capital received from investors	(\$1)

Statement of

Operations

For January 1, 2005 through December 31, 2005. All numbers x 1,000.

Investment Income

Interest	\$4,008
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Expenses

Investment adviser and administrator fees	474
Trustees' fees	24
Custodian and portfolio accounting fees	20
Professional fees	33
Shareholder reports	34
Other expenses	+
Total expenses	591

Increase in Net Assets from Operations

Total investment income	4,008
Total expenses	– 591
Net investment income	<u>3,417</u>
Increase in net assets from operations	\$3,417

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.

Operations

	1/1/05–12/31/05	1/1/04–12/31/04
Net investment income	\$3,417	\$1,169
Increase in net assets from operations	3,417	1,169

Distributions Paid

Dividends from net investment income	3,417	1,169
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Transactions in Fund Shares

Shares sold	150,665	115,803
Shares reinvested	3,417	1,169
Shares redeemed	+ (137,096)	(141,823)
Net transactions in fund shares	16,986	(24,851)

Net Assets

Beginning of period	116,060	140,911
Total increase or decrease	+ 16,986	(24,851)
End of period	\$133,046	\$116,060

Unless stated, all numbers x 1,000.

The tax-basis components of distributions for the period ended 12/31/05 are:

Current year

Ordinary income	\$ 3,417
Long-term capital gains	\$ —

Prior year

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

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 the insurance company separate accounts 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 using the effective interest rate method. 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.

Report of independent registered public accounting firm

To the Board of Trustees and Shareholders of:

Schwab Money Market Portfolio

In our opinion, the accompanying statement of assets and liabilities, including the portfolio holdings, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Schwab Money Market Portfolio (one of the portfolios constituting Schwab Annuity Portfolios, hereafter referred to as the “Fund”) at December 31, 2005, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2005 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 14, 2006

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.

Independent Trustees

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Mariann Byerwalter 1960	2000 (all trusts).	Chairman, JDN Corp. Advisory LLC (real estate). <i>Until 2001</i> : Special Advisor to the President, Stanford University. <i>From 1996-2001</i> : Vice President of Business Affairs, Chief Financial Officer, Stanford University. Ms. Byerwalter is on the Boards of Stanford University, America First Cos. (venture capital/fund management), Redwood Trust, Inc. (mortgage finance), Stanford Hospitals and Clinics, SRI International (research), PMI Group, Inc. (mortgage insurance), Lucile Packard Children's Hospital, Pacific Life Insurance Company (insurance), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. ²

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 This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

Independent Trustees continued

Name and Year of Birth	Trustee Since	Main Occupations and Other Directorships and Affiliations
Donald F. Dorward 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chief Executive Officer, Dorward & Associates (corporate management, marketing and communications consulting). <i>Until 1999</i> : Executive Vice President, Managing Director, Grey Advertising. <i>Until 1996</i> : President, Chief Executive Officer, Allen & Dorward Advertising.
William A. Hasler 1941	2000 (all trusts).	Dean Emeritus of the Haas School of Business, University of California, Berkeley. <i>Until 2/04</i> , Co-Chief Executive Officer, Apton Corporation (bio-pharmaceuticals). <i>Prior to 8/98</i> , Dean of the Haas School of Business, University of California, Berkeley (higher education). Mr. Hasler is on the Boards of Apton Corporation (bio-pharmaceuticals), Mission West Properties (commercial real estate), Stratex Networks (network equipment), TOUSA (home building), Genitope Corp. (bio-pharmaceuticals), Laudus Trust and Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex. ³ Non-Executive Chairman, Solelectron Corporation (manufacturing).
Robert G. Holmes 1931	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Director, Semloh Financial, Inc. (international financial services and investment advisory firm).
Gerald B. Smith 1950	2000 (all trusts).	<i>Since 1990</i> , Chairman and Chief Executive Officer and founder of Smith Graham & Co. (investment advisors). Mr. Smith is on the Board of Cooper Industries (electrical products, tools and hardware); Chairman, Texas Southern University Foundation; Executive Committee and Board Member, MD Anderson Cancer Center; Chairman of the audit committee of Northern Border Partners, M.L.P. (energy).
Donald R. Stephens 1938	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Managing Partner, D.R. Stephens & Co. (investments). <i>Until 1996</i> : Chairman, Chief Executive Officer, North American Trust (real estate investment trust).
Michael W. Wilsey 1943	Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer, Wilsey Bennett, Inc. (real estate investment and management, and other investments).

³ This includes 10 series of the Laudus Trust and the sole series of the Laudus Variable Insurance Trust, both of which are managed by CSIM or its affiliates and are included in the Schwab mutual fund complex.

Interested Trustees

Name and Year of Birth	Trust Position(s); Trustee Since	Main Occupations and Other Directorships and Affiliations
Charles R. Schwab ⁴ 1937	Chairman, Trustee: Family of Funds, 1989; Investments, 1991; Capital Trust, 1993; Annuity Portfolios, 1994.	Chairman, Chief Executive Officer and Director, The Charles Schwab Corporation, Charles Schwab & Co., Inc.; Chairman and Director, Charles Schwab Investment Management, Inc., Charles Schwab Bank, N.A.; Chairman and Chief Executive Officer, Schwab (SIS) Holdings Inc. I, Schwab International Holdings, Inc.; Chief Executive Officer and Director, Schwab Holdings, Inc.; Director, U.S. Trust Company, N.A., U.S. Trust Corporation, United States Trust Company of New York. <i>Until 5/03</i> , Co-Chief Executive Officer, The Charles Schwab Corporation. Trustee, Charles and Helen Schwab Foundation; Chairman, All Kinds of Minds Institute (education), Trustee, Stanford University; Chairman and Director, Charles Schwab Foundation; Chairman of the Finance Committee, San Francisco Museum of Modern Art.
Randall W. Merk ⁴ 1954	Trustee, 2005 (all trusts).	Executive Vice President and President, Asset Management Products & Services, Charles Schwab & Co., Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 9/02 to 7/04</i> , President and Chief Executive Officer, Charles Schwab Investment Management, Inc. and Executive Vice President, Charles Schwab & Co., Inc. <i>Prior to 9/02</i> , President and Chief Investment Officer, American Century Investment 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 Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Evelyn Dilsaver 1955	President, Chief Executive Officer (all trusts).	Executive Vice President, President, Director, Charles Schwab Investment Management, Inc. Vice President, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 7/04</i> : Senior Vice President, Asset Management Products & Services Enterprise. <i>Until 6/03</i> : Executive Vice President, Chief Financial Officer, Chief Administrative Officer, U.S. Trust.
Stephen B. Ward 1955	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Director, Charles Schwab Investment Management, Inc.; Chief Investment Officer, The Charles Schwab Trust Co.

⁴ In addition to their positions with the investment adviser and the distributor, Messrs. Schwab and Merk also own stock of the Charles Schwab Corporation.

Officers of the Trust continued

Name and Year of Birth	Trust Office(s) Held	Main Occupations and Other Directorships and Affiliations
Kimon Daifotis 1959	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President and Chief Investment Officer, Fixed Income, Charles Schwab Investment Management, Inc. <i>Until 6/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
Jeffrey Mortimer 1963	Senior Vice President, Chief Investment Officer (all trusts).	Senior Vice President, Chief Investment Officer, Equities, Charles Schwab Investment Management, Inc.; Vice President, Chief Investment Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 5/04</i> : Vice President and Senior Portfolio Manager, Charles Schwab Investment Management, Inc.
Randall Fillmore 1960	Chief Compliance Officer (all trusts).	Senior Vice President, Institutional Compliance and Chief Compliance Officer, Charles Schwab Investment Management, Inc.; Chief Compliance Officer, Laudus Trust and Laudus Variable Insurance Trust. <i>Until 9/03</i> : Vice President, Charles Schwab & Co., Inc. and Charles Schwab Investment Management, Inc. <i>Until 2002</i> : Vice President, Internal Audit, Charles Schwab & Co., Inc.
Koji E. Felton 1961	Secretary (all trusts).	Senior Vice President, Chief Counsel and Corporate Secretary, Charles Schwab Investment Management, Inc.; Senior Vice President and Deputy General Counsel, Charles Schwab & Co., Inc. <i>Prior to 6/98</i> , Branch Chief in Enforcement at U.S. Securities and Exchange Commission in San Francisco.
George Pereira 1964	Treasurer, Principal Financial Officer (all trusts).	Senior Vice President and Chief Financial Officer, Charles Schwab Investment Management, Inc.; Director, Charles Schwab Asset Management (Ireland) Limited. <i>From 12/99 to 11/04</i> , Senior Vice President, Financial Reporting, Charles Schwab & Co., Inc.