



# Schwab Government MoneyMarket Portfolio

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Current performance may be substantially different from what is contained in this report. [Please click here for more current fund performance and other information.](#)

This report is not authorized for distribution to prospective investors unless preceded or accompanied by a current prospectus.



## Portfolio Management

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**Linda Klingman**, Managing Director and Head of MoneyMarket Strategies for Schwab Asset Management, leads the portfolio management teams for taxable and tax-exempt Schwab MoneyFunds, and has overall responsibility for all aspects of the management of the fund. Prior to joining Schwab in 1990, she was a senior moneymarket trader with AIM Management, Inc. for five years. She has managed moneymarket funds since 1988.



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



**Nicole Perret-Gentil**, Portfolio Manager, is responsible for the day-to-day management of the fund. Prior to joining Schwab in 2016, Ms. Perret-Gentil worked at Freddie Mac for 15 years, most recently as a senior portfolio manager where she managed and executed trades for a fixed-income strategy. Prior to that role, she served as a portfolio manager performing fixed-income analysis, a senior research analyst for investor and dealer relations, a senior securities operations analyst in loan and securities operations, and a lead mortgage securities operations specialist. She also worked at Merrill Lynch for a year as a senior specialist in fixed-income global banking and investments.

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

**Market Highlights.** The six-month reporting period ended June 30, 2022, was marked by a continuing imbalance in supply and demand of short-term money market securities, particularly U.S. Treasuries, with demand remaining high and supply declining as the U.S. Treasury's borrowing needs decreased. Interest rates rose during the reporting period as a result of persistently high inflation brought on by a tight labor market, supply chain constraints, and rising energy prices in the wake of COVID-19 and the war in Ukraine.

After maintaining the federal funds rate in a range of 0.00% to 0.25% through mid-March, the U.S. Federal Reserve (Fed) shifted its stance as inflation continued to rise and indicators of economic activity and employment continued to strengthen. After issuing successively stronger signals that interest rates could begin to rise sooner in 2022 than previously anticipated, the Fed increased the federal funds rate three times between March and June to end the reporting period in a range of 1.50% to 1.75%. In addition, the Fed's bond-buying program, which had begun to scale back in November 2021, was ended altogether in early March 2022. In June, the Fed also began to reduce the \$9 trillion in assets it holds on its balance sheet. Given expectations of further rate hikes throughout the remainder of the year, the yield curve steepened over the period, with longer-term yields rising more than shorter-term yields as demand increased for securities with shorter maturities. Strong demand for the Fed's Overnight Reverse Repurchase Agreement Facility drove its usage to an all-time high in June as a result of expected interest rate hikes, significant cash in the market, limited investment options, and the ongoing supply and demand imbalances for U.S. Treasuries.

Outside the United States, major central banks grappled with similar economic conditions. After holding its policy rate unchanged since March 2016, at 0.00%, the European Central Bank announced in June its intention to raise interest rates in July for the first time in 11 years. Also in June, the Bank of England raised its key official bank rate for the fifth consecutive time, to 1.25%, bringing borrowing costs to a 13-year high as the Bank of England wrestled with soaring inflation. In contrast, the Bank of Japan upheld its short-term interest rate target of -0.1%, unchanged since 2016, and vowed to defend its cap on bond yields with unlimited buying, as opposed to the monetary tightening being employed in many other countries around the globe.

**Performance, Positioning, and Strategies.** Throughout the reporting period, the fund's investment adviser remained focused on ensuring liquidity and stability of capital as market conditions evolved, and on continuing a rigorous credit review process and ongoing monitoring for all issuers and regions in which the fund invests. In expectation of, and in response to, the Fed's short-term interest rate increases, the fund's weighted average maturity (WAM) was shortened during the reporting period to reduce NAV volatility and allow for quicker reinvestment at higher rates. The fund's WAM began the period at 37 days and ended it at 21 days.

PORTFOLIO COMPOSITION BY EFFECTIVE MATURITY % OF



- 85.1% 1 to 7 Days
- 1.0% 8 to 30 Days
- 2.8% 31 to 60 Days
- 4.0% 61 to 90 Days
- 2.8% 91 to 180 Days
- 4.3% Over 180 Days

PORTFOLIO COMPOSITION BY SECURITY TYPE % OF INVE



The performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be



## 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, 2022 and held through June 30, 2022.

**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.<sup>1</sup>

**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>2</sup>	BEGINNING ACCOUNT VALUE AT 1/1/22	ENDING ACCOUNT VALUE NET OF EXPENSES AT 6/30/22	EXPENSES PAID DURING PERIOD 1/1/22-6/30/22
<b>Schwab Government Money Market Portfolio</b>				
Actual Return	0.19%	\$1,000.00	\$1,001.20	\$0.94
Hypothetical 5% Return	0.19%	\$1,000.00	\$1,023.85	\$0.95

<sup>1</sup> Based on the most recent six-month expense ratio.

<sup>2</sup> Expense ratio (annualized) reflects the effect of a voluntary yield waiver. (See financial note 4)

<sup>3</sup> Expenses for the fund are equal to its annualized expense ratio, multiplied by the average account value over the period, multiplied by the number of days of the fiscal year.

# Financial Statements

## FINANCIAL HIGHLIGHTS

	1/1/22– 6/30/22*	1/1/21– 12/31/21	1/1/20– 12/31/20	1/1/19– 12/31/19	1/1/18– 12/31/18	1/1/17– 12/31/17
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Per-Share Data

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

The fund files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission (SEC) monthly on Form N-MFP, which is available immediately upon filing. The funds Form N-MFP is available on the SECs website at [www.sec.gov](http://www.sec.gov). The fund also makes available its complete schedule of portfolio holdings 5 business days after month end on the funds website at [www.schwabassetmanagement.com/schwabfunds\\_prospectus](http://www.schwabassetmanagement.com/schwabfunds_prospectus).

For fixed-rate obligations and repurchase agreements, the rate shown is the coupon rate (the rate established when the obligation was vaip8(establishe)06,U8cT277.8(N-MFP)-277.8(is)-275s vaip8(establishe)06,U8cT277.8(N-MFP)-277.8(is)-275s vaip8(establishe)06,U8c





# Portfolio Holdings

as of June 30, 2022 (Unaudited) (continued)

ISSUER	FOOTNOTES	EFFECTIVE RATE	MATURITY DATE	FACE AMOUNT (\$)	VALUE (\$)
<b>FEDERAL HOME LOAN BANKS</b>					
(SOFR + 0.01%)	(a)	1.52%	07/01/22 07/18/22	500,000	500,000
(SOFR + 0.01%)	(a)	1.52%	07/01/22 08/05/22	1,500,000	1,500,000
		0.13%	08/12/22	200,000	200,007
		1.68%	08/26/22	600,000	598,441
(SOFR + 0.01%)	(a)	1.52%	07/01/22 08/30/22	500,000	500,000
		1.92%	09/07/22	840,000	836,969
		3.13%	09/09/22	100,000	100,581
		1.90%	09/19/22	1,200,000	1,194,960
		1.90%	09/20/22	1,000,000	995,747
		0.21%	12/02/22	700,000	700,000
		2.17%	02/06/23	200,000	200,647
		2.15%	02/08/23	300,000	300,944
		1.25%	03/21/23	750,000	750,000
		1.02%	03/30/23	600,000	600,000
	(b)	1.13%	03/30/23	400,000	399,940
	(b)	1.28%	04/05/23	600,000	600,000
	(b)	1.60%	05/02/23	600,000	600,000
		2.00%	05/23/23	600,000	600,000
	(b)	1.90%	06/02/23	400,000	400,000
	(b)	2.75%	07/14/23	700,000	700,000
<b>FEDERAL HOME LOAN MORTGAGE CORPORATION</b>					
(SOFR + 0.10%)	(a)	1.61%	07/01/22 08/19/22	1,300,000	1,300,000
(SOFR + 0.10%)	(a)	1.61%	07/01/22 09/09/22	800,000	800,000
	(b)	1.40%	04/21/23	600,000	600,000
<b>FEDERAL NATIONAL MORTGAGE ASSOCIATION</b>					
		2.00%	08/26/22	100,000	100,293
		1.38%	09/06/22	100,000	100,233
		0.25%	05/22/23	600,000	590,277
<b>Total U.S. Government Agency Debt</b> (Cost \$27,168,249)					<b>27,168,249</b>

## U.S. TREASURY DEBT % OF NET ASSETS

<b>UNITED STATES TREASURY</b>					
		0.09%	07/14/22	1,000,000	999,968
		0.13%	07/31/22	500,000	500,020
(3 mo. US TBILL + 0.06%)	(a)	1.81%	07/01/22 07/31/22	2,800,000	2,799,994
		1.88%	07/31/22	700,000	701,037
		2.00%	07/31/22	500,000	500,792
		0.11%	08/11/22	600,000	599,928
		1.50%	08/15/22	2,500,000	2,504,396
		0.13%	08/31/22	1,400,000	1,400,114
		1.63%	08/31/22	1,200,000	1,202,954
		1.88%	08/31/22	600,000	601,802
		1.50%	09/15/22	2,300,000	2,306,774
		0.13%	09/30/22	1,500,000	1,500,139

# Portfolio Holdings

 as of June 30, 2022 (Unaudited) (continued)

ISSUER	FOOTNOTES	EFFECTIVE RATE	MATURITY DATE	FACE AMOUNT (\$)	VALUE (\$)
		1.75%	09/30/22	900,000	903,725
		1.88%	09/30/22	600,000	602,590
		0.13%	10/31/22	900,000	896,374
(3 mo. US TBILL + 0.06%)	(a)	1.81%	07/01/22	500,000	499,992
		1.63%	11/15/22	600,000	602,676
(3 mo. US TBILL + 0.05%)	(a)	1.81%	07/01/22	2,500,000	2,500,403
		2.00%	02/15/23	500,000	502,882
		0.13%	02/28/23	600,000	593,258
		2.63%	02/28/23	800,000	803,929
		0.13%	03/31/23	1,000,000	984,659
		2.50%	03/31/23	500,000	503,259
		0.13%	04/30/23	200,000	196,571
(3 mo. US TBILL + 0.03%)	(a)	1.79%	07/01/22	700,000	700,053
(3 mo. US TBILL + 0.03%)	(a)	1.79%	07/01/22	500,000	500,008
(3 mo. US TBILL + 0.04%)	(a)	1.79%	07/01/22	400,000	399,995
Total U.S. Treasury Debt (Cost \$26,808,292)					26,808,292

## VARIABLE RATE DEMAND NOTES OF NET ASSETS

FARR LIFE LLC					
TAXABLE VARIABLE RATE DEMAND NOTES SERIES 2022 (HOME LOAN BANKS)	(a)(c)	1.63%	07/07/22	600,000	600,000
LOUISIANA LOCAL GOVERNMENT ENVIRONMENTAL FACILITIES & COMMUNITY DEVELOPMENT AUTH					
RB (LOUISE S. MCGEHEE SCHOOL) SERIES 2022 (FEDERAL HOME LOAN BANKS)	(a)(c)	1.05%	07/07/22	5,000	5,000
NEW DUBLIN SQUARE					
TAXABLE M/F HOUSING RB (DUBLIN SQUARE) SERIES 2022 (LOCFEDERAL HOME LOAN BANKS)	(a)(c)	1.64%	07/07/22	300,000	300,000
TEXAS DEPT OF HOUSING & COMMUNITY AFFAIRS					
M/F HOUSING RB (TOWER RIDGE APTS) SERIES 2022 (NATIONAL MORTGAGE ASSOCIATION)	(a)(c)	1.05%	07/07/22	100,000	100,000
Total Variable Rate Demand Notes (Cost \$1,005,000)					1,005,000

## INVESTMENT COMPANIES OF NET ASSETS

MONEY MARKET FUNDS 0.0%					
STATE STREET INSTITUTIONAL U.S. GOVERNMENT MONEY MARKET FUND, PREMIER CLASS	(d)	1.43%		45,600	45,600
Total Investment Companies (Cost \$45,600)					45,600



ISSUER	FOOTNOTES	EFFECTIVE RATE	MATURITY DATE	MATURITY AMOUNT (\$)	VALUE (\$)
WELLS FARGO SECURITIES LLC					
Issued 06/30/22, repurchase date 07/01/22 (Collateralized by U.S. Government Agency Securities valued at \$1,040,046, 3.50%, due 07/01/37)		1.56%	07/01/22	1,000,043	1,000,000
					152,000,000
U.S. TREASURY REPURCHASE AGREEMENTS 8.9%					
BARCLAYS BANK PLC					
Issued 06/30/22, repurchase date 07/01/22 (Collateralized by U.S. Treasury Securities valued at \$5,279,176, 2.00%, due 11/15/26)		1.55%	07/01/22	5,175,614	5,175,391
FICC - BANK OF NEW YORK					
Issued 06/30/22, repurchase date 07/01/22 (Collateralized by U.S. Treasury Securities valued at \$15,300,025, 0.38%, due 07/31/27)		1.55%	07/01/22	15,000,646	15,000,000
					20,175,391
Total Repurchase Agreements (Cost \$172,175,391)					172,175,391
Total Investments in Securities (Cost \$227,202,532)					227,202,532

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

(a) Variable rate security; rate shown is effective rate at period end.

(b) Step up security that pays an initial coupon rate for a set period and increased coupon rates at one or more preset intervals. Rate shown is as of period end.

(c) VRDN is a municipal security which allows holders to sell their security through a put or tender feature, at par value plus accrued interest to the issuer on a periodic basis, the majority of which are weekly but may be daily or monthly. Unless a reference rate and spread is shown parenthetically, the issuer or its agent, or a dealer, determines the interest rate for the security at each interest rate reset date. The rate is typically based on the SIFMA Municipal Swap Index.

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





# Statement of Assets and Liabilities

As of June 30, 2022; unaudited

ASSETS			
Investments in securities, at cost and value - unaffiliated (Note 2a)			\$55,027,141
Repurchase agreements, at cost and value — unaffiliated (Note 2a)			172,175,399
Receivables:			
Fund shares sold			728,024
Interest			128,643
Dividends			40
		+	
Total assets			228,059,239
LIABILITIES			
Payables:			
Fund shares redeemed			643,388
Distributions to shareholders			111,135
Investment adviser and administrator fees			34,654
Due to custodian			3,663
Accrued expenses			80,365
		+	
Total liabilities			873,205
Net assets			\$227,186,034
NET ASSETS BY SOURCE			
Capital received from investors			\$227,138,888
Total distributable earnings			47,146
		+	
Net assets			\$227,186,034
Net Asset Value (NAV)			
Net Assets	÷	Shares Outstanding	= NAV
\$227,186,034		227,185,713	\$1.00

# Statement of Operations

For the period January 1, 2022 through June 30, 2022; unaudited

INVESTMENT INCOME	
Interest received from securities - unaffiliated	\$454,912
EXPENSES	
Investment adviser and administrator fees	192,018
Portfolio accounting fees	28,651
Professional fees	16,290
Custodian fees	14,509
Independent trustees' fees	6,891
Shareholder reports	3,570
Transfer agent fees	304
Other expenses	+ 1,359
Total expenses	263,592
Expense reduction	- 73,813
Net expenses	- 189,779
Net investment income	265,133
REALIZED GAINS (LOSSES)	
Net realized gains on sales of securities - unaffiliated	306
Increase in net assets resulting from operations	\$265,439

# Statement of Changes in Net Assets

For the current and prior report periods

Figures for the current period are unaudited

OPERATIONS		
	1/1/22-6/30/22	1/1/21-12/31/21
Net investment income	\$265,133	\$111,865
Net realized gains	+ 306	880
Increase in net assets from operations	\$265,439	\$112,745
DISTRIBUTIONS TO SHAREHOLDERS		
Total distributions	(\$264,889)	(\$111,865)
TRANSACTIONS IN FUND SHARES*		
Shares sold	106,757,391	151,802,828
Shares reinvested	153,753	111,865
Shares redeemed	+ (64,641,725)	(152,073,454)
Net transactions in fund shares	42,269,419	(158,761)
NET ASSETS		
Beginning of period	\$184,916,065	\$185,073,946
Total increase (decrease)	+ 42,269,969	(157,881)
End of period	\$227,186,034	\$184,916,065

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



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

#### SCHWAB ANNUITY PORTFOLIOS (ORGANIZED JANUARY 21, 1994)

Schwab Government Money Market Portfolio  
Schwab S&P 500 Index Portfolio  
Schwab VIT Balanced Portfolio  
Schwab VIT Balanced with Growth Portfolio  
Schwab VIT Growth Portfolio

The fund in this report offers one share class. Shares are bought and sold at closing net asset value per share (NAV), which is the price for all outstanding shares of a fund. Each share has a par value of 1/1,000 of a cent, and the fund's Board of Trustees (the Board) may authorize the issuance of as many shares as necessary.

The fund is available exclusively as an investment vehicle for variable annuity and variable life insurance contracts offered by separate accounts of participating life insurance companies, and in the future may be offered to pension and retirement plans qualified under the Internal Revenue Code of 1986, as amended. At June 30, 2022, 100% of the fund's shares were held through separate accounts of seven 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 (FASB) Accounting Standard Codification Topic 946 Financial Services - Investment Companies. The accounting policies statement of fund InvinciC2r9 (Center-27 (company))





## Financial Notes, unaudited (continued)

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### 2. Significant Accounting Policies (continued):

#### (d) Investment Income:

Interest income is recorded as it accrues. If the fund buys a debt security at a discount (less than face value) or a premium (more than face value), it amortizes premiums and accretes discounts from the purchase settlement date up to maturity. The fund then increases (in the case of discounts) or reduces (in the case of premiums) the income it records from the security. Certain securities may be callable (meaning that the issuer has the option to pay it off before its maturity date). The fund amortizes the premium and accretes the discount on each callable security to the security's maturity date, except when the purchase price is higher than the call price at the security's call date (in which case the premium is amortized to the call date). Dividends and distributions from underlying funds are recorded on the date they are effective (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 more than one fund in the trusts generally are allocated among those funds in proportion to their average daily net assets.

#### (f) Distributions to Shareholders:

The fund declares distributions from net investment income, if any, every day it is open for business. The fund makes distributions from net realized capital gains, if any, once a year. To receive a distribution, you must be a registered shareholder on the record date. Distributions are paid to shareholders on the payable date.

#### (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 companies (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.

#### (j) Recent Accounting Standards:

In March 2020, the FASB issued Accounting Standards Update Facilitation of the Effects of Reference Rate Reform on Financial Reporting (Topic 848) (ASU 2020-04), which provides optional temporary financial reporting relief from the effect of certain types of contract modifications due to the planned discontinuation of the London Interbank Offered Rate (LIBOR) and other interbank offered based reference rates at the end of 2021. The temporary relief provided is effective for certain reference rate-related contract modifications that occur during the period March 12, 2020 through December 31, 2022. At this time, management believes the adoption of ASU 2020-04 will not have a material impact to the financial statements.

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### 3. Risk Factors:

**Market Risk.** Financial markets rise and fall in response to a variety of factors, sometimes rapidly and unpredictably. Markets may be impacted by economic, political, regulatory and other conditions, including economic sanctions and other government actions. In addition, the occurrence of global events, such as war, terrorism, environmental disasters, natural disasters and epidemics may also negatively affect the financial markets. These events could reduce consumer demand or economic output; result in market closures, low or negative interest rates, travel restrictions or quarantines; and significantly adversely impact the economy. Governmental and

### 3. Risk Factors (continued):

quasi-governmental authorities and regulators throughout the world have in the past often responded to serious economic disruptions with a variety of significant fiscal and monetary policy changes which could have an unexpected impact on financial markets and the fund's investments. 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.

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

**Interest Rate Risk.** Interest rates rise and fall over time. As with any investment whose yield reflects current interest rates, the fund's yield will change over time. During periods when interest rates are low or there are negative interest rates, the fund's yield



## Financial Notes, unaudited (continued)

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### 3. Risk Factors (continued):

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

**Money Market Fund Regulation Risk.** The SEC and other regulatory agencies continue to review the regulation of money market funds. As of the date of this shareholder report, the SEC has proposed amendments to the rules that govern money market funds. These proposed amendments, if implemented, may affect the fund's investment strategies, performance, yield, expenses, operations and continued viability.

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

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

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

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

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### 4. Affiliates and Affiliated Transactions:

#### Investment Adviser

Charles Schwab Investment Management, Inc., dba Schwab Asset Management, 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 the investment adviser and the trust.

For its advisory and administrative services to the fund, the investment adviser is entitled to receive an annual fee, payable monthly equal to 0.19% of the fund's average daily net assets.

#### Contractual Expense Limitation

The investment adviser and its affiliates have made an additional agreement with the fund, for so long as the investment adviser serves as the investment adviser to the fund, which may only be amended or terminated with the approval of the Board, to limit the total annual fund operating expenses charged, excluding interest, taxes, and certain non-routine expenses (expense limitation) to 0.34%.

During the period ended June 30, 2022, the fund waived a total of \$73,813 in expenses, all of which was waived voluntarily.

#### Voluntary Yield Waiver/Reimbursement

The investment adviser and its affiliates may waive and/or reimburse expenses to the extent necessary to maintain a positive net yield for the fund.



#### 4. Affiliates and Affiliated Transactions (continued):

##### Interfund Transactions

The fund may engage in transactions with certain other funds in the Fund Complex (for definition refer to the Trustees and Officers section) in accordance with procedures adopted by the Board pursuant to Rule 17a-7 under the 1940 Act. When one fund is seeking to sell a security that another is seeking to buy an interfund transaction can allow both funds to benefit by reducing transaction costs. This practice is limited to funds that share the same investment adviser, trustees and/or officers. For the period ended June 30, 2022, the funds total purchases and sales of securities with other funds in the Fund Complex was \$0 and \$2,745,673 respectively and includes realized gains (losses) of \$0.

##### Interfund Borrowing and Lending

Pursuant to an exemptive order issued by the U.S. Securities and Exchange Commission (SEC), the fund may enter into interfund borrowing and lending transactions with other funds in the Fund Complex. 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.

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#### 5. Board of Trustees:

The Board may include people who are officers and/or directors of the investment adviser 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.

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#### 6. Borrowing from Banks

During the period, the fund was a participant with other funds in the Fund Complex in a joint, syndicated, committed \$850 million line of credit (the Syndicated Credit Facility), maturing on September 29, 2022. Under the terms of the Syndicated Credit Facility in addition to the interest charged on any borrowings by the fund, the fund paid a commitment fee of 0.15% per annum on the fund's proportionate share of the unused portion of the Syndicated Credit Facility.

During the period, the fund was a participant with other funds in the Fund Complex in a joint, unsecured, uncommitted \$400 million



## Financial Notes, unaudited (continued)

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### 7. Federal Income Taxes (continued):

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

As of December 31, 2021, 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 fiscal year ended December 31, 2021, the fund did not incur any interest or penalties.

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### 8. Subsequent Events:

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

# Shareholder Vote Results (Unaudited)

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A Special Meeting of Shareholders of Schwab Annuity Portfolios (the Trust) was held on June 1, 2022, for the purpose of seeking shareholder approval to elect the following individuals as trustees of the Trust: Walter W. Bettinger II, Richard A. Wurster, Michael J. Beer, Robert W. Burns, Nancy F. Heller, David L. Mahoney, Jane P. Moncreiff, Kiran M. Patel, Kimberly S. Patmore, and J. Derek Penn. The number of votes necessary to conduct the Special Meeting and approve the proposal was obtained. The results of the shareholder vote are listed below:

PROPOSAL – TO ELECT EACH OF THE FOLLOWING INDIVIDUALS AS TRUSTEES OF THE TRUST:	FOR	WITHHELD
Walter W. Bettinger II	230,987,903.571	12,054,386.634
Richard A. Wurster	230,979,914.087	12,062,376.118
Michael J. Beer	230,823,461.997	12,218,828.208
Robert W. Burns	231,075,703.121	11,966,587.084
Nancy F. Heller	231,085,949.283	11,956,340.922
David L. Mahoney	231,103,532.111	11,938,758.094
Jane P. Moncreiff	231,103,532.111	11,938,758.094





## Investment Advisory Agreement Approval

The Investment Company Act of 1940, as amended (the 1940 Act), requires that the continuation of a funds 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 funds 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. (dba Schwab Asset Management) (the investment adviser) with respect to the existing funds in the Trust, including Schwab Government MoneyMarket Portfolio (the Fund), and to review certain other agreements pursuant to which the investment adviser 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 the investment adviser, including information about the investment adviser's affiliates, personnel, business goals and priorities, profitability, third-party oversight, corporate structure and operations. As part of the renewal process, the Independent Trustees' legal counsel, on behalf of the Independent Trustees, sends an information request letter to the investment adviser seeking certain relevant information. The responses by the investment adviser are provided to the Trustees in the Board materials for their review prior to their meeting, and the Trustees are provided with the opportunity to request any additional materials. The Board also receives 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 Funds operations and performance, legal and compliance matters, risk management, portfolio turnover, and sales and marketing activity. In considering the renewal, 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 participate in question and answer sessions with representatives of the investment adviser and meet in executive session outside the presence of Fund management.

The Board, including a majority of the Independent Trustees, considered information specifically relating to the continuance of the Agreement with respect to the Fund at meetings held on May 16, 2022 and June 8, 2022, and approved the renewal of the Agreement with respect to the Fund for an additional one-year term at the meeting on June 8, 2022 called for the purpose of voting on such approval.

The Board's approval of the continuance 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 the investment adviser and its affiliates dedicated to the Fund;
2. the Funds investment performance and how it compared to that of certain other comparable mutual funds and benchmark data;
3. the Funds expenses and how those expenses compared to those of certain other similar mutual funds;
4. the profitability of the investment adviser and its affiliates, including Charles Schwab & Co., Inc. (Schwab), with respect to the Fund, including both direct and indirect benefits accruing to the investment adviser 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 the investment adviser to the Fund and the resources of the investment adviser and its affiliates dedicated to the Fund. In this regard, the Trustees evaluated, among other things, the investment adviser's experience, track record, compliance program, resources dedicated to hiring and retaining skilled personnel and specialized talent, and information security resources. The Trustees also considered information provided by the investment adviser relating to services and support provided with respect to the Funds portfolio management team, portfolio strategy and internal investment guidelines, as well as trading infrastructure, liquidity management, product design and analysis, shareholder communications, securities valuation, fund accounting and custody and vendor and risk oversight. The Trustees also considered investments the investment adviser has made in its infrastructure, including modernizing the investment adviser's technology and use of data, increasing expertise in key areas (including portfolio management and trade operations), and improving business

## Schwab Government MoneyMarket Portfolio

continuity, cybersecurity due diligence, risk management processes, and information security programs, which are designed to provide enhanced services to the Fund and its shareholders. The Trustees considered Schwab's overall financial condition and its reputation as a full service brokerage firm, as well as the wide range of products, services, and account features that benefit Fund shareholders who are brokerage clients of Schwab. Following such evaluation, the Board concluded, within the context of its full deliberations, that the nature, extent and quality of services provided by the investment adviser to the Fund and the resources of the investment adviser 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 portfolio yield and market trends, as well as in consideration of the Fund's investment style and strategy attributes and disclosures. 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 Fund's operation as a government money market fund within the meaning of Rule 2a-7 under the 1940 Act. The Trustees further considered the level of Fund performance in the context of their review of Fund expenses and the investment adviser's profitability discussed below and also noted that the Board and a designated committee of the Board review performance throughout the year. 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 similar mutual funds, such peer groups and comparisons having been selected and calculated by an independent provider of investment company data. The investment adviser reported to the Board, and the Board took into account, the risk assumed by the investment adviser in the development of the Fund and provision of services as well as the competitive marketplace for financial products. The Trustees considered the effects of the investment adviser's and Schwab's practice of historically using voluntary waivers (which the investment adviser will not recoup) to maintain a certain yield. The Trustees also considered fees charged by the investment adviser to other mutual funds and to other types of 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, and the unique insurance dedicated

distribution arrangements of the Fund as compared to other funds managed by the investment adviser, as well as any differences in the nature and scope of the services the investment adviser provides to these other accounts and any differences in the market for these types of accounts. 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 the investment adviser 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 the investment adviser relating to the Schwab fund complex as a whole, noting the benefits to Fund shareholders of being part of the Schwab fund complex, including the allocations of certain fixed costs across the Fund and other funds in the complex. The Trustees also considered any other benefits derived by the investment adviser from its relationship with the Fund, such as whether, by virtue of its management of the Fund, the investment adviser obtains investment information or other research resources that aid it in providing advisory services to other clients. 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 the investment adviser and its affiliates. The Trustees noted that the investment adviser continues to invest substantial sums in its business in order to provide enhanced research capabilities, services and systems to benefit the Fund. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the profitability of the investment adviser is reasonable and supported renewal of the Agreement with respect to the Fund.

**Economies of Scale.** Although the Trustees recognized the difficulty of determining economies of scale with precision, the Trustees considered the potential existence of any economies of scale and whether those are passed along to the Fund's shareholders through (i) the enhancement of services provided to the Fund in return for fees paid, including through investments by the investment adviser in its infrastructure, including modernizing the investment adviser's technology and use of data, increasing expertise and capabilities in key areas (including portfolio and trade operations), and improving business continuity, cybersecurity due diligence and information security programs, which are designed to provide enhanced services to the Fund and its shareholders; and (ii) pricing a fund to scale and keeping overall expenses down as the fund grows. The Trustees acknowledged that the investment adviser has shared any economies of scale with the Fund by investing in the investment adviser's infrastructure, as discussed above, over time and that the investment adviser's internal costs of providing investment management,

technology administrative, legal and compliance services to the Fund continue to increase as a result of regulatory or other developments. The Trustees considered that the investment adviser and its affiliates may employ contractual expense caps to protect shareholders from high fees when fund assets are relatively small, for example, in the case of newer funds or funds with investment strategies that are from time to time out of favor, because, among other reasons, shareholders may benefit from the continued availability of such funds at subsidied expense levels. Based on this evaluation, the Board concluded, within the context of its full deliberations, that the Fund obtains reasonable benefits from economies of scale.

In the course of their deliberations, the Trustees may have accorded different weights to various factors and 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 the services provided and the related expenses borne by the



# Trustees and Officers

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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



INDEPENDENT TRUSTEES (CONTINUED)

NAME, YEAR OF BIRTH, AND POSITION(S) WITH THE TRUST (TERMS OF OFFICE, AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATIONS DURING THE PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY THE TRUSTEE	OTHER DIRECTORSHIPS
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