



Investment  
Management

## Schwab VIT Balanced with Growth Portfolio

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### **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](http://www.schwabfunds.com/schwabfunds_prospectus), the SEC's website at [www.sec.gov](http://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](http://www.schwabfunds.com/schwabfunds_prospectus) or the SEC's website at [www.sec.gov](http://www.sec.gov).

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

# The Investment Environment

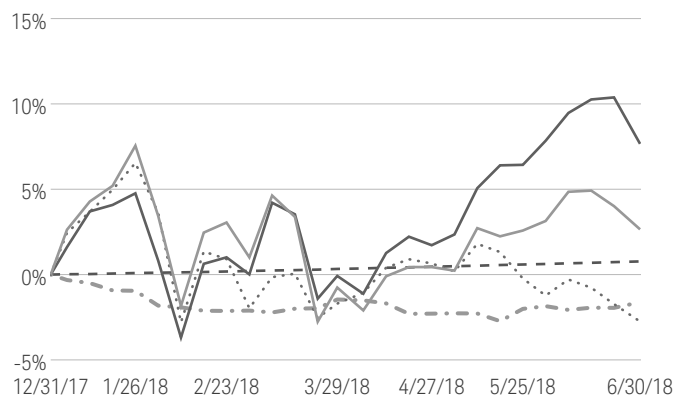
Over the six-month reporting period ended June 30, 2018, equity markets were mixed, and fixed income markets generally posted negative returns. Uncertainty abounded, from worries about escalating trade tensions and political uncertainty in the eurozone to signs of slowing momentum in the global economy. Outside the U.S., stocks were weaker despite signs of continuing strength in most global economies. The U.S. dollar generally appreciated against many major overseas currencies, weakening international stocks and dampening returns on overseas investments in U.S. dollar terms. The U.S. yield curve generally flattened over the reporting period, with short-term yields rising and longer-term yields remaining relatively steady. In this environment, the S&P 500<sup>®</sup> Index, a bellwether for the overall U.S. stock market, returned 2.65%, while the MSCI EAFE<sup>®</sup> Index (Net)\*, a broad measure of developed international equity performance, returned -2.75%. For the same period, the MSCI Emerging Markets Index (Net)\* returned -6.66%. Among fixed income, the Bloomberg Barclays US Aggregate Bond Index returned -1.62% for the reporting period, and the FTSE non-US Dollar World Government Bond Index returned -0.92%.

Economies around the globe generally continued to exhibit strength over the reporting period, although equity markets were buffeted by significant volatility. In the U.S., the labor market remained strong, reporting its 93rd consecutive month of jobs expansion as of the end of June, along with a pickup in wage gains. While the unemployment rate ticked up to 4% from 3.8%—a reflection of more people joining or returning to the job market—the rate remained near its 17-year low. Corporate earnings generally remained strong, with many companies exceeding expectations. U.S. consumers generally remained optimistic, although The Conference Board's Consumer Confidence Index<sup>®1</sup> fell slightly in May, suggesting that consumers may sense a cooling ahead. U.S. real gross domestic product (GDP) increased at an annual rate of 2.0% in the first quarter of 2018, following an increase of 2.9% in the fourth quarter of 2017. Outside the U.S., economic growth in the eurozone cooled in the first quarter to its weakest pace since mid-2016. Japan's

## ASSET CLASS PERFORMANCE COMPARISON % RETURNS DURING THE 6 MONTHS ENDED JUNE 30, 2018

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

- 2.65% **S&P 500<sup>®</sup> Index:** measures U.S. large-cap stocks
- 7.66% **Russell 2000<sup>®</sup> Index:** measures U.S. small-cap stocks
- ... -2.75% **MSCI EAFE<sup>®</sup> Index (Net)\*:** measures (in U.S. dollars) large-cap stocks in Europe, Australasia and the Far East
- - -1.62% **Bloomberg Barclays US Aggregate Bond Index:** measures the U.S. bond market
- - 0.77% **Bloomberg Barclays US Treasury Bills 1-3 Month Index:** measures short-term U.S. Treasury obligations



Index figures assume dividends and distributions were reinvested. Index figures do not include trading and management costs, which would lower performance. Indices are unmanaged and cannot be invested in directly. Performance results less than one year are not annualized. Past performance is not an indication of future results.

For index definitions, please see the Glossary.

Data source: Index provider websites and CSIM.

Nothing in this report represents a recommendation of a security by the investment adviser.

Management views may have changed since the report date.

\* The net version of the index reflects reinvested dividends net of withholding taxes, but reflects no deductions for expenses or other taxes.

<sup>1</sup> The Conference Board is a global, independent business membership and research association working in the public interest. The Consumer Confidence Index<sup>®</sup> is based on the Consumer Confidence Survey<sup>®</sup> which reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes and buying intentions, with data available by age, income, and region.

## The Investment Environment (continued)

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economy contracted early in the year for the first time in nine quarters. China's economy held steady for the third straight quarter but was projected to ease slightly due to growing financial market risk and an expectation of reduced demand.

During the reporting period, the Federal Reserve (Fed) continued to take steps toward a more normalized monetary policy environment, reaffirming its commitment to gradually raising short-term interest rates. Following three 0.25% rate hikes in 2017, the Fed instituted two more rate hikes thus far in 2018—in March and June—citing continued strength in the labor market and solid economic growth. In its minutes from its June meeting, however, the Fed noted that uncertainty and risks associated with trade policy had intensified, which could eventually have negative effects on business sentiment and investment spending. The federal funds rate ended the reporting period in a range of 1.75% to 2.00%. In addition, the pace of the Fed's balance sheet reduction plan, whereby it allows securities to mature without reinvesting the proceeds, accelerated over the reporting period. As of the end of the reporting period, the Fed's balance sheet stood at \$4.3 trillion, down from \$4.5 trillion when the program was announced.

Outside the U.S., monetary policies mostly remained relatively accommodative amid low inflation, though some central banks did take steps toward tighter policies. At its March meeting, the Governing Council of the European Central Bank left interest rates unchanged, announcing that it expects key interest rates to remain at their present levels for an extended period of time and confirming that its net asset purchases are intended to run until at least the end of September 2018. During the reporting period, the Bank of Japan removed the timeframe for achieving its 2% inflation target and maintained its short-term interest rate target at -0.1%.

During the reporting period, the U.S. bond yield curve flattened, and yields remained low relative to historical averages. Short-term yields, which are directly influenced by central bank policy, rose in response to the federal funds rate increases. Longer-term yields, by comparison, are driven more by economic growth and inflation expectations. Despite steady economic growth over the reporting, inflation remained benign and longer-term yields were generally range bound.

## Portfolio Management

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**Zifan Tang, Ph.D., CFA**, Senior Portfolio Manager, is responsible for the management of the fund. She has served as portfolio manager of the fund since July 2012. Prior to joining CSIM in 2012, Ms. Tang was a product manager at Thomson Reuters and, from 1997 to 2009, worked as a portfolio manager at Barclays Global Investors, which was subsequently acquired by BlackRock.

# Schwab VIT Balanced with Growth Portfolio

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.schwabfunds.com/schwabfunds\\_prospectus](http://www.schwabfunds.com/schwabfunds_prospectus).

AVERAGE ANNUAL TOTAL RETURNS <sup>1</sup>				
FUND AND INCEPTION DATE	6 MONTHS	1 YEAR	5 YEARS	SINCE INCEPTION
Fund: Schwab VIT Balanced with Growth Portfolio (07/25/12)	-0.36%	6.26%	5.88%	6.49%
VIT Balanced with Growth Composite Index	-0.12%	6.98%	6.51%	7.27%
S&P 500 <sup>®</sup> Index	2.65%	14.37%	13.42%	15.08%
Bloomberg Barclays US Aggregate Bond Index	-1.62%	-0.40%	2.27%	1.54%
Fund Category: Morningstar Allocation - 50% to 70% Equity <sup>2</sup>	0.13%	7.22%	7.32%	N/A

*Fund Expense Ratio<sup>3</sup>: 0.61%*

All total return 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 cannot be invested in directly. Performance results less than one year are not annualized.

The first index listed for the fund is the fund's primary benchmark, as shown in the prospectus. Additional indices are provided for comparative purposes.

The components that make up the composite index may vary over time. For index definitions, please see the Glossary.

<sup>1</sup> Fund expenses have been partially absorbed by CSIM and its affiliates. Without these reductions, the fund's returns would have been lower. Fund performance does 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 performance would be less than that shown. Please refer to the variable insurance product prospectus for a complete listing of these expenses.

<sup>2</sup> Source for category information: Morningstar, Inc. The Morningstar Category return represents all active and index mutual funds within the category as of the report date.

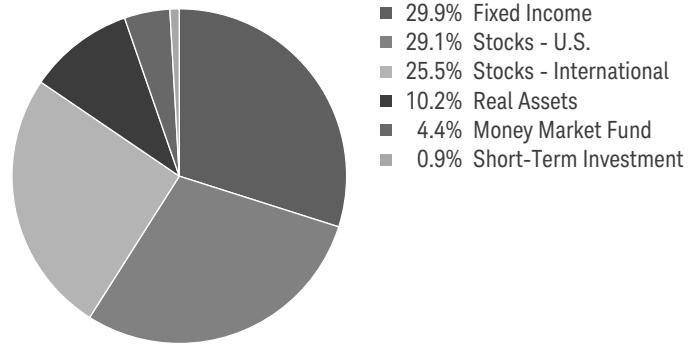
<sup>3</sup> As stated in the prospectus. Includes 0.10% of acquired fund fees and expenses, which are indirect expenses incurred by the fund through its investments in the underlying funds. Reflects the total annual fund operating expenses without contractual fee waivers. For actual ratios during the period, refer to the Financial Highlights section of the financial statements.

# Performance and Fund Facts as of June 30, 2018

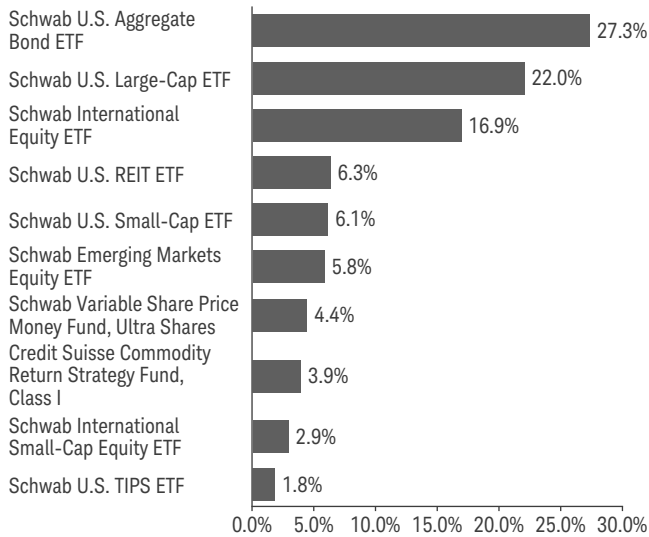
## STATISTICS

Number of Holdings	13
Portfolio Turnover Rate	3% <sup>1</sup>

## ASSET CLASS WEIGHTINGS % OF INVESTMENTS<sup>2,3</sup>



## TOP HOLDINGS % OF NET ASSETS<sup>4,5</sup>



Portfolio holdings may have changed since the report date.

<sup>1</sup> Not annualized.

<sup>2</sup> The fund intends to primarily invest in affiliated Schwab ETFs and unaffiliated third-party ETFs. The fund may also invest in affiliated Schwab and Laudus mutual funds and unaffiliated third party mutual funds (all such ETFs and mutual funds referred to as “underlying funds”). The fund may also invest directly in equity or fixed income securities, and money market investments to achieve its investment objectives.

<sup>3</sup> 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.

<sup>4</sup> This list is not a recommendation of any security by the investment adviser.

<sup>5</sup> The holdings listed exclude any temporary liquidity investments.

# 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 January 1, 2018 and held through June 30, 2018.

**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) <sup>1,2</sup>	EFFECTIVE EXPENSE RATIO (ANNUALIZED) <sup>3,4</sup>	BEGINNING ACCOUNT VALUE AT 1/1/18	ENDING ACCOUNT VALUE (NET OF EXPENSES) AT 6/30/18 <sup>2</sup>	EXPENSES PAID DURING PERIOD 1/1/18-6/30/18 <sup>2,5</sup>	EFFECTIVE EXPENSES PAID DURING PERIOD 1/1/18-6/30/18 <sup>4,5</sup>
<b>Schwab VIT Balanced with Growth Portfolio</b>						
Actual Return	0.50%	0.60%	\$1,000.00	\$ 996.40	\$2.48	\$2.97
Hypothetical 5% Return	0.50%	0.60%	\$1,000.00	\$1,022.32	\$2.51	\$3.01

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

<sup>2</sup> Excludes acquired fund fees and expenses, which are indirect expenses incurred by the fund through its investments in underlying funds.

<sup>3</sup> Based on the most recent six-month acquired fund fees and expense ratio; may differ from the acquired fund fees and expenses ratios in the prospectus, which are based on estimated amounts for the current fiscal year.

<sup>4</sup> Includes acquired fund fees and expenses, which are indirect expenses incurred by the fund through its investments in underlying funds.

<sup>5</sup> Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by 181 days of the period, and divided by the 365 days of the fiscal year.



## Financial Statements

## FINANCIAL HIGHLIGHTS

	1/1/18– 6/30/18*	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
<b>Per-Share Data</b>						
Net asset value at beginning of period	\$13.80	\$12.38	\$11.80	\$12.26	\$11.86	\$10.71
Income (loss) from investment operations:						
Net investment income (loss) <sup>1</sup>	0.06	0.22	0.19	0.17	0.19	0.23
Net realized and unrealized gains (losses)	(0.11)	1.46	0.56	(0.47)	0.30	0.93
Total from investment operations	(0.05)	1.68	0.75	(0.30)	0.49	1.16
Less distributions:						
Distributions from net investment income	(0.21)	(0.18)	(0.16)	(0.15)	(0.09)	(0.01)
Distributions from net realized gains	(0.02)	(0.08)	(0.01)	(0.01)	(0.00) <sup>2</sup>	–
Total distributions	(0.23)	(0.26)	(0.17)	(0.16)	(0.09)	(0.01)
Net asset value at end of period	\$13.52	\$13.80	\$12.38	\$11.80	\$12.26	\$11.86
Total return	(0.36%) <sup>3</sup>	13.70%	6.38%	(2.47%)	4.15%	10.79%
<b>Ratios/Supplemental Data</b>						
Ratios to average net assets:						
Net operating expenses <sup>4</sup>	0.50% <sup>5</sup>	0.51%	0.51%	0.53%	0.55%	0.58%
Gross operating expenses <sup>4</sup>	0.50% <sup>5</sup>	0.51%	0.51%	0.55%	0.57%	0.75%
Net investment income (loss)	0.89% <sup>5</sup>	1.65%	1.55%	1.41%	1.53%	2.07%
Portfolio turnover rate	3% <sup>3</sup>	6%	33% <sup>6</sup>	7%	8%	14%
Net assets, end of period (x 1,000,000)	\$151	\$150	\$133	\$116	\$99	\$70

\* Unaudited.

<sup>1</sup> Calculated based on the average shares outstanding during the period.

<sup>2</sup> Per-share amount was less than \$0.005.

<sup>3</sup> Not annualized.

<sup>4</sup> The expenses incurred by underlying funds in which the fund invests are not included in this ratio.

<sup>5</sup> Annualized.

<sup>6</sup> The portfolio turnover rate increased due to the consolidation of multiple unaffiliated investments into the Schwab U.S. Aggregate Bond ETF, which reduces costs for shareholders.

# Portfolio Holdings

as of June 30, 2018 (Unaudited)

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 quarters 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](http://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 makes available its complete schedule of portfolio holdings 15 to 20 days after the end of the month on the fund's website at [www.schwabfunds.com/schwabfunds\\_prospectus](http://www.schwabfunds.com/schwabfunds_prospectus).

SECURITY	NUMBER OF SHARES	VALUE (\$)
<b>AFFILIATED UNDERLYING FUNDS 93.5% OF NET ASSETS</b>		
<b>U.S. Stocks 28.1%</b>		
<b>Large-Cap 22.0%</b>		
Schwab U.S. Large-Cap ETF	509,559	33,116,239
<b>Small-Cap 6.1%</b>		
Schwab U.S. Small-Cap ETF	123,935	9,117,898
		<b>42,234,137</b>
<b>International Stocks 25.6%</b>		
<b>Developed-Market Large-Cap 16.9%</b>		
Schwab International Equity ETF	771,133	25,485,946
<b>Developed-Market Small-Cap 2.9%</b>		
Schwab International Small-Cap Equity ETF	121,830	4,394,408
<b>Emerging-Market 5.8%</b>		
Schwab Emerging Markets Equity ETF	334,926	8,671,234
		<b>38,551,588</b>
<b>Real Assets 6.3%</b>		
<b>Real Estate 6.3%</b>		
Schwab U.S. REIT ETF	228,090	9,529,600
<b>Fixed Income 29.1%</b>		
<b>Inflation-Protected Bond 1.8%</b>		
Schwab U.S. TIPS ETF	50,552	2,775,810
<b>Intermediate-Term Bond 27.3%</b>		
Schwab U.S. Aggregate Bond ETF	810,169	41,026,958
		<b>43,802,768</b>
<b>Money Market Fund 4.4%</b>		
Schwab Variable Share Price Money Fund, Ultra Shares 1.99% (a)	6,564,610	6,566,580
<b>Total Affiliated Underlying Funds</b> <b>(Cost \$120,681,131)</b>		<b>140,684,673</b>

SECURITY	NUMBER OF SHARES	VALUE (\$)
<b>UNAFFILIATED UNDERLYING FUNDS 5.9% OF NET ASSETS</b>		
<b>U.S. Stock 1.1%</b>		
<b>Micro-Cap 1.1%</b>		
iShares Micro-Cap ETF	15,995	1,689,392
<b>Real Assets 3.9%</b>		
<b>Commodity 3.9%</b>		
Credit Suisse Commodity Return Strategy Fund, Class I	1,181,475	5,883,746
<b>Fixed Income 0.9%</b>		
<b>International Developed-Market Bond 0.9%</b>		
SPDR Bloomberg Barclays International Treasury Bond ETF	49,471	1,372,820
<b>Total Unaffiliated Underlying Funds</b> <b>(Cost \$9,712,745)</b>		<b>8,945,958</b>
ISSUER	FACE	VALUE (\$)
RATE, MATURITY DATE	AMOUNT (\$)	
<b>SHORT-TERM INVESTMENT 0.9% OF NET ASSETS</b>		
<b>Time Deposit 0.9%</b>		
<b>Sumitomo Mitsui Banking Corp.</b> 1.27%, 07/02/18 (b)	1,387,739	1,387,739
<b>Total Short-Term Investment</b> <b>(Cost \$1,387,739)</b>		<b>1,387,739</b>

- (a) The rate shown is the 7-day yield.  
(b) The rate shown is the current daily overnight rate.

ETF – Exchange-traded fund  
REIT – Real Estate Investment Trust  
SPDR – Standard & Poor's Depository Receipts  
TIPS – Treasury Inflation Protected Securities

# Portfolio Holdings

 as of June 30, 2018 (Unaudited) (continued)

Below is a summary of the fund's transactions with its affiliated underlying funds during the period ended June 30, 2018:

AFFILIATED UNDERLYING FUNDS	BALANCE OF SHARES HELD AT 12/31/17	GROSS PURCHASES	GROSS SALES	BALANCE OF SHARES HELD AT 06/30/18	NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION)	REALIZED GAINS (LOSSES)	DISTRIBUTIONS RECEIVED*
Schwab Emerging Markets Equity ETF	328,150	16,633	(9,857)	334,926	(\$697,541)	\$51,371	\$–
Schwab International Equity ETF	761,091	38,200	(28,158)	771,133	(768,289)	34,407	–
Schwab International Small-Cap Equity ETF	121,830	–	–	121,830	(68,225)	–	–
Schwab U.S. Aggregate Bond ETF	775,775	57,343	(22,949)	810,169	(1,073,536)	(37,864)	458,652
Schwab U.S. Large-Cap ETF	522,539	8,755	(21,735)	509,559	474,014	208,004	290,550
Schwab U.S. REIT ETF	208,862	30,378	(11,150)	228,090	142,125	(6,268)	133,889
Schwab U.S. Small-Cap ETF	131,945	–	(8,010)	123,935	351,966	143,207	49,645
Schwab U.S. TIPS ETF	50,552	–	–	50,552	(26,287)	–	22,860
Schwab Variable Share Price Money Fund, Ultra Shares	4,330,348	2,234,262	–	6,564,610	869	–	40,800
<b>Total</b>					<b>(\$1,664,904)</b>	<b>\$392,857</b>	<b>\$996,396</b>

\* Distributions received include distributions from net investment income and capital gains, if any, from the underlying funds.

The following is a summary of the inputs used to value the fund's investments as of June 30, 2018 (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
<b>Assets</b>				
Affiliated Underlying Funds <sup>1</sup>	\$140,684,673	\$–	\$–	\$140,684,673
Unaffiliated Underlying Funds <sup>1</sup>	8,945,958	–	–	8,945,958
Short-Term Investment <sup>1</sup>	–	1,387,739	–	1,387,739
<b>Total</b>	<b>\$149,630,631</b>	<b>\$1,387,739</b>	<b>\$–</b>	<b>\$151,018,370</b>

<sup>1</sup> 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 June 30, 2018. Fund investments in underlying mutual funds and ETFs are classified as Level 1, without consideration to the classification level of the investments held by the underlying mutual funds and ETFs, which could be Level 1, Level 2 or Level 3.

# Statement of Assets and Liabilities

As of June 30, 2018; unaudited

<b>ASSETS</b>	
Investments in affiliated underlying funds, at value (cost \$120,681,131)	\$140,684,673
Investments in unaffiliated issuers, at value (cost \$11,100,484)	10,333,697
Receivables:	
Investments sold	198,584
Fund shares sold	535,753
Dividends	31,752
Interest	+ 99
<b>Total assets</b>	<b>151,784,558</b>

<b>LIABILITIES</b>	
Payables:	
Investments bought	1,164,814
Investment adviser and administrator fees	57,766
Fund shares redeemed	4,583
Accrued expenses	+ 18,297
<b>Total liabilities</b>	<b>1,245,460</b>

<b>NET ASSETS</b>	
<b>Total assets</b>	151,784,558
<b>Total liabilities</b>	- 1,245,460
<b>Net assets</b>	<b>\$150,539,098</b>

**Net Assets by Source**

Capital received from investors	130,813,060
Net investment income not yet distributed	666,286
Net realized capital losses	(177,003)
Net unrealized capital appreciation	19,236,755

**Net Asset Value (NAV)**

<b>Net Assets</b>	÷	<b>Shares Outstanding</b>	=	<b>NAV</b>
\$150,539,098		11,134,285		\$13.52

# Statement of Operations

For the period January 1, 2018 through June 30, 2018; unaudited

<b>INVESTMENT INCOME</b>	
Dividends received from affiliated underlying funds	\$996,396
Dividends received from unaffiliated underlying funds	34,350
Interest	+ 13,024
<b>Total investment income</b>	<b>1,043,770</b>
<b>EXPENSES</b>	
Investment adviser and administrator fees	338,646
Professional fees	16,276
Independent trustees' fees	9,554
Shareholder reports	6,021
Portfolio accounting fees	3,197
Custodian fees	1,207
Transfer agent fees	1,180
Other expenses	+ 1,034
<b>Total expenses</b>	<b>- 377,115</b>
<b>Net investment income</b>	<b>666,655</b>
<b>REALIZED AND UNREALIZED GAINS (LOSSES)</b>	
Net realized gains on sales of affiliated underlying funds	392,857
Net realized gains on sales of unaffiliated underlying funds	+ 22
<b>Net realized gains</b>	<b>392,879</b>
Net change in unrealized appreciation (depreciation) on affiliated underlying funds	(1,664,904)
Net change in unrealized appreciation (depreciation) on unaffiliated underlying funds	+ 77,819
<b>Net change in unrealized appreciation (depreciation)</b>	<b>+ (1,587,085)</b>
<b>Net realized and unrealized losses</b>	<b>(1,194,206)</b>
<b>Decrease in net assets resulting from operations</b>	<b>(\$527,551)</b>

# Statement of Changes in Net Assets

For the current and prior report periods

Figures for the current period are unaudited

<b>OPERATIONS</b>				
	1/1/18-6/30/18		1/1/17-12/31/17	
Net investment income		\$666,655		\$2,307,028
Net realized gains		392,879		142,683
Net change in unrealized appreciation (depreciation)		+ (1,587,085)		15,417,209
<b>Increase (decrease) in net assets from operations</b>		<b>(527,551)</b>		<b>17,866,920</b>
<b>DISTRIBUTIONS TO SHAREHOLDERS</b>				
Distributions from net investment income		(2,306,872)		(1,921,305)
Distributions from net realized gains		+ (208,024)		(801,597)
<b>Total distributions</b>		<b>(\$2,514,896)</b>		<b>(\$2,722,902)</b>
<b>TRANSACTIONS IN FUND SHARES</b>				
	1/1/18-6/30/18		1/1/17-12/31/17	
	SHARES	VALUE	SHARES	VALUE
Shares sold	530,018	\$7,321,895	1,008,516	\$13,272,372
Shares reinvested	186,013	2,514,896	210,426	2,722,902
Shares redeemed	+ (470,140)	(6,477,727)	(1,076,056)	(13,935,461)
<b>Net transactions in fund shares</b>	<b>245,891</b>	<b>\$3,359,064</b>	<b>142,886</b>	<b>\$2,059,813</b>
<b>SHARES OUTSTANDING AND NET ASSETS</b>				
	1/1/18-6/30/18		1/1/17-12/31/17	
	SHARES	NET ASSETS	SHARES	NET ASSETS
Beginning of period	10,888,394	\$150,222,481	10,745,508	\$133,018,650
Total increase	+ 245,891	316,617	142,886	17,203,831
<b>End of period</b>	<b>11,134,285</b>	<b>\$150,539,098</b>	<b>10,888,394</b>	<b>\$150,222,481</b>
<b>Net investment income not yet distributed</b>		<b>\$666,286</b>		<b>\$2,306,503</b>

# Financial Notes, unaudited

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## 1. Business Structure of the Fund:

Schwab VIT Balanced with Growth 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 is a “fund of funds” which primarily invests in affiliated Schwab ETFs and unaffiliated third-party ETFs. The fund may also invest in affiliated Schwab mutual funds and Laudus mutual funds and unaffiliated third-party mutual funds (all such ETFs and mutual funds referred to as underlying funds). The fund may also invest directly in equity or fixed-income securities, including bonds, cash equivalents, money market funds and money market investments, to achieve its investment objectives.

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 the 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 June 30, 2018, 100% of the fund’s shares were held through separate accounts of two 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.

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## 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 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).

The financial statements of the fund should be read in conjunction with the underlying funds’ financial statements. For more information about the underlying funds’ operations and policies, please refer to those funds’ semiannual and annual reports, which are filed and available on the U.S. Securities and Exchange Commission’s (SEC) website at [www.sec.gov](http://www.sec.gov) or at the SEC’s Public Reference Room in Washington D.C.

### (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.

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

- **Underlying funds:** Mutual funds are valued at their respective NAVs. ETFs traded on a recognized securities exchange are valued at the last reported sale price that day or the official closing price, if applicable.
- **Securities for which no quoted value is available:** The Board has adopted procedures to fair value the fund’s securities when market prices are not “readily available” or are unreliable. For example, the fund may fair value a security when it is de-listed or its trading is halted or suspended; when a security’s primary pricing source is unable or unwilling to provide a price; or when a

# Financial Notes, unaudited (continued)

## 2. Significant Accounting Policies (continued):

security's primary trading market is closed during regular market hours. The fund makes fair value determinations in good faith in accordance with the fund's valuation procedures. 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 the 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 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.

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 and ETFs. Investments in mutual funds are valued daily at their NAVs, and investments in ETFs are valued daily at the last reported sale price or the official closing price, 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.
- 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 June 30, 2018 are disclosed in the Portfolio Holdings.

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

**Cash Management Transactions:** The fund may subscribe to the Brown Brothers Harriman & Co. (BBH) Cash Management Service Sweep (CMS Sweep). The BBH CMS Sweep is an investment product that automatically sweeps the fund's cash balances into overnight offshore time deposits with either the BBH Grand Cayman branch or a branch of a pre-approved commercial bank. This fully automated program allows the fund to earn interest on cash balances. Excess cash invested with deposit institutions domiciled outside of the U.S., as with any offshore deposit, may be subject to sovereign actions in the jurisdiction of the deposit institution including, but not limited to, freeze, seizure or diminution. The fund bears the risk associated with the repayment of principal and payment of interest on such instruments by the institution with which the deposit is ultimately placed. Balances in the CMS Sweep are accounted for on a cost basis, which approximates market value.



# Financial Notes, unaudited (continued)

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## 2. Significant Accounting Policies (continued):

### (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.

### (d) Investment Income:

Interest income is recorded as it accrues. Dividends and distributions from portfolio securities and underlying funds 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. Any distributions from underlying funds are recorded in accordance with the character of the distributions as designated by the underlying funds.

### (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. The fund bears its share of the acquired fund fees and expenses of the underlying funds, which are indirect expenses incurred by the fund through its investments in the underlying funds. Such expenses are reflected in the net asset values of the underlying funds.

### (f) Distributions to Shareholders:

The fund makes distributions from net investment income and net realized capital gains, if any, once a year.

### (g) 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.

### (h) 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.

### (i) 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.

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## 3. Risk Factors:

Investing in the fund may involve certain risks, as discussed in the fund's prospectus, including, but not limited to, those described below. Any of these risks could cause an investor to lose money.

**Asset Allocation Risk.** The fund is subject to the risk that the selection of the underlying funds and the allocation of the fund's assets among the various asset classes and market segments may cause the fund to underperform other funds with a similar investment objective.

**Conflicts of Interest Risk.** The investment adviser's authority to select and substitute underlying funds from a variety of affiliated and unaffiliated mutual funds and ETFs may create a conflict of interest because the fees paid to it and its affiliates by some underlying funds are higher than the fees paid by other underlying funds. The investment adviser also may have an incentive to select an affiliated underlying fund for other reasons, including to increase assets under management or to support new investment strategies. In addition, other conflicts of interest may exist where the best interests of the affiliated underlying fund may not be aligned with those of the fund. However, the investment adviser is a fiduciary to the fund and is legally obligated to act in the fund's best interests when selecting underlying funds.

# Financial Notes, unaudited (continued)

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### 3. Risk Factors (continued):

**Market Risk.** Financial markets rise and fall in response to a variety of factors, sometimes rapidly and unpredictably. As with any investment whose performance is tied to these markets, the value of an investment in the fund will fluctuate, which means that an investor could lose money over short or long periods.

**ETF Risk.** When the fund invests in an ETF, it will bear a proportionate share of the ETF's expenses. In addition, lack of liquidity in the market for an ETF's share can result in its value being more volatile than the underlying portfolio of securities.

**Direct Investment Risk.** The fund may invest directly in cash, cash equivalents and equity and fixed-income securities, including money market securities, to maintain its allocations. The fund's direct investment in these securities is subject to the same or similar risks as an underlying fund's investment in the same securities.

**Underlying Fund Investment Risk.** Before investing in the fund, investors should assess the risks associated with the underlying funds in which the fund may invest, which include any combination of the risks described below.

- **Equity Risk.** The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. In addition, equity markets tend to move in cycles, which may cause stock prices to fall over short or extended periods of time.
- **Market Capitalization Risk.** Securities issued by companies of different market capitalizations tend to go in and out of favor based on market and economic conditions. During a period when securities of a particular market capitalization fall behind other types of investments, the underlying fund's performance could be impacted.
- **Foreign Investment Risk.** An underlying fund's investments in securities of foreign issuers involve certain risks that may be greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory and other conditions; changes in currency exchange rates or exchange control regulations (including limitations on currency movements and exchanges); the imposition of economic sanctions or other government restrictions; differing accounting, auditing, financial reporting and legal standards and practices; differing securities market structures; and higher transaction costs. These risks may negatively impact the value or liquidity of an underlying fund's investments, and could impair the underlying fund's ability to meet its investment objective or invest in accordance with its investment strategy. There is a risk that investments in securities denominated in, and/or receiving revenues in, foreign currencies will decline in value relative to the U.S. dollar or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency hedged, resulting in the dollar value of an underlying fund's investment being adversely affected.
- **Emerging Market Risk.** Emerging market countries may be more likely to experience political turmoil or rapid changes in market or economic conditions than more developed countries. Emerging market countries often have less uniformity in accounting and reporting requirements and greater risk associated with the custody of securities. In addition, the financial stability of issuers (including governments) in emerging market countries may be more precarious than in developed countries. As a result, there may be an increased risk of illiquidity and price volatility associated with an underlying fund's investments in emerging market countries, which may be magnified by currency fluctuations relative to the U.S. dollar, and, at times, it may be difficult to value such investments.
- **Growth Investing Risk.** Certain of the underlying funds pursue a "growth style" of investing. Growth investing focuses on a company's prospects for growth of revenue and earnings. If a company's earnings or revenues fall short of expectations, its stock price may fall dramatically. Growth stocks also can perform differently from the market as a whole and other types of stocks and can be more volatile than other types of stocks. Since growth companies usually invest a high portion of earnings in their business, they may lack the dividends of value stocks that can cushion stock prices in a falling market. Growth stocks may also be more expensive relative to their earnings or assets compared to value or other stocks.
- **Value Investing Risk.** Certain of the underlying funds may pursue a "value style" of investing. Value investing focuses on companies whose stocks appear undervalued in light of factors such as the company's earnings, book value, revenues or cash flow. If an underlying fund's investment adviser's (or sub-adviser's) assessment of a company's value or prospects for exceeding earnings expectations or market conditions is wrong, the underlying fund could suffer losses or produce poor performance relative to other funds. In addition, "value stocks" can continue to be undervalued by the market for long periods of time.

# Financial Notes, unaudited (continued)

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## 3. Risk Factors (continued):

- **Debt Securities Risk.** Bond prices generally fall when interest rates rise. Bonds with longer maturities tend to be more sensitive to this risk. Underlying fund performance also could be affected if an issuer or guarantor of a bond held by the fund fails to make timely principal or interest payments or otherwise honor its obligations. Lower-quality bonds are considered speculative with respect to their issuer's ability to make timely payments or otherwise honor their obligations. In addition, prices of lower-quality bonds tend to be more volatile than those of investment-grade bonds, and may fall based on bad news about the issuer, an industry or the overall economy.
- **Interest Rate Risk.** An underlying fund's investments in fixed income securities are subject to the risk that interest rates rise and fall over time. As with any investment whose yield reflects current interest rates, an underlying fund's yield will change over time. During periods when interest rates are low, an underlying fund's yield (and total return) also may be low. Changes in interest rates also may affect an underlying fund's share price: a sharp rise in interest rates could cause the underlying fund's share price to fall. The longer the underlying fund's duration, the more sensitive to interest rate movements its share price is likely to be. A change in a central bank's monetary policy or improving economic conditions, among other things, may result in an increase in interest rates. Certain underlying funds are currently subject to heightened levels of interest rate risk because of the continued economic recovery, along with the fact that the Federal Reserve Board ended its quantitative easing program in 2014, and has begun, and may continue, to raise interest rates.
- **Credit Risk.** Certain of the underlying funds are subject to the risk that a decline in the credit quality of a portfolio investment could cause the underlying fund's share price to fall. An underlying fund could lose money if the issuer or guarantor of a portfolio investment fails to make timely principal or interest payments or otherwise honor its obligations. Securities rated below investment grade (junk bonds) involve greater risk of price declines than investment grade securities due to actual or perceived changes in the issuer's creditworthiness.
- **Prepayment and Extension Risk.** An underlying fund's investments in fixed income securities are subject to the risk that the securities may be paid off earlier or later than expected. Either situation could cause the underlying fund to hold securities paying lower-than-market rates of interest, which could hurt the underlying fund's yield or share price.
- **U.S. Government Securities Risk.** Some of the U.S. government securities that the underlying funds invest 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. Certain securities such as those issued by the Federal Home Loan Banks are supported by limited lines of credit maintained by their issuers with the U.S. Treasury. Securities issued by other issuers, such as 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 the underlying funds own do not extend to shares of the underlying funds themselves.
- **Real Estate Investment Risk.** An underlying fund in which the fund may invest may have a policy of concentrating its investments in real estate companies and companies related to the real estate industry. As such, an underlying fund is subject to risks associated with the direct ownership of real estate securities and the fund's investment in such an underlying fund is subject to risks associated with the direct ownership of real estate securities and an investment in the underlying fund will be closely linked to the performance of the real estate markets. These risks include, among others, declines in the value of real estate; risks related to general and local economic conditions; possible lack of availability of mortgage funds or other limits to accessing the credit or capital markets; defaults by borrowers or tenants, particularly during an economic downturn; and changes in interest rates.
- **Real Estate Investment Trust (REITs) Risk.** An underlying fund may invest in REITs. An underlying fund's investments in REITs will be subject to the risks associated with the direct ownership of real estate, including fluctuations in the value of underlying properties, defaults by borrowers or tenants, changes in interest rates and risks related to general or local economic conditions. REITs are also subject to certain additional risks. For example, equity REITs may be affected by changes in the value of the underlying properties owned by the trusts, and mortgage REITs may be affected by the quality of any credit extended. Further, REITs may have their investments in relatively few properties, a small geographic area or a single property type. In addition, REITs have their own expenses, and the underlying fund will bear a proportionate share of those expenses.
- **Mortgage-Backed and Mortgage Pass-Through Securities Risk.** Certain of the mortgage-backed securities in which an underlying fund may invest are not backed by the full faith and credit of the U.S. government and there can be no assurance that the U.S. government would provide financial support to its agencies or instrumentalities where it was not obligated to do so. Mortgage-backed securities tend to increase in value less than other debt securities when interest rates decline, but are subject to similar risk of decline in market value during periods of rising interest rates. Because of prepayment and extension risk, mortgage-backed securities react differently to changes in interest rates than other bonds. Small movements in interest

# Financial Notes, unaudited (continued)

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### 3. Risk Factors (continued):

rates—both increases and decreases—may quickly and significantly affect the value of certain mortgage-backed securities. Transactions in mortgage pass-through securities primarily occur through to be announced (TBA) transactions. Default by or bankruptcy of a counterparty to a TBA transaction would expose an underlying fund to possible losses because of an adverse market action, expenses, or delays in connection with the purchase or sale of the pools of mortgage pass-through securities specified in the TBA transaction.

- **Portfolio Turnover Risk.** Certain of the underlying funds may buy and sell portfolio securities actively. If they do, their portfolio turnover rate and transaction costs will rise, which may lower the underlying fund's performance and may increase the likelihood of capital gains distributions.
- **Commodity Risk.** To the extent that an underlying fund invests in commodity-linked derivative instruments, it may subject the underlying fund to greater volatility than investments in traditional securities. Also, commodity-linked investments may be more volatile and less liquid than the underlying commodity. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and other regulatory and market developments. The use of leveraged commodity-linked derivatives creates an opportunity for increased return, but also creates the possibility for a greater loss.
- **Liquidity Risk.** An underlying fund may be unable to sell certain securities, such as illiquid securities, readily at a favorable time or price, or an underlying fund may have to sell them at a loss.
- **Derivatives Risk.** An underlying fund's use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. An underlying fund's use of derivatives could reduce the underlying fund's performance, increase volatility, and could cause the underlying fund to lose more than the initial amount invested. In addition, investments in derivatives may involve leverage, which means a small percentage of assets invested in derivatives can have a disproportionately large impact on an underlying fund.
- **Management Risk.** An underlying fund may be an actively managed mutual fund. An underlying fund's 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 or cause the underlying fund to meet its objectives.
- **Investment Style Risk.** Certain underlying funds seek to track the performance of various segments of the stock market, as measured by their respective indices. Such underlying funds follow these stocks during upturns as well as downturns. Because of their indexing strategy, these underlying funds do not take steps to reduce market exposure or to lessen the effects of a declining market. In addition, because of an underlying fund's expenses, the underlying fund's performance is normally below that of the index.
- **Tracking Error Risk.** An underlying fund may seek to track the performance of its benchmark index, although it may not be successful in doing so. The divergence between the performance of a fund and its benchmark index, positive or negative, is called "tracking error." Tracking error can be caused by many factors and it may be significant.
- **Concentration Risk.** To the extent that an underlying fund's portfolio is concentrated in the securities of issuers in a particular market, industry, group of industries, sector or asset class, the underlying fund may be adversely affected by the performance of those securities, may be subject to increased price volatility and may be more vulnerable to adverse economic, market, political, or regulatory occurrences affecting that market, industry, group of industries, sector or asset class.
- **Money Market Fund Risk.** The fund may invest in underlying money market funds that either seek to maintain a stable \$1 net asset value ("stable share price money market funds") or that have a share price that fluctuates ("variable share price money market funds"). Although an underlying stable share price money market fund seeks to maintain a stable \$1 net asset value, it is possible to lose money by investing in such a money market fund. Because the share price of an underlying variable share price money market fund will fluctuate, when the fund sells the shares it owns they may be worth more or less than what the fund originally paid for them. In addition, neither type of money market fund is designed to offer capital appreciation. Certain underlying money market funds may impose a fee upon the sale of shares or may temporarily suspend the ability to sell shares if such fund's liquidity falls below required minimums.

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

# Financial Notes, unaudited (continued)

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## 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, accrued daily and payable monthly, equal to 0.45% of the fund's average daily net assets.

### 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 approval of the fund's Board, to limit the total annual fund operating expenses charged, excluding interest, taxes and certain non-routine expenses (expense limitation) of the fund to 0.58%.

The agreement to limit the fund's total expenses charged is limited to the fund's direct operating expenses and, therefore, does not apply to acquired fund fees and expenses, which are indirect expenses incurred by the fund through its investments in the underlying funds.

### Investments in Affiliates

The fund may engage in certain transactions involving related parties. Pursuant to an exemptive order issued by the SEC, the fund may invest in other related ETFs and mutual funds. As of June 30, 2018, the Schwab VIT Balanced with Growth Portfolio's ownership percentages of other related funds' shares are:

Schwab Emerging Markets Equity ETF	0.2%
Schwab International Equity ETF	0.2%
Schwab International Small-Cap Equity ETF	0.2%
Schwab U.S. Aggregate Bond ETF	0.8%
Schwab U.S. Large-Cap ETF	0.3%
Schwab U.S. REIT ETF	0.2%
Schwab U.S. Small-Cap ETF	0.1%
Schwab U.S. TIPS ETF	0.1%
Schwab Variable Share Price Money Fund, Ultra Shares	0.2%

### 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.

# Financial Notes, unaudited (continued)

## 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 \$605 million line of credit (the Syndicated Credit Facility), maturing on October 4, 2018. Under the terms of the Syndicated Credit Facility, in addition to the interest charged on any borrowings by a fund, each fund paid a commitment fee of 0.15% per annum on its proportionate share of the unused portion of the Syndicated Credit Facility.

During the period, the fund was 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. Purchases and Sales/Maturities of Investment Securities:

For the period ended June 30, 2018, purchases and sales/maturities of securities (excluding short-term obligations) were as follows:

PURCHASES OF SECURITIES	SALES OF SECURITIES
\$8,632,093	\$4,937,542

## 8. Federal Income Taxes:

As of June 30, 2018, the tax basis cost of the fund's investments and gross unrealized appreciation and depreciation were as follows:

Tax cost	<u>\$132,382,426</u>
Gross unrealized appreciation	\$21,872,792
Gross unrealized depreciation	<u>(3,236,848)</u>
Net unrealized appreciation (depreciation)	<u>\$18,635,944</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 available to offset future net capital gains.

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.

## 9. 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.

# Investment Advisory Agreement Approval

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The Investment Company Act of 1940 (the 1940 Act) requires that the continuation of a fund's investment advisory agreement must be specifically approved (1) by the vote of the trustees or by a vote of the shareholders of the fund, and (2) by the vote of a majority of the trustees who are not parties to the investment advisory agreement or "interested persons" of any party (the Independent Trustees), cast in person at a meeting called for the purpose of voting on such approval. In connection with such approvals, the fund's trustees must request and evaluate, and the investment adviser is required to furnish, such information as may be reasonably necessary to evaluate the terms of the investment advisory agreement.

The Board of Trustees (the Board or the Trustees, as appropriate) calls and holds one or more meetings each year that are dedicated, in whole or in part, to considering whether to renew the investment advisory and administration agreement (the Agreement) between Schwab Annuity Portfolios (the Trust) and Charles Schwab Investment Management, Inc. (CSIM) with respect to the existing funds in the Trust, including Schwab VIT Balanced with Growth Portfolio (the Fund), and to review certain other agreements pursuant to which CSIM provides investment advisory services to certain other registered investment companies. In preparation for the meeting(s), the Board requests and reviews a wide variety of materials provided by CSIM, including information about affiliates, personnel, business goals and priorities, profitability, third-party oversight, corporate structure and operations. The Board also receives extensive data provided by an independent provider of investment company data. This information is in addition to the detailed information about the Fund that the Board reviews during the course of each year, including information that relates to the Fund's operations and performance, legal and compliance matters, risk management, portfolio turnover, and sales and marketing activity. The Independent Trustees receive advice from Independent Trustees' legal counsel, including a memorandum regarding the responsibilities of trustees for the approval of investment advisory agreements. In addition, the Independent Trustees meet in executive session outside the presence of Fund management and participate in question and answer sessions with representatives of CSIM.

The Board, including a majority of the Independent Trustees, considered information specifically relating to its consideration of the continuance of the Agreement with respect to the Fund at meetings held on April 26, 2018, and June 5, 2018, and approved the renewal of the Agreement with respect to the Fund for an additional one year term at the meeting held on June 5, 2018. The Board's approval of the Agreement with respect to the Fund was based on consideration and

evaluation of a variety of specific factors discussed at these meetings and at prior meetings, including:

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

**Nature, Extent and Quality of Services.** The Board considered the nature, extent and quality of the services provided by CSIM to the Fund and the resources of CSIM and its affiliates dedicated to the Fund. In this regard, the Trustees evaluated, among other things, CSIM's experience, track record, compliance program, resources dedicated to hiring and retaining qualified personnel, and information security resources. The Trustees also considered information provided by CSIM relating to the Fund's portfolio management team, portfolio strategy and risk oversight structure, and internal investment guidelines. The Trustees also considered investments in CSIM's infrastructure. The Trustees also considered Schwab's wide range of products, services, and channel alternatives such as investment research tools and Internet access and an array of account features that benefit the Fund and certain of its shareholders. The Trustees also considered Schwab's reputation as a full service brokerage firm and its overall financial condition. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by CSIM to the Fund and the resources of CSIM and its affiliates dedicated to the Fund supported renewal of the Agreement with respect to the Fund.

**Fund Performance.** The Board considered the Fund's performance in determining whether to renew the Agreement with respect to the Fund. Specifically, the Trustees considered the Fund's performance relative to a peer category of other mutual funds and applicable indices/benchmarks, in light of total return and market trends. As part of this review, the Trustees considered the composition of the peer category, selection criteria and the reputation of the independent provider of investment company data who prepared the peer

category analysis. In evaluating the performance of the Fund, the Trustees considered the risk profile for the Fund and the appropriateness of the benchmark used to compare the performance of the Fund. The Trustees further considered the level of Fund performance in the context of their review of Fund expenses and adviser profitability discussed below and also noted that performance is reviewed throughout the year by a designated committee of the Board and by the Board. Following such evaluation the Board concluded, within the context of its full deliberations, that the performance of the Fund supported renewal of the Agreement with respect to the Fund.

**Fund Expenses.** With respect to the Fund's expenses, the Trustees considered the rate of compensation called for by the Agreement, and the Fund's net operating expense ratio, in each case, in comparison to those of other comparable mutual funds, such peer groups and comparisons having been selected and calculated by an independent provider of investment company data. The Trustees considered the effects of CSIM's and Schwab's practice of waiving management and other fees to prevent total Fund expenses from exceeding a specified cap. The Trustees also considered fees charged by CSIM to other mutual funds and to other types of accounts, which may include exchange-traded funds and separately managed accounts, but, with respect to such other types of accounts, accorded less weight to such comparisons due to the different legal, regulatory, compliance and operating features of mutual funds as compared to these other types of accounts, the unique insurance dedicated distribution arrangements of the Fund as compared to other funds managed by CSIM, any differences in the nature and scope of the services CSIM provides to these other accounts and any differences in the market for these types of accounts. The Trustees noted that shareholders of the Fund indirectly pay their pro rata share of the fees and expenses of the underlying funds in which the Fund invests. Following such evaluation, the Board concluded, within the context of its full deliberations, that the expenses of the Fund are reasonable and supported renewal of the Agreement with respect to the Fund.

**Profitability.** The Trustees considered the compensation flowing to CSIM and its affiliates, directly or indirectly and reviewed profitability on a pre-tax basis, without regard to distribution expenses. In this connection, the Trustees reviewed management's profitability analyses. The Trustees also reviewed profitability of CSIM relating to the Schwab fund complex as a whole, noting the benefit to Fund shareholders of being part of the Schwab fund complex, including the

allocations of certain fixed costs across other funds in the complex. The Trustees also considered any other benefits derived by CSIM from its relationship with the Fund, such as whether, by virtue of its management of the Fund, CSIM obtains investment information or other research resources that aid it in providing advisory services to other clients. Also, because the Fund invests a portion of its assets in other funds within the Schwab fund complex, the Trustees considered that CSIM indirectly benefits from the Fund's investments in other underlying funds managed by CSIM. The Trustees considered whether the compensation and profitability with respect to the Fund under the Agreement and other service agreements were reasonable and justified in light of the quality of all services rendered to the Fund by CSIM and its affiliates. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of CSIM is reasonable and supported renewal of the Agreement with respect to the Fund.

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

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



# Trustees and Officers

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 107 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 <sup>1</sup> )	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
<b>Robert W. Burns</b> 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.	107	Director, PS Business Parks, Inc. (2005 – 2012)
<b>John F. Cogan</b> 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).	107	Director, Gilead Sciences, Inc. (2005 – present)
<b>Nancy F. Heller</b> 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 2018)	President and Chairman, TIAA Charitable (financial services) (2014 – 2016); Senior Managing Director, TIAA (financial services) (2003 – 2016).	107	None
<b>Stephen Timothy Kochis</b> 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).	107	None

## INDEPENDENT TRUSTEES (CONTINUED)

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED <sup>1</sup> )	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
<b>David L. Mahoney</b> 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.	107	Director, Symantec Corporation (2003 – present) Director, Corcept Therapeutics Incorporated (2004 – present) Director, Adamas Pharmaceuticals, Inc. (2009 – present)
<b>Kiran M. Patel</b> 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).	107	Director, KLA-Tencor Corporation (2008 – present)
<b>Kimberly S. Patmore</b> 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).	107	None
<b>Gerald B. Smith</b> 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).	107	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)
<b>Joseph H. Wender</b> 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).	107	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 <sup>1</sup> )	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
<b>Walter W. Bettinger II<sup>2</sup></b> 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).	107	Director, The Charles Schwab Corporation (2008 – present)
<b>Marie A. Chandoha<sup>2</sup></b> 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).	107	None
<b>Joseph R. Martinetto<sup>2</sup></b> 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)	Chief Operating Officer (Feb. 2018 – present), Senior Executive Vice President (July 2015 – Feb. 2018), The Charles Schwab Corporation; Senior Executive Vice President, Charles Schwab & Co., Inc. (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.	107	None

**OFFICERS OF THE TRUST**

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED <sup>3</sup> )	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS
<b>Marie A. Chandoha</b> 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).

**OFFICERS OF THE TRUST (CONTINUED)**NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED<sup>3</sup>)

PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS

<p><b>Mark Fischer</b> 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)</p>	<p>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).</p>
<p><b>George Pereira</b> 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)</p>	<p>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).</p>
<p><b>Omar Aguilar</b> 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)</p>	<p>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).</p>
<p><b>Brett Wander</b> 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)</p>	<p>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 &amp; Company (investment management firm) (Apr. 2006 – Jan. 2008).</p>
<p><b>David Lekich</b> 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)</p>	<p>Senior Vice President (Sept. 2011 – present), Vice President (Mar. 2004 – Sept. 2011), Charles Schwab &amp; 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.</p>
<p><b>Catherine MacGregor</b> 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)</p>	<p>Vice President, Charles Schwab &amp; 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).</p>

<sup>1</sup> 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.

<sup>2</sup> 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 CSIM. 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.

<sup>3</sup> 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.

# Glossary

**Bloomberg Barclays Global Treasury ex-US Index** An index that tracks fixed-rate local currency non-U.S. government debt of investment grade countries with a remaining maturity of at least one year. The Capped version of the index uses custom weights.

**Bloomberg Barclays High Yield Very Liquid Index** An index that includes publicly issued U.S. dollar denominated, non-investment grade, fixed-rate, taxable corporate bonds that have a remaining maturity of at least one year, are rated high-yield (Ba1/BB+/ BB+ or below) using the middle rating of Moody's, S&P, and Fitch, respectively, and have \$600 million or more of outstanding face value.

**Bloomberg Barclays US Aggregate: Agencies Index** An index that measures fixed rate securities issued by U.S. government agencies with at least one year to final maturity and \$250 million par amount outstanding. The index is a sub-set of the Barclays US Aggregate: Government-Related Index.

**Bloomberg Barclays US Aggregate Bond Index** An index that represents securities that are SEC registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The index excludes certain types of securities, including state and local government series bonds, structured notes embedded with swaps or other special features, private placements, floating rate securities, inflation-linked bonds and Eurobonds.

**Bloomberg Barclays US Credit Index** An index that comprises the Barclays US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supnationals and local authorities.

**Bloomberg Barclays US Mortgage-Backed Securities (MBS): Agency Fixed Rate MBS Index** An index that measures agency mortgage-backed pass-through fixed-rate securities issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

**Bloomberg Barclays US Treasury 3 – 10 Year Index** An index that measures the performance of U.S. Treasury securities that have a remaining maturity of greater than or equal to three years but less than 10 years, are rated investment grade and have \$250 million or more of outstanding face value.

**Bloomberg Barclays US Treasury Bills 1–3 Month Index** An index that includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months but more than 1 month, are rated investment grade and have \$250 million or more of outstanding face value. It excludes zero-coupon STRIPS.

**Bloomberg Barclays US Treasury Inflation-Linked Bond Index (Series-L)** An index that tracks inflation-protected securities issued by the U.S. Treasury that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

**Dow Jones-UBS Commodity Index** A broadly diversified index composed of futures contracts on physical commodities. The total return index reflects the return on fully collateralized positions in the underlying commodity futures.

**Dow Jones U.S. Large-Cap Total Stock Market Index** An index that is a subset of the Dow Jones U.S. Total Stock Market Index, which measures all U.S. equity securities with readily available prices. The index includes approximately the largest 750 stocks and is float-adjusted market-capitalization weighted.

**Dow Jones U.S. Select REIT Index** An index that is a float-adjusted market-capitalization weighted index comprised of real estate investment trusts (REITs). REITs are real estate companies that own and commonly operate income-producing commercial and/or residential real estate. The index excludes mortgage REITs, net-lease REITs, real estate finance companies, mortgage brokers and bankers, commercial and residential real estate brokers and estate agents, homebuilders, large landowners and sub dividers of unimproved land, hybrid REITs, timber REITs and companies that have more than 25% of their assets in direct mortgage investments.

**Dow Jones U.S. Small-Cap Total Stock Market Index** An index that is a subset of the Dow Jones U.S. Total Stock Market Index, which measures all U.S. equity securities with readily available prices. The index includes components ranked 751–2500 by full market capitalization and is float-adjusted market-capitalization weighted.

**Dow Jones U.S. Total Stock Market Index** An index that measures the performance of all publicly traded stocks of companies headquartered in the U.S. for which pricing data is readily available – currently less than 3,800 stocks. The index is a float adjusted market capitalization weighted index that reflects the shares of securities actually available to investors in the marketplace.

**FTSE Developed ex US Index (Net)** An index that is comprised of approximately 85% large-cap stocks and 15% mid-cap stocks from more than 20 developed markets, excluding the U.S. This index defines the large- and mid-cap stocks as approximately the top 90% of the eligible universe. The Net version of the index reflects reinvested dividends net of withholding taxes, but reflects no deductions for expenses or other taxes.

**FTSE Developed Small Cap ex US Liquid Index (Net)** An index that is comprised of small-cap companies in developed countries, excluding the United States, as defined by the index provider. The index defines the small-cap universe as approximately the bottom 10% of the eligible universe with a minimum free float capitalization of \$150 million. The Net version of the index reflects reinvested dividends net of withholding taxes, but reflects no deductions for expenses or other taxes.

**FTSE Emerging Index (Net)** An index comprised of large- and mid-cap companies in emerging countries, as defined by the index provider. The index defines the large- and mid-cap universe as approximately the top 90% of the eligible universe. The Net version of the index reflects reinvested dividends net of withholding taxes, but reflects no deductions for expenses or other taxes.

**FTSE non-US Dollar World Government Bond Index** A market capitalization index that measures the total rate of return performance for the government bonds of 22 countries, excluding the U.S., with a remaining maturity of at least 1 year.

**MSCI EAFE Index (Net)** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets in Europe, Australasia, and the Far East. The Net version of the index reflects reinvested dividends net of withholding taxes, but reflects no deductions for expenses or other taxes; returns are calculated applying dividend withholding rates applicable to non-resident persons who do not benefit from double taxation treaties.

**Russell 2000 Index** An index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

## Schwab VIT Balanced with Growth Portfolio

**Russell Microcap Index** An index that measures the performance of the microcap segment of the U.S. equity market. Microcap stocks make up less than 3% of the U.S. equity market (by market cap) and consist of the smallest 1,000 securities in the small-cap Russell 2000® Index, plus the next smallest eligible securities by market cap.

**S&P 500 Index** An index that is designed to measure the performance of 500 leading publicly traded companies from a broad range of industries.

**VIT Balanced with Growth Composite Index** A custom blended index developed by CSIM based on a comparable portfolio asset allocation and calculated using the following portion allocations effective June 8, 2016: 1% Bloomberg Barclays Global Treasury ex-US Capped Index, 27% Bloomberg Barclays US Aggregate Bond Index, 5% Bloomberg Barclays US Treasury Bills 1–3 Month Index, 2% Bloomberg Barclays US Treasury Inflation-Linked Bond Index (Series-L), 4% Bloomberg Commodity Index, 6% Dow Jones U.S. Select REIT Index, 22% Dow Jones U.S. Large-Cap Total Stock Market Index, 6% Dow Jones

U.S. Small-Cap Total Stock Market Index, 6% FTSE All Emerging Index (Net), 17% FTSE Developed ex US Index (Net), 3% FTSE Developed Small Cap ex US Liquid Index (Net), and 1% Russell Microcap Index. Prior to June 8, 2016, the composite index was derived using the following allocations: 22% Dow Jones U.S. Large-Cap Total Stock Market Index, 6% Dow Jones U.S. Small-Cap Total Stock Market Index, 1% Russell Microcap Index, 17% FTSE Developed ex US Index (Net), 3% FTSE Developed Small Cap ex US Liquid Index (Net), 6% FTSE Emerging Index (Net), 6% Dow Jones U.S. Select REIT Index, 4% Dow Jones UBS Commodity Index, 2% Bloomberg Barclays US Treasury Inflation-Linked Bond Index (Series-L), 9% Bloomberg Barclays US Treasury 3–10 Year Index, 2% Bloomberg Barclays US Aggregate: Agencies Index, 4% Bloomberg Barclays US Credit Index, 11% Bloomberg Barclays US Mortgage Backed Securities Index, 1% Bloomberg Barclays Global Treasury ex-US Capped Index, 1% Bloomberg Barclays High Yield Bond Very Liquid Index, and 5% Bloomberg Barclays US Treasury Bills 1–3 Month Index.

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