



INVESTMENT
MANAGEMENT

Schwab Government Money Market Portfolio™

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 the Schwab Fund's website at www.schwabfunds.com/schwabfunds_prospectus, the SEC's website at www.sec.gov, or by contacting Schwab Funds at 1-877-824-5615.

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.schwabfunds.com/schwabfunds_prospectus or the SEC's website at www.sec.gov.

Investment Adviser: Charles Schwab Investment Management, Inc. (CSIM)

The Investment Environment

Over the 12-month reporting period ended December 31, 2017, yields on taxable money market funds rose amid three short-term interest rate increases from the Federal Reserve (Fed).

During the year, the Fed continued to take steps toward a more normalized monetary policy environment as global economic growth strengthened. Even with low levels of inflation, the Fed raised short-term interest rates in March, June, and December, each time by 0.25%, with the federal funds rate ending the reporting period in a range of 1.25% to 1.50%. The March increase was largely unexpected by the markets until about two weeks prior, while the remaining two interest rate hikes of the year were generally anticipated. Additionally, the Fed announced plans in June to begin reducing the size of its approximately \$4.5 trillion balance sheet in late 2017 by allowing securities to mature without reinvesting the proceeds. This process began in October, and as expected, proved to be uneventful in the final months of the year. Both the short-term rate increases and the balance sheet unwinding signaled the Fed's continued confidence in the U.S. and overall global economy.

Outside the U.S., monetary policies remained relatively accommodative amid low inflation, though some central banks did take steps toward tighter policies. The European Central Bank left interest rates unchanged and announced that while it would begin to slow the pace of its bond purchases, it would continue the bond buying program through September 2018. The Bank of England raised its benchmark rate for the first time in 10 years to 0.50% in early November, with expectations for only two additional increases by the end of 2020. Meanwhile, the Bank of Japan maintained negative interest rates and continued to use yield curve management as a policy tool.

During the 12-month reporting period, the U.S. yield curve generally flattened. Short-term yields, which are directly influenced by central bank policy, rose in response to the federal funds rate increases in March, June, and December. Longer-term yields, by comparison, are driven more by economic growth and inflation expectations. Despite steady economic growth over 2017, inflation remained muted and longer-term yields were generally range bound. Meanwhile, the yields on many international government-backed securities generally increased but remained lower than those in the U.S., further increasing the appeal of U.S. Treasuries.

Portfolio Management



Linda Klingman, Vice President and Head of Taxable Money Market Strategies, leads the portfolio management team of Schwab's prime and government taxable money funds. Ms. Klingman also has overall responsibility for all aspects of the management of the fund. Prior to joining CSIM in 1990, Ms. Klingman was a senior money market trader with AIM Management. She has managed money market funds since 1988.



Lynn Paschen, Senior Portfolio Manager, is responsible for the day-to-day co-management of the fund. Prior to joining CSIM in 2011, Ms. Paschen held a number of positions at American Century Investments. She most recently was a portfolio manager and, from 2000 to 2003, worked as a fixed income trader. She has managed money market funds since 2003.



Nicole Perret-Gentil, Portfolio Manager, is responsible for the day-to-day co-management of the fund. Prior to joining CSIM in 2016, Ms. Perret-Gentil worked at Freddie Mac for 15 years, most recently as a Senior Portfolio Manager where she managed and executed trades for a fixed income strategy. Prior to that role, she served as a Portfolio Manager performing fixed income analysis, a Senior Research Analyst for investor and dealer relations, a Senior Securities Operations Analyst in loan and securities operations, and a Lead Mortgage Securities Operations Specialist. She also worked at Merrill Lynch for a year as a Senior Specialist in fixed income global banking and investments.

Schwab Government Money Market Portfolio as of December 31, 2017

The Schwab Government Money Market Portfolio (the fund) seeks the highest current income consistent with stability of capital and liquidity. To pursue its goal, the fund invests in U.S. government securities such as U.S. Treasury bills and notes, other obligations that are issued by the U.S. government, its agencies or instrumentalities, repurchase agreements, and obligations that are issued by private issuers that are guaranteed as to principal or interest by the U.S. government, its agencies or instrumentalities. The fund will invest at least 99.5% of its total assets in cash, U.S. government securities and/or repurchase agreements that are collateralized fully by cash and/or U.S. government securities; under normal circumstances, investing at least 80% of the fund's net assets solely (plus the amount of any borrowing for investment purposes) in U.S. government securities including repurchase agreements that are collateralized fully by U.S. government securities (excluding cash). For more information concerning the fund's investment objective, strategy, and risks, please see the fund's prospectus.

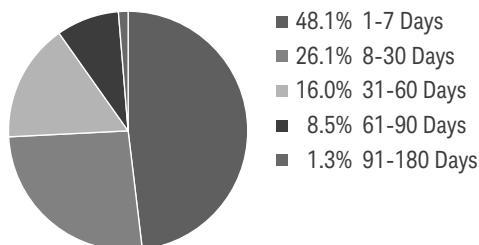
Market Highlights. During the 12-month reporting period ended December 31, 2017, moves by the Federal Reserve (Fed) played a key role in market activity. The Fed raised short-term interest rates three times in 2017, in March, June, and December, signaling continued confidence in the global recovery and driving short-term yields higher. While the March rate hike was largely unexpected by the market until about two weeks prior, the remaining two increases were better telegraphed by the Fed.

Meanwhile, volatility remained largely subdued for most of the reporting period outside of jumps tied to market concerns surrounding the U.S. debt ceiling and geopolitical tensions. Volatility spiked in July, triggered by uncertainty surrounding a timely increase of the U.S. borrowing limit. Markets soon calmed, however, and a temporary debt ceiling solution was passed in both the Senate and the House of Representatives in early September. Escalating tensions between the U.S. and North Korea also contributed to a spike in volatility as some investors feared a nuclear standoff between the two nations.

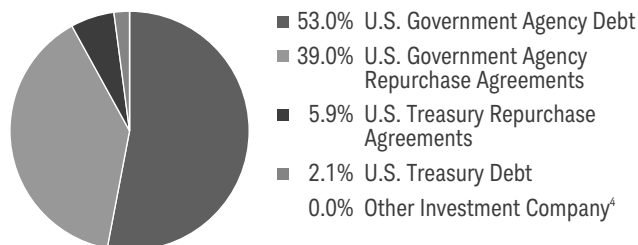
In 2016, the Fed's Reverse Repurchase Facility (Facility) played a key part in Money Market Fund Reform, easing the large shift in assets from prime money market funds to government money market funds. In 2017, the Facility continued to play a major role in the money market sector by offering a consistent source of supply, which in turn worked to keep markets stable.

Performance, Positioning, and Strategies. Throughout the reporting period, the fund's investment adviser remained focused on ensuring liquidity and stability of capital as market conditions evolved, while all issuers in which the fund invests continue to undergo a rigorous credit review process and ongoing monitoring. In anticipation of and in response to the Fed's short-term interest rate increases, the fund's weighted average maturity (WAM) declined, beginning the reporting period at 36 days and ending at 21 days.

PORTFOLIO COMPOSITION BY EFFECTIVE MATURITY % OF INVESTMENTS¹



PORTFOLIO COMPOSITION BY SECURITY TYPE % OF INVESTMENTS³



STATISTICS

Weighted Average Maturity² 21 Days

Management views and portfolio holdings may have changed since the report date.

¹ As shown in the Portfolio Holdings section of the shareholder report.

² Money funds must maintain a dollar-weighted average maturity of no longer than 60 days and cannot invest in any security whose effective maturity is longer than 397 days (approximately 13 months).

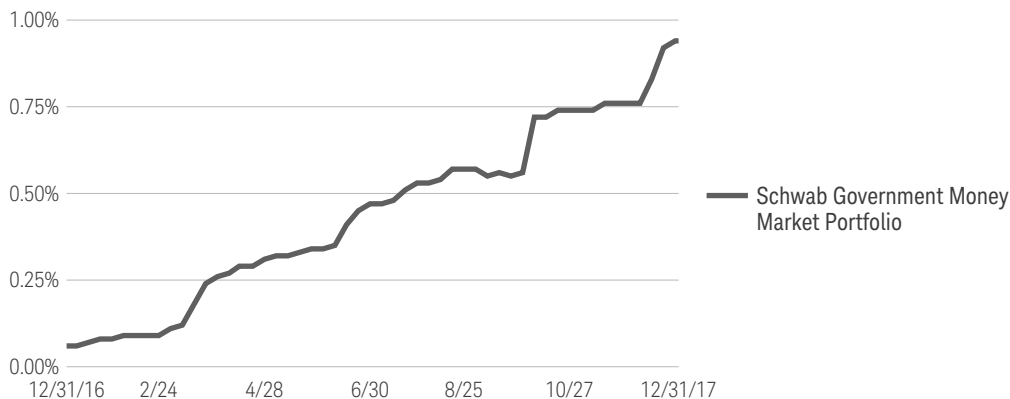
³ The percentage may differ from the Portfolio Holdings because the above calculation is based on a percentage of total investments, whereas the calculation in the Portfolio Holdings is based on a percentage of net assets.

⁴ Less than 0.05%

Performance and Fund Facts as of December 31, 2017

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.schwabfunds.com/schwabfunds_prospectus.

SEVEN-DAY AVERAGE YIELD TREND FOR PREVIOUS 12 MONTHS



SEVEN-DAY YIELDS¹

The seven-day yield is the income generated by the fund's holdings minus the fund's operating expenses. 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.

	SCHWAB GOVERNMENT MONEY MARKET PORTFOLIO
TICKER SYMBOL	SWPXX
Seven-Day Yield (with waivers)²	0.94%
Seven-Day Yield (without waivers)²	0.75%
Seven-Day Effective Yield (with waivers)²	0.95%

You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

¹ Fund 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.

² The Seven-Day Yield (with waivers) is the average income paid out over the previous seven days assuming interest income is not reinvested and it reflects the effect of any applicable waivers. Absent such waivers, the fund's yield would have been lower. The Seven-Day Yield (without waivers) is the yield without the effect of any applicable waivers. The Seven-Day Effective Yield is the yield with waivers assuming that all interest income is reinvested in additional shares of the fund. For additional details, see financial note 4.

Fund Expenses (Unaudited)

EXAMPLES FOR A \$1,000 INVESTMENT

As a fund shareholder, you may incur two types of costs: (1) transaction costs; and (2) ongoing costs, including management fees, transfer agent fees, and other fund expenses.

The expense examples below are intended to help you understand your ongoing cost (in dollars) of investing in the 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, 2017 and held through December 31, 2017.

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

The Hypothetical Return line in the table below provides information about hypothetical account values and hypothetical expenses based on the 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. Therefore, the hypothetical return lines of the table are useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	EXPENSE RATIO (ANNUALIZED) ¹	BEGINNING ACCOUNT VALUE AT 7/1/17	ENDING ACCOUNT VALUE (NET OF EXPENSES) AT 12/31/17	EXPENSES PAID DURING PERIOD 7/1/17-12/31/17 ²
Schwab Government Money Market Portfolio				
Actual Return	0.43%	\$1,000.00	\$1,003.30	\$2.17
Hypothetical 5% Return	0.43%	\$1,000.00	\$1,023.03	\$2.19

¹ Based on the most recent six-month expense ratio; may differ from the expense ratio provided in the Financial Highlights which covers a 12-month period. Effective October 3, 2017, the contractual expense limitation changed to 0.35%. If the fund expense changes had been in place throughout the entire most recent fiscal half-year, the expenses paid during the period under the actual return and hypothetical 5% return examples would have been \$1.77 and \$1.79, respectively (see financial note 4).

² Expenses for the fund 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 the 365 days of the fiscal year.

Financial Statements

FINANCIAL HIGHLIGHTS

	1/1/17– 12/31/17	1/1/16– 12/31/16	1/1/15– 12/31/15	1/1/14– 12/31/14	1/1/13– 12/31/13
Per-Share Data					
Net asset value at beginning of period	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Income (loss) from investment operations:					
Net investment income (loss)	0.00 ^{1,2}	0.00 ^{1,2}	0.00 ^{1,2}	0.00 ²	0.00 ²
Net realized and unrealized gains (losses)	0.00 ²	0.00 ²	(0.00) ^{2,3}	0.00 ²	0.00 ^{2,4}
Total from investment operations	0.00 ²	0.00 ²	0.00 ²	0.00 ²	0.00 ²
Less distributions:					
Distributions from net investment income	(0.00) ²	(0.00) ²	(0.00) ²	(0.00) ²	(0.00) ²
Net asset value at end of period	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Total return	0.45%	0.01%	0.01%	0.01%	0.01%
Ratios/Supplemental Data					
Ratios to average net assets:					
Net operating expenses	0.46% ⁵	0.37% ⁶	0.12% ⁶	0.07% ⁶	0.08% ⁶
Gross operating expenses	0.50%	0.49%	0.54%	0.49%	0.52%
Net investment income (loss)	0.44%	0.01%	0.01%	0.01%	0.01%
Net assets, end of period (x 1,000,000)	\$95	\$106	\$116	\$117	\$106

¹ Calculated based on the average shares outstanding during the period.

² Per-share amount was less than \$0.005.

³ The per share amount does not accord with the change in aggregate gains and losses in securities during the period because of the timing of fund transactions in relation to fluctuating market values.

⁴ Net realized and unrealized gains (losses) ratio includes payment from affiliate of \$45,600.

⁵ Effective October 3, 2017, the contractual expense limitation changed. The ratio presented for period ended December 31, 2017 is a blended ratio (see financial note 4).

⁶ Reflects the effect of a voluntary yield waiver in excess of the contractual expense limitation (see financial note 4).

Portfolio Holdings

as of December 31, 2017

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

The fund files its complete schedule of portfolio holdings with the SEC for the first and third quarter of each fiscal year on Form N-Q. The fund's Form N-Q is available on the SEC's website at www.sec.gov and may be viewed 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 fund also files a complete schedule of portfolio holdings with the SEC monthly on Form N-MFP which is available immediately upon filing. The fund also makes available its complete schedule of portfolio holdings 5 business days after month end on the fund's website at www.schwabfunds.com/schwabfunds_prospectus along with a link to the fund's Form N-MFP filings on the SEC's website.

For fixed-rate obligations and repurchase agreements, the rate shown is the coupon rate (the rate established when the obligation was issued) and if the coupon rate is not available, the effective yield at the time of purchase is shown. For variable-rate obligations, the rate shown is the interest rate as of the report date based on each security's rate reset date. The reference rate and spread used is shown parenthetically in the security description, if available; if not, the reference rate is described in a footnote. The date shown in the maturity date column below is either the date on which the principal amount must be paid or the date payment must be made pursuant to a demand feature. If the security's structure includes one of a number of maturity-shortening provisions set forth in Rule 2a-7, such as an interest rate reset, demand feature or put feature, the effective maturity date is also disclosed. If the effective maturity and maturity date are the same, the date will only appear in the maturity date column.

ISSUER	FOOTNOTES	RATE	EFFECTIVE MATURITY DATE	FACE AMOUNT (\$)	VALUE (\$)
FIXED-RATE OBLIGATIONS 36.5% OF NET ASSETS					
U.S. GOVERNMENT AGENCY DEBT 34.9%					
FEDERAL FARM CREDIT BANKS FUNDING CORP		1.42%	04/02/18	200,000	200,106
FEDERAL HOME LOAN BANKS		1.05%	01/03/18	500,000	499,971
		1.15%	01/05/18	500,000	499,936
		1.09%	01/10/18	2,500,000	2,499,319
		1.18%	01/10/18	2,000,000	1,999,410
		1.09%	01/12/18	400,000	399,867
		1.15%	01/12/18	500,000	499,825
		1.23%	01/12/18	3,000,000	2,998,874
		1.10%	01/17/18	3,300,000	3,298,393
		1.12%	01/24/18	1,000,000	999,288
		1.13%	01/24/18	1,000,000	999,278
		1.25%	01/24/18	800,000	799,361
		1.14%	01/31/18	4,000,000	3,996,197
		1.27%	01/31/18	500,000	499,470
		1.11%	02/02/18	1,000,000	999,018
		1.29%	02/02/18	500,000	499,428
		1.15%	02/07/18	100,000	99,882
		1.22%	02/07/18	500,000	499,376
		1.12%	02/09/18	300,000	299,636
		1.26%	02/14/18	500,000	499,231
		1.29%	02/16/18	500,000	499,176
		1.13%	02/21/18	1,000,000	998,405
		1.31%	02/26/18	500,000	498,981
		1.14%	02/28/18	1,000,000	998,163
		1.13%	03/02/18	1,000,000	998,125
		1.14%	03/14/18	1,000,000	997,720
		0.88%	03/19/18	500,000	499,660
		1.18%	03/28/18	800,000	797,754
		1.21%	04/06/18	250,000	249,205

Portfolio Holdings as of December 31, 2017 (continued)

ISSUER	FOOTNOTES	RATE	EFFECTIVE MATURITY	MATURITY DATE	FACE AMOUNT (\$)	VALUE (\$)
FEDERAL HOME LOAN MORTGAGE CORPORATION						
		1.27%		01/16/18	33,000	32,983
		1.11%		02/08/18	1,000,000	998,834
		1.05%		02/26/18	1,000,000	999,846
		0.88%		03/07/18	750,000	749,596
		0.75%		04/09/18	500,000	499,423
		5.00%		05/01/18	250,000	253,097
						33,156,834
U.S. TREASURY DEBT 1.6%						
UNITED STATES TREASURY						
		3.50%		02/15/18	1,000,000	1,002,844
		2.75%		02/28/18	500,000	501,244
						1,504,088
TOTAL FIXED-RATE OBLIGATIONS						
(COST \$34,660,922)						34,660,922

VARIABLE-RATE OBLIGATIONS 18.6% OF NET ASSETS**U.S. GOVERNMENT AGENCY DEBT 18.1%****FEDERAL HOME LOAN BANKS**

(3 mo. USD-LIBOR - 0.03%)		1.31%		01/02/18	1,000,000	1,000,008
(3 mo. USD-LIBOR - 0.28%)		1.08%		01/19/18	350,000	350,000
(1 mo. USD-LIBOR - 0.17%)		1.37%		01/22/18	3,000,000	3,000,000
(3 mo. USD-LIBOR - 0.28%)		1.10%		01/26/18	500,000	500,000
(3 mo. USD-LIBOR - 0.11%)		1.29%		02/05/18	500,000	499,992
(3 mo. USD-LIBOR - 0.38%)		1.02%		02/09/18	1,000,000	1,000,000
(3 mo. USD-LIBOR - 0.15%)		1.27%		02/16/18	350,000	350,057
(1 mo. USD-LIBOR - 0.15%)	1.30%		01/12/18	03/12/18	1,000,000	1,000,000
(3 mo. USD-LIBOR - 0.17%)	1.40%			03/14/18	1,200,000	1,200,213
(3 mo. USD-LIBOR - 0.22%)	1.39%			03/19/18	500,000	500,099
(3 mo. USD-LIBOR - 0.31%)	1.33%			03/21/18	500,000	500,013
(1 mo. USD-LIBOR - 0.15%)	1.36%		01/20/18	04/20/18	1,000,000	999,988
(3 mo. USD-LIBOR - 0.35%)	1.07%		02/15/18	05/15/18	1,000,000	1,000,008
(3 mo. USD-LIBOR - 0.04%)	1.48%		03/07/18	06/07/18	350,000	350,341
(1 mo. USD-LIBOR - 0.15%)	1.41%		01/27/18	07/27/18	1,000,000	1,000,000
(3 mo. USD-LIBOR - 0.27%)	1.07%		01/05/18	10/05/18	500,000	500,000
(1 mo. USD-LIBOR - 0.13%)	1.30%		01/10/18	10/10/18	500,000	500,000
(1 mo. USD-LIBOR - 0.13%)	1.35%		01/15/18	11/15/18	1,000,000	1,000,000
(1 mo. USD-LIBOR - 0.13%)	1.36%		01/16/18	11/16/18	500,000	500,000
(1 mo. USD-LIBOR - 0.07%)	1.36%		01/11/18	02/11/19	500,000	500,000
(1 mo. USD-LIBOR - 0.07%)	1.48%		01/25/18	02/25/19	900,000	900,000

17,150,719**U.S. TREASURY DEBT 0.5%****UNITED STATES TREASURY**

(3 mo. Treasury Money Market Yield + 0.19%)		1.64%	01/02/18	04/30/18	500,000	500,255
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TOTAL VARIABLE-RATE OBLIGATIONS**(COST \$17,650,974)****17,650,974**

Portfolio Holdings as of December 31, 2017 (continued)

SECURITY	FOOTNOTES	RATE			NUMBER OF SHARES	VALUE (\$)
OTHER INVESTMENT COMPANY 0.0% OF NET ASSETS						
MONEY MARKET FUND 0.0%						
STATE STREET INSTITUTIONAL U.S. GOVERNMENT MONEY MARKET FUND, PREMIER CLASS	(a)	1.21%	n/a	n/a	45,600	45,600
TOTAL OTHER INVESTMENT COMPANY (COST \$45,600)						45,600
ISSUER	FOOTNOTES	RATE	EFFECTIVE MATURITY	MATURITY DATE	MATURITY AMOUNT (\$)	VALUE (\$)
REPURCHASE AGREEMENTS 44.8% OF NET ASSETS						
U.S. GOVERNMENT AGENCY REPURCHASE AGREEMENTS* 38.9%						
BNP PARIBAS SA						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Treasury and U.S. Government Agency Securities valued at \$9,191,512, 1.25% - 3.00%, due 03/31/19 - 08/20/46)		1.40%		01/02/18	9,001,400	9,000,000
JP MORGAN SECURITIES LLC						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Treasury Securities valued at \$8,160,058, 0.00% - 3.63%, due 08/16/18 - 02/15/44)		1.43%		01/02/18	8,001,271	8,000,000
MERRILL LYNCH PIERCE FENNER & SMITH INC						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Government Agency Securities valued at \$14,420,001, 2.50% - 3.50%, due 01/01/32 - 10/01/46)		1.41%		01/02/18	14,002,193	14,000,000
RBC CAPITAL MARKETS LLC						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Treasury Securities valued at \$1,020,200, 2.25%, due 03/31/21)		1.40%		01/02/18	1,000,156	1,000,000
RBC DOMINION SECURITIES INC						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Treasury and U.S. Government Agency Securities valued at \$1,020,194, 0.13% - 8.88%, due 02/15/19 - 08/15/44)		1.40%		01/02/18	1,000,156	1,000,000
WELLS FARGO SECURITIES LLC						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Government Agency Securities valued at \$4,160,652, 3.00% - 3.50%, due 04/01/47 - 07/01/56)		1.41%		01/02/18	4,000,627	4,000,000
						37,000,000

Portfolio Holdings as of December 31, 2017 (continued)

ISSUER	FOOTNOTES	RATE	EFFECTIVE MATURITY	MATURITY DATE	MATURITY AMOUNT (\$)	VALUE (\$)
U.S. TREASURY REPURCHASE AGREEMENTS 5.9%						
BARCLAYS BANK PLC						
Issued 12/29/17, repurchase date 01/02/18 (Collateralized by U.S. Treasury Securities valued at \$633,372, 1.13%, due 06/30/21)		1.30%		01/02/18	620,910	620,820
Issued 12/28/17, repurchase date 01/04/18 (Collateralized by U.S. Treasury Securities valued at \$5,101,407, 0.88% - 1.63%, due 10/15/18 - 11/30/20)		1.34%		01/04/18	5,001,303	5,000,000
						5,620,820
TOTAL REPURCHASE AGREEMENTS (COST \$42,620,820)						42,620,820

(a) The rate shown is the 7-day yield.

* Collateralized via U.S. Government Agency Securities or less frequently by higher rated U.S. Treasury Securities.

LIBOR – London Interbank Offered Rate is the interest rate banks charge each other for short-term loans.

The following is a summary of the inputs used to value the fund's investments as of December 31, 2017 (see financial note 2(a) for additional information):

DESCRIPTION	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Assets				
Fixed-Rate Obligations ¹	\$–	\$34,660,922	\$–	\$34,660,922
Variable-Rate Obligations ¹	–	17,650,974	–	17,650,974
Other Investment Company ¹	45,600	–	–	45,600
Repurchase Agreements ¹	–	42,620,820	–	42,620,820
Total	\$45,600	\$94,932,716	\$–	\$94,978,316

¹ As categorized in Portfolio Holdings.

The fund's policy is to recognize transfers between Level 1, Level 2 and Level 3 as of the beginning of the fiscal year. There were no transfers between Level 1, Level 2 and Level 3 for the period ended December 31, 2017. Fund investments in underlying mutual funds are classified as Level 1, without consideration to the classification level of the investments held by the underlying mutual funds, which could be Level 1, Level 2 or Level 3.

Statement of Assets and Liabilities

As of December 31, 2017

ASSETS

Investments in unaffiliated issuers, at cost and value (Note 2a)	\$52,357,496
Repurchase agreements, at cost and value (Note 2a)	42,620,820
Receivables:	
Fund shares sold	226,615
Interest	52,106
Prepaid expenses	+ 346
Total assets	95,257,383

LIABILITIES

Payables:	
Investment adviser and administrator fees	12,255
Fund shares redeemed	123,359
Accrued expenses	+ 59,284
Total liabilities	194,898

NET ASSETS

Total assets	95,257,383
Total liabilities	- 194,898
Net assets	\$95,062,485

Net Assets by Source

Capital received from investors	95,014,321
Net investment income not yet distributed	2,564
Net realized capital gains	45,600

Net Asset Value (NAV)

Net Assets	÷	Shares Outstanding	=	NAV
\$95,062,485		95,061,146		\$1.00

Statement of Operations

For the period January 1, 2017 through December 31, 2017

INVESTMENT INCOME	
Interest	\$916,406
Dividends	+ 358
Total investment income	916,764
EXPENSES	
Investment adviser and administrator fees	358,616
Portfolio accounting fees	52,884
Professional fees	36,101
Custodian fees	23,722
Independent trustees' fees	16,472
Shareholder reports	15,001
Transfer agent fees	1,951
Other expenses	+ 5,004
Total expenses	509,751
Expense reduction by CSIM and its affiliates	- 42,453
Net expenses	- 467,298
Net investment income	449,466
REALIZED GAINS (LOSSES)	
Net realized gains on investments	2,223
Increase in net assets resulting from operations	\$451,689

Statement of Changes in Net Assets

For the current and prior report periods

OPERATIONS		
	1/1/17-12/31/17	1/1/16-12/31/16
Net investment income	\$449,466	\$13,338
Net realized gains	+ 2,223	340
Increase in net assets from operations	451,689	13,678
DISTRIBUTIONS TO SHAREHOLDERS		
Distributions from net investment income	(\$450,116)	(\$13,338)
TRANSACTIONS IN FUND SHARES*		
Shares sold	67,235,376	81,374,331
Shares reinvested	450,116	13,327
Shares redeemed	+ (78,281,164)	(91,698,938)
Net transactions in fund shares	(10,595,672)	(10,311,280)
NET ASSETS		
Beginning of period	105,656,584	115,967,524
Total decrease	+ (10,594,099)	(10,310,940)
End of period	\$95,062,485	\$105,656,584
Net investment income not yet distributed	\$2,564	\$991

* Transactions took place at \$1.00 per share; figures for share quantities are the same as for dollars.

Financial Notes

1. Business Structure of the Fund:

Schwab Government Money Market Portfolio (the fund) is a series of Schwab Annuity Portfolios (the trust), a no-load, open-end management investment company. The trust is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended (the 1940 Act). The list below shows all the funds in the trust as of the end of the period, including the fund discussed in this report, which is highlighted:

SCHWAB ANNUITY PORTFOLIOS (ORGANIZED JANUARY 21, 1994)

Schwab Government Money Market Portfolio

Schwab MarketTrack Growth Portfolio II™

Schwab S&P 500 Index Portfolio

Schwab VIT Balanced Portfolio

Schwab VIT Balanced with Growth Portfolio

Schwab VIT Growth Portfolio

The fund in this report offers one share class. Shares are bought and sold at closing net asset value per share (NAV), which is the price for all outstanding shares of a fund. Each share has a par value of 1/1,000 of a cent, and the fund's Board of Trustees (the Board) may authorize the issuance of 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. At December 31, 2017, 100% of the fund's shares were held through separate accounts of five insurance companies. Subscriptions and redemptions of these insurance separate accounts could have a material impact on the fund.

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 may also keep certain assets in segregated accounts, as required by securities law.

2. Significant Accounting Policies:

The following is a summary of the significant accounting policies the fund uses in its preparation of financial statements. The fund follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standard Codification *Topic 946 Financial Services – Investment Companies*. The accounting policies are in conformity with accounting principles generally accepted in the United States of America (GAAP).

Effective August 1, 2017, the fund adopted disclosure requirement changes for SEC Regulation S-X. The adopted changes are reflected throughout this report.

(a) Security Valuation:

Under procedures approved by the Board, the investment adviser has formed a Pricing Committee to administer the pricing and valuation of portfolio securities and other assets and to ensure that prices used for internal purposes or provided by third parties reasonably reflect fair market value. Among other things, these procedures allow the fund to utilize independent pricing services, quotations from securities and financial instrument dealers and other market sources to determine fair value.

Securities in the fund are valued at amortized cost (which approximates market value) as permitted in accordance with Rule 2a-7 of the 1940 Act. In the event that security valuations do not approximate market value, securities may be fair valued as determined in accordance with procedures adopted by the Board. The Pricing Committee considers a number of factors, including unobservable market inputs when arriving at fair value. The Pricing Committee may employ techniques such as the review of related or comparable assets or liabilities, related market activities, recent transactions, market multiples, book values, transactional back-testing, disposition analysis and other relevant information. The Pricing Committee regularly reviews these inputs and assumptions to calibrate the valuations. Due to the subjective and variable nature of fair value pricing, there can be no assurance that a fund could obtain the fair value assigned to the security upon the sale of such security. The Board convenes on a regular basis to review fair value determinations made by the fund pursuant to the valuation procedures.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the fund discloses the fair value of its investments in a hierarchy that prioritizes the significant inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (Level 3 measurements). If inputs used to measure the financial instruments fall within different levels of the hierarchy, the

Financial Notes (continued)

2. Significant Accounting Policies (continued):

categorization is based on the lowest level input that is significant to the valuation. If the fund determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value.

- **Underlying funds:** Mutual funds are valued at their respective NAVs.

The three levels of the fair value hierarchy are as follows:

- Level 1 – quoted prices in active markets for identical securities – Investments whose values are based on quoted market prices in active markets, and whose values are therefore classified as Level 1 prices, include active listed equities. Investments in mutual funds are valued daily at their NAVs, which are classified as Level 1 prices, without consideration to the classification level of the specific investments held by an underlying fund.
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) – Investments that trade in markets that are not considered to be active, but whose values are based on quoted market prices, dealer quotations or valuations provided by alternative pricing sources supported by observable inputs are classified as Level 2 prices. These generally include U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, certain mortgage products, less liquid listed equities, and state, municipal and provincial obligations. Securities held by stable NAV money funds operating under Rule 2a-7 of the 1940 Act are valued at amortized cost which approximates current market value and are considered to be valued using Level 2 inputs.
- Level 3 – significant unobservable inputs (including the fund's own assumptions in determining the fair value of investments) – Investments whose values are classified as Level 3 prices have significant unobservable inputs, as they may trade infrequently or not at all. When observable prices are not available for these securities, the fund uses one or more valuation techniques for which sufficient and reliable data is available. The inputs used by the fund in estimating the value of Level 3 prices may include the original transaction price, quoted prices for similar securities or assets in active markets, completed or pending third-party transactions in the underlying investment or comparable issuers, and changes in financial ratios or cash flows. Level 3 prices may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the fund in the absence of market information. Assumptions used by the fund due to the lack of observable inputs may significantly impact the resulting fair value and therefore the fund's results of operations.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The levels associated with valuing the fund's investments as of December 31, 2017 are disclosed in the Portfolio Holdings.

(b) Accounting Policies for certain Portfolio Investments (if held):

Repurchase Agreements: In a repurchase agreement, a fund buys a security from another party (the counterparty), usually a financial institution, with the agreement that it be sold back in the future. Repurchase agreements subject a fund to counterparty risk, meaning that the fund could lose money if the other party fails to perform under the terms of the agreement. The fund mitigates this risk by ensuring that a fund's repurchase agreements are collateralized by cash and/or U.S. government securities. All collateral is held by the fund's custodian (or, with multi-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. In the event of a default by the counterparty, realization of the collateral proceeds could be delayed or limited and the value of the collateral may decline. Investments in repurchase agreements are also based on a review of the credit quality of the repurchase agreement counterparty.

As of December 31, 2017, the fund had investments in repurchase agreements with a gross value of \$42,620,820 as disclosed in the Portfolio Holdings and the Statement of Assets and Liabilities. The value of the related collateral disclosed in the Portfolio Holdings exceeded the value of the repurchase agreements at period end.

Delayed-Delivery Transactions: The fund may buy securities at a predetermined price or yield, with payment and delivery taking place after the customary settlement period for that type of security. The fund will assume the rights and risks of ownership at the time of purchase, including the risk of price and yield fluctuations. Typically, no interest will accrue to the fund until the security is delivered. The fund will earmark or segregate appropriate liquid assets to cover its delayed-delivery purchase obligations, if any.

(c) Security Transactions:

Security transactions are recorded as of the date the order to buy or sell the security is executed. Realized gains and losses from security transactions are based on the identified costs of the securities involved.

Financial Notes (continued)

2. Significant Accounting Policies (continued):

(d) Investment Income:

Interest income is recorded as it accrues. If the fund buys a debt security at a discount (less than face value) or a premium (more than face value), it amortizes premiums and accretes discounts from the purchase settlement date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. Certain securities may be callable (meaning that the issuer has the option to pay it off before its maturity date). The fund amortizes the premium and accretes the discount on each callable security to the security's maturity date, except when the purchase price is higher than the call price at the security's call date (in which case the premium is amortized to the call date).

(e) Expenses:

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.

(f) Distributions to Shareholders:

The fund declares distributions from net investment income, if any, every day it is open for business. These distributions are paid out to the insurance company separate accounts once a month. The fund makes distributions from net realized capital gains, if any, once a year.

(g) Custody Credit:

The fund has an arrangement with its custodian bank, State Street Bank and Trust Company (State Street), under which the fund may receive a credit for its uninvested cash balance to offset its custody fees and accounting fees. The credit amounts, if any, are disclosed in the Statement of Operations as a reduction to the fund's operating expenses.

(h) Accounting Estimates:

The accounting policies described in this report conform to GAAP. 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 and these differences may be material.

(i) Federal Income Taxes:

The fund intends to meet federal income and excise tax requirements for regulated investment companies under subchapter M of the Internal Revenue Code, as amended. Accordingly, the fund distributes substantially all of its net investment income and net realized capital gains, if any, to the participating insurance company's (shareholders) separate accounts each year. As long as the fund meets the tax requirements, it is not required to pay federal income tax.

(j) Indemnification:

Under the fund's organizational documents, the officers and trustees are indemnified against certain liabilities 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 attributable to these arrangements to be remote.

(k) Recent Accounting Standards:

In March 2017, the Financial Accounting Standards Board issued Accounting Standards Update "Premium Amortization on Purchased Callable Debt Securities" which amends the amortization period for a callable debt security held at a premium from the maturity date to the earliest call date. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. At this time, management believes these changes will have no impact to the fund.

3. Risk Factors:

Investment Risk. You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Financial Notes (continued)

3. Risk Factors (continued):

Interest Rate Risk. Interest rates rise and fall over time. As with any investment whose yield reflects current interest rates, the fund's yield will change over time. During periods when interest rates are low, the fund's yield (and total return) also will be low or may even be negative, which may make it difficult for the fund to pay expenses out of fund assets or maintain a stable \$1.00 share price. A change in a central bank's monetary policy or improving economic conditions, among other things, may result in an increase in interest rates. A sudden or unpredictable rise in interest rates may cause volatility in the market and may decrease liquidity in the money market securities markets, making it more difficult for the fund to sell its money market investments at a time when the investment adviser might wish to sell such investments. Decreased market liquidity also may make it more difficult to value some or all of the fund's money market securities holdings. In addition, to the extent the fund makes any reimbursement payments to the investment adviser and/or its affiliates, the fund's yield would be lower.

Stable Net Asset Value Risk. If the fund or another money market fund fails to maintain a stable net asset value (or such perception exists in the market place), the fund could experience increased redemptions, which may adversely impact the fund's share price. The fund is permitted, among other things, to reduce or withhold any income and/or gains generated by the fund to maintain a stable \$1.00 share price.

Repurchase Agreements Risk. When the fund enters into a repurchase agreement, the fund is exposed to the risk that the other party (i.e. the counterparty) will not fulfill its contractual obligation. In a repurchase agreement, there exists the risk that, when the fund buys a security from a counterparty that agrees to repurchase the security at an agreed upon price (usually higher) and time, the counterparty will not repurchase the security.

Credit Risk. The fund is subject to the risk that a decline in the credit quality of a fund investment could cause the fund to lose money or underperform. The fund could lose money if the issuer of a fund investment fails to make timely principal or interest payments or if a guarantor, liquidity provider or counterparty of a fund investment fails to honor its obligations. Even though the fund's investments in repurchase agreements are collateralized at all times, there is some risk to the fund if the other party should default on its obligations and the fund is delayed or prevented from recovering or disposing of the collateral. Negative perceptions of the ability of an issuer, guarantor, liquidity provider or counterparty to make payments or otherwise honor its obligations, as applicable, could also cause the price of that investment to decline. The credit quality of the fund's portfolio holdings can change rapidly in certain market environments and any downgrade or default on the part of a single fund investment could cause the fund's share price or yield to fall.

Many of the U.S. government securities that the fund invests in are not backed by the full faith and credit of the U.S. government, which means they are neither issued nor guaranteed by the U.S. Treasury. Although maintained in conservatorship by the Federal Housing Finance Agency since September 2008, the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) maintain only lines of credit with the U.S. Treasury. The Federal Home Loan Banks maintain limited access to credit lines from the U.S. Treasury. Other securities, such as obligations issued by the Federal Farm Credit Banks Funding Corporation, are supported solely by the credit of the issuer. There can be no assurance that the U.S. government will provide financial support to securities of its agencies and instrumentalities if it is not obligated to do so under law. Also, any government guarantees on securities a fund owns do not extend to the shares of the fund itself.

Credit and Liquidity Enhancements Risk. The fund may invest in securities with credit or liquidity enhancements provided by a bank or other financial institution, and the existence and nature of such enhancements may be a significant factor in the investment adviser's decision-making process. Generally, these enhancements are employed by the issuers of the securities to reduce credit risk and provide enhanced or back-up liquidity for a purchaser, such as the fund. Adverse developments affecting these banks and financial institutions could therefore have a negative effect on the value of the fund's holdings. For example, a rating agency downgrade of a credit or liquidity enhancement provider may adversely affect the value of securities held by the fund. Any decline in the value of the securities held by the fund could cause the fund's share price or yield to fall. To the extent that a portion of the fund's underlying investments are enhanced by the same bank or financial institution, these risks may be increased.

Management Risk. Any actively managed mutual fund is subject to the risk that its investment adviser will select investments or allocate assets in a manner that could cause the fund to underperform or otherwise not meet its objective. The fund's investment adviser applies its own investment techniques and risk analyses in making investment decisions for the fund, but there can be no guarantee that they will produce the desired results. The investment adviser's maturity decisions will also affect the fund's yield, and potentially could affect its share price. To the extent that the investment adviser anticipates interest rate trends imprecisely, the fund's yield at times could lag those of other money market funds.

Financial Notes (continued)

3. Risk Factors (continued):

Redemption Risk. The fund may experience periods of heavy redemptions that could cause the fund to liquidate its assets at inopportune times or at a loss or depressed value, particularly during periods of declining or illiquid markets. Redemptions by a few large investors in the fund may have a significant adverse effect on the fund's ability to maintain a stable \$1.00 share price. In the event any money market fund fails to maintain a stable net asset value, other money market funds, including the fund, could face a market-wide risk of increased redemption pressures, potentially jeopardizing the stability of their \$1.00 share prices.

Money Market Fund Risk. The fund is not designed to offer capital appreciation. In exchange for their emphasis on stability and liquidity, money market investments may offer lower long-term performance than stock or bond investments.

Tax Diversification Risk. As described above, the fund intends to operate as a government money market fund under the regulations governing money market funds. Additionally, the fund intends to meet the diversification requirements that are applicable to insurance company separate accounts under Subchapter L of the Internal Revenue Code of 1986, as amended (the Diversification Requirements). To satisfy the Diversification Requirements applicable to variable annuity contracts, the value of the assets of the fund invested in securities issued by the U.S. government, its agencies or instrumentalities must remain below specified thresholds. For these purposes, each U.S. government agency or instrumentality is treated as a separate issuer.

Operating as a government money market fund may make it difficult for the fund to meet the Diversification Requirements. This difficulty may be exacerbated by the potential increase in demand for the types of securities in which the fund invests as a result of changes to the rules that govern SEC registered money market funds. A failure to satisfy the Diversification Requirements could have significant adverse tax consequences for variable annuity contract owners whose contract values are determined by investment in the fund.

Please refer to the fund's prospectus for a more complete description of the principal risks of investing in the fund.

4. Affiliates and Affiliated Transactions:

Investment Adviser

Charles Schwab Investment Management, Inc. (CSIM or the investment adviser), a wholly owned subsidiary of The Charles Schwab Corporation, serves as the fund's investment adviser and administrator pursuant to an Investment Advisory and Administration Agreement between CSIM and the trust.

For its advisory and administrative services to the fund, CSIM is entitled to receive an annual fee, payable monthly, based on a percentage of the fund's average daily net assets as follows:

AVERAGE DAILY NET ASSETS

First \$1 billion	0.35%
More than \$1 billion but not exceeding \$10 billion	0.32%
More than \$10 billion but not exceeding \$20 billion	0.30%
More than \$20 billion but not exceeding \$40 billion	0.27%
Over \$40 billion	0.25%

For the period ended December 31, 2017, the aggregate advisory fee paid to CSIM by the fund was 0.35%, as a percentage of the fund's average daily net assets.

Contractual Expense Limitation

CSIM and its affiliates have made an additional agreement with the fund, for so long as CSIM serves as the investment adviser to the fund, which may only be amended or terminated with the approval of the Board, to limit the total annual fund operating expenses charged, excluding interest, taxes, and certain non-routine expenses (expense limitation) to 0.35%. Prior to October 3, 2017, the expense limitation was 0.50%.

Voluntary Yield Waiver/Reimbursement

CSIM and its affiliates also may waive and/or reimburse expenses to the extent necessary to maintain a positive net yield for the fund. There were no voluntary waivers or reimbursements to the fund during the period ending December 31, 2017.

Financial Notes (continued)

4. Affiliates and Affiliated Transactions (continued):

Interfund Borrowing and Lending

Pursuant to an exemptive order issued by the SEC, the fund may enter into interfund borrowing and lending transactions with other funds in the Fund Complex (for definition refer to Trustees and Officers section). All loans are for temporary or emergency purposes and the interest rate to be charged will be the average of the overnight repurchase agreement rate and the short-term bank loan rate. All loans are subject to numerous conditions designed to ensure fair and equitable treatment of all participating funds. The interfund lending facility is subject to the oversight and periodic review by the Board. The fund had no interfund borrowing or lending activity during the period.

5. Board of Trustees:

The Board may include people who are officers and/or directors of CSIM or its affiliates. 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 interested persons for their services as trustees, but it did pay non-interested persons (independent trustees), as noted on the fund’s Statement of Operations. For information regarding the trustees, please refer to the Trustees and Officers table at the end of this report.

6. Borrowing from Banks:

During the period, the fund was a participant with other U.S. registered investment companies managed by CSIM in a joint, syndicated, committed \$555 million line of credit (the Syndicated Credit Facility), which matured on October 5, 2017. On October 5, 2017, the Syndicated Credit Facility was amended to run for a new 364 day period with an increased line of \$605 million. Under the terms of the Syndicated Credit Facility, in addition to the interest charged on any borrowings by the fund, the fund paid a commitment fee of 0.15% per annum on its proportionate share of the unused portion of the Syndicated Credit Facility.

On December 1, 2017, the fund became a participant with other U.S. registered investment companies managed by CSIM in a joint, unsecured, uncommitted \$500 million line of credit (the Uncommitted Credit Facility), with State Street Bank and Trust Company, which matures on November 30, 2018. Under the terms of the Uncommitted Credit Facility, the fund pays interest on the amount it borrows. There were no borrowings from either line of credit during the period.

The fund also has access to custodian overdraft facilities. The fund may have utilized the overdraft facility and incurred an interest expense, which is disclosed on the fund’s Statement of Operations, if any. The interest expense is determined based on a negotiated rate above the current Federal Funds Rate.

7. Federal Income Taxes:

At December 31, 2017, the tax basis cost of the fund’s investments was \$94,932,716 and the unrealized appreciation and depreciation were \$45,600 and (\$0), respectively, with a net unrealized appreciation of \$45,600.

As of December 31, 2017, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income	\$2,564
Net unrealized appreciation (depreciation) on investments	<u>45,600</u>
Total	<u>\$48,164</u>

Capital loss carryforwards may be used to offset future realized capital gains for federal income tax purposes. As of December 31, 2017, the fund had no capital loss carryforwards.

For tax purposes, net realized capital losses and late-year ordinary losses incurred after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. For the year ended December 31, 2017, the fund had no capital losses deferred and no capital loss carryforwards utilized.

Financial Notes (continued)

7. Federal Income Taxes (continued):

The tax basis components of distributions paid during the current and prior fiscal years were as follows:

Current period distributions

Ordinary income	\$449,060
Long-term capital gains	1,056

Prior period distributions

Ordinary income	\$13,338
Long-term capital gains	-

Distributions paid to shareholders are based on net investment income and net realized gains determined on a tax basis, which may differ from net investment income and net realized gains for financial reporting purposes. These differences reflect the differing character of certain income items and net realized gains and losses for financial statement and tax purposes, and may result in reclassification among certain capital accounts on the financial statements. The fund may also designate a portion of the amount paid to redeeming shareholders as a distribution for tax purposes.

Permanent book and tax basis differences may result in reclassifications between components of net assets as required. The adjustments will have no impact on net assets or the results of operations. As of December 31, 2017, the fund made the following reclassifications:

Capital shares	\$-
Undistributed net investment income	2,223
Net realized capital gains and losses	(2,223)

As of December 31, 2017, management has reviewed the tax positions for open periods (for federal purposes, three years from the date of filing and for state purposes, four years from the date of filing) as applicable to the fund, and has determined that no provision for income tax is required in the fund's financial statements. The fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the period ended December 31, 2017, the fund did not incur any interest or penalties.

8. Subsequent Events:

Management has determined there are no subsequent events or transactions through the date the financial statements were issued that would have materially impacted the financial statements as presented.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Schwab Annuity Portfolios and Shareholders of Schwab Government Money Market Portfolio

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the portfolio holdings, of Schwab Government Money Market Portfolio (one of the funds constituting Schwab Annuity Portfolios, hereafter referred to as the “Fund”) as of December 31, 2017, the related statement of operations for the year ended December 31, 2017, the statement of changes in net assets for each of the two years in the period ended December 31, 2017, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2017 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2017, 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 ended December 31, 2017 and the financial highlights for each of the five years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on the Fund’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2017 by correspondence with the custodian and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
February 16, 2018

We have served as the auditor of one or more investment companies in the Schwab Funds Complex since 1989.

Other Federal Tax Information (unaudited)

Under section 852(b)(3)(C) of the Internal Revenue Code, the fund hereby designates \$1,056 as long-term capital gain dividends for the fiscal year ended December 31, 2017.

Trustees and Officers

The tables below give information about the trustees and officers of Schwab Annuity Portfolios, which includes the fund covered in this report. The “Fund Complex” includes The Charles Schwab Family of Funds, Schwab Capital Trust, Schwab Investments, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust. The Fund Complex includes 108 funds.

The address for all trustees and officers is 211 Main Street, San Francisco, CA 94105. You can find more information about the trustees and officers in the fund’s Statement of Additional Information, which is available free by calling 1-877-824-5615.

INDEPENDENT TRUSTEES

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED ¹)	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
Robert W. Burns 1959 Trustee (Trustee of Schwab Strategic Trust since 2009; The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios and Laudus Trust since 2016)	Retired/Private Investor (Jan. 2009 – present). Formerly, Managing Director, Pacific Investment Management Company, LLC (PIMCO) (investment management firm) and President, PIMCO Funds.	108	Director, PS Business Parks, Inc. (2005 – 2012)
John F. Cogan 1947 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios since 2008; Laudus Trust since 2010; Schwab Strategic Trust since 2016)	Senior Fellow, The Hoover Institution at Stanford University (public policy think tank) (Oct. 1979 – present); Senior Fellow, Stanford Institute for Economic Policy Research (2000 – present); Professor of Public Policy, Stanford University (1994 – 2015).	108	Director, Gilead Sciences, Inc. (2005 – present)
Stephen Timothy Kochis 1946 Trustee (Trustee of Schwab Strategic Trust since 2012; The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios and Laudus Trust since 2016)	CEO and Owner, Kochis Global (wealth management consulting) (May 2012 – present); Chairman and CEO, Aspiriant, LLC (wealth management) (Jan. 2008 – Apr. 2012).	108	None
David L. Mahoney 1954 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios and Laudus Trust since 2011; Schwab Strategic Trust since 2016)	Private Investor.	108	Director, Symantec Corporation (2003 – present) Director, Corcept Therapeutics Incorporated (2004 – present) Director, Adamas Pharmaceuticals, Inc. (2009 – present)

INDEPENDENT TRUSTEES (CONTINUED)

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED ¹)	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
Kiran M. Patel 1948 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios and Laudus Trust since 2011; Schwab Strategic Trust since 2016)	Retired. Executive Vice President and General Manager of Small Business Group, Intuit, Inc. (financial software and services firm for consumers and small businesses) (Dec. 2008 – Sept. 2013).	108	Director, KLA-Tencor Corporation (2008 – present)
Kimberly S. Patmore 1956 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2016)	Consultant, Patmore Management Consulting (management consulting) (2008 – present).	108	None
Charles A. Ruffel 1956 Trustee (Trustee of Schwab Strategic Trust since 2009; The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios and Laudus Trust since 2015)	Co-Chief Executive Officer, Kudu Investment Management, LLC (financial services) (Jan. 2015 – present); Partner, Kudu Advisors, LLC (financial services) (June 2008 – Jan. 2015); Advisor, Asset International, Inc. (publisher of financial services information) (Aug. 2008 – Jan. 2015).	108	None
Gerald B. Smith 1950 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios since 2000; Laudus Trust since 2010; Schwab Strategic Trust since 2016)	Chairman, Chief Executive Officer and Founder of Smith Graham & Co. (investment advisors) (Mar. 1990 – present).	108	Director, Eaton (2012 – present) Director and Chairman of the Audit Committee, Oneok Partners LP (2003 – 2013) Director, Oneok, Inc. (2009 – 2013) Lead Independent Director, Board of Cooper Industries (2002 – 2012)
Joseph H. Wender 1944 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios since 2008; Laudus Trust since 2010; Schwab Strategic Trust since 2016)	Senior Consultant, Goldman Sachs & Co., Inc. (investment banking and securities firm) (Jan. 2008 – present); Co-CEO, Colgin Cellars, LLC (vineyards) (Feb. 1998 – present).	108	Board Member and Chairman of the Audit Committee, Ionis Pharmaceuticals (1994 – present) Lead Independent Director and Chair of Audit Committee, OUTFRONT Media Inc. (2014 – present)

INTERESTED TRUSTEES

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED ¹)	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
Walter W. Bettinger II² 1960 Chairman and Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios since 2008; Schwab Strategic Trust since 2009; Laudus Trust since 2010)	Director, President and Chief Executive Officer, The Charles Schwab Corporation (Oct. 2008 – present); President and Chief Executive Officer (Oct. 2008 – present), Director (May 2008 – present), Charles Schwab & Co., Inc.; Director, Charles Schwab Bank (Apr. 2006 – present); Director (May 2008 – present), President and Chief Executive Officer (Aug. 2017 – present), Schwab Holdings, Inc.; and Director, Charles Schwab Investment Management, Inc. (July 2016 – present).	108	Director, The Charles Schwab Corporation (2008 – present)
Marie A. Chandoha² 1961 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2016)	Director, President and Chief Executive Officer (Dec. 2010 – present), Chief Investment Officer (Sept. 2010 – Oct. 2011), Charles Schwab Investment Management, Inc.; Trustee (Jan. 2016 – present), President, Chief Executive Officer (Dec. 2010 – present), and Chief Investment Officer (Sept. 2010 – Oct. 2011), Schwab Funds, Laudus Funds and Schwab ETFs; Director, Charles Schwab Worldwide Funds plc and Charles Schwab Asset Management (Ireland) Limited (Jan. 2011 – present); Global Head of Fixed Income Business Division, BlackRock, Inc. (formerly Barclays Global Investors) (investment management firm) (Mar. 2007 – Aug. 2010).	108	None
Joseph R. Martinetto² 1962 Trustee (Trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2016)	Senior Executive Vice President (July 2015 – present), Chief Financial Officer (July 2015 – Aug. 2017), Executive Vice President and Chief Financial Officer (May 2007 – July 2015), The Charles Schwab Corporation and Charles Schwab & Co., Inc.; Director, Charles Schwab & Co., Inc. (May 2007 – present); Director (Apr. 2010 – present) and Chief Executive Officer (July 2013 – Apr. 2015), Charles Schwab Bank; Director (May 2007 – present), Chief Financial Officer (May 2007 – Aug. 2017), Senior Executive Vice President (Feb. 2016 – present), and Executive Vice President (May 2007 – Feb. 2016), Schwab Holdings, Inc.	108	None

OFFICERS OF THE TRUST

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED ³)	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS
Marie A. Chandoha 1961 President and Chief Executive Officer (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2010)	Director, President and Chief Executive Officer (Dec. 2010 – present), Chief Investment Officer (Sept. 2010 – Oct. 2011), Charles Schwab Investment Management, Inc.; Trustee (Jan. 2016 – present), President, Chief Executive Officer (Dec. 2010 – present), and Chief Investment Officer (Sept. 2010 – Oct. 2011), Schwab Funds, Laudus Funds and Schwab ETFs; Director, Charles Schwab Worldwide Funds plc and Charles Schwab Asset Management (Ireland) Limited (Jan. 2011 – present); Global Head of Fixed Income Business Division, BlackRock, Inc. (formerly Barclays Global Investors) (investment management firm) (Mar. 2007 – Aug. 2010).
Mark Fischer 1970 Treasurer and Chief Financial Officer (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2013)	Treasurer and Chief Financial Officer, Schwab Funds, Laudus Funds and Schwab ETFs (Jan. 2016 – present); Assistant Treasurer, Schwab Funds and Laudus Funds (Dec. 2013 – Dec. 2015), Schwab ETFs (Nov. 2013 – Dec. 2015); Vice President, Charles Schwab Investment Management, Inc. (Oct. 2013 – present); Executive Director, J.P. Morgan Investor Services (Apr. 2011 – Sept. 2013); Assistant Treasurer, Massachusetts Financial Service Investment Management (May 2005 – Mar. 2011).

OFFICERS OF THE TRUST (CONTINUED)NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED³)

PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS

George Pereira

1964

Senior Vice President and Chief Operating Officer (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios since 2004; Laudus Trust since 2006; Schwab Strategic Trust since 2009)

Senior Vice President and Chief Financial Officer (Nov. 2004 – present), Chief Operating Officer (Jan. 2011 – present), Charles Schwab Investment Management, Inc.; Senior Vice President and Chief Operating Officer (Jan. 2016 – present), Treasurer and Chief Financial Officer, Laudus Funds (June 2006 – Dec. 2015); Treasurer and Principal Financial Officer, Schwab Funds (Nov. 2004 – Dec. 2015) and Schwab ETFs (Oct. 2009 – Dec. 2015); Director, Charles Schwab Worldwide Funds plc and Charles Schwab Asset Management (Ireland) Limited (Apr. 2005 – present).

Omar Aguilar

1970

Senior Vice President and Chief Investment Officer – Equities and Multi-Asset Strategies (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2011)

Senior Vice President and Chief Investment Officer – Equities and Multi-Asset Strategies, Charles Schwab Investment Management, Inc. (Apr. 2011 – present); Senior Vice President and Chief Investment Officer – Equities, Schwab Funds, Laudus Funds and Schwab ETFs (June 2011 – present); Head of the Portfolio Management Group and Vice President of Portfolio Management, Financial Engines, Inc. (investment management firm) (May 2009 – Apr. 2011); Head of Quantitative Equity, ING Investment Management (July 2004 – Jan. 2009).

Brett Wander

1961

Senior Vice President and Chief Investment Officer – Fixed Income (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2011)

Senior Vice President and Chief Investment Officer – Fixed Income, Charles Schwab Investment Management, Inc. (Apr. 2011 – present); Senior Vice President and Chief Investment Officer – Fixed Income, Schwab Funds, Laudus Funds and Schwab ETFs (June 2011 – present); Senior Managing Director, Global Head of Active Fixed-Income Strategies, State Street Global Advisors (Jan. 2008 – Oct. 2010); Director of Alpha Strategies Loomis, Sayles & Company (investment management firm) (Apr. 2006 – Jan. 2008).

David Lekich

1964

Chief Legal Officer and Secretary, Schwab Funds and Schwab ETFs
Vice President and Assistant Clerk, Laudus Funds (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios, Schwab Strategic Trust and Laudus Trust since 2011)

Senior Vice President (Sept. 2011 – present), Vice President (Mar. 2004 – Sept. 2011), Charles Schwab & Co., Inc.; Senior Vice President and Chief Counsel (Sept. 2011 – present), Vice President (Jan. 2011 – Sept. 2011), Charles Schwab Investment Management, Inc.; Secretary (Apr. 2011 – present) and Chief Legal Officer (Dec. 2011 – present), Schwab Funds; Vice President and Assistant Clerk, Laudus Funds (Apr. 2011 – present); Secretary (May 2011 – present) and Chief Legal Officer (Nov. 2011 – present), Schwab ETFs.

Catherine MacGregor

1964

Vice President and Assistant Secretary, Schwab Funds and Schwab ETFs
Chief Legal Officer, Vice President and Clerk, Laudus Funds (Officer of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust, Schwab Annuity Portfolios and Laudus Trust since 2005; Schwab Strategic Trust since 2009)

Vice President, Charles Schwab & Co., Inc., Charles Schwab Investment Management, Inc. (July 2005 – present); Vice President (Dec. 2005 – present), Chief Legal Officer and Clerk (Mar. 2007 – present), Laudus Funds; Vice President (Nov. 2005 – present) and Assistant Secretary (June 2007 – present), Schwab Funds; Vice President and Assistant Secretary, Schwab ETFs (Oct. 2009 – present).

¹ Each Trustee shall hold office until the election and qualification of his or her successor, or until he or she dies, resigns or is removed. The retirement policy requires that each independent trustee retire by December 31 of the year in which the Trustee turns 74 or the Trustee's twentieth year of service as an independent trustee on any trust in the Fund Complex, whichever occurs first.

² Mr. Bettinger, Ms. Chandoha and Mr. Martinetto are Interested Trustees. Mr. Bettinger is an Interested Trustee because he owns stock of The Charles Schwab Corporation (CSC), the parent company of Charles Schwab Investment Management, Inc. (CSIM), the investment adviser for the trusts in the Fund Complex, is an employee and director of Charles Schwab & Co., Inc. (CS&Co), the principal underwriter for The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios, and is a director of the investment adviser for the trusts in the Fund Complex. Ms. Chandoha is an Interested Trustee because she owns stock of CSC and is an employee and director of CSIM. Mr. Martinetto is an Interested Trustee because he owns stock of CSC and is an employee and director of CS&Co.

³ The President, Treasurer and Secretary/Clerk hold office until their respective successors are chosen and qualified or until he or she sooner dies, resigns, is removed or becomes disqualified. Each of the other officers serves at the pleasure of the Board.