

Semiannual Report | June 30, 2021

Vanguard Variable Insurance Funds

Real Estate Index Portfolio

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Results of Proxy Voting

At a joint special meeting of shareholders on January 22, 2021, fund shareholders approved the following proposal:

Proposal—Reclassify the diversification status of the Real Estate Index Portfolio to non-diversified and eliminate a related fundamental policy.

Reclassifying the fund’s diversification status to non-diversified, as defined by the Investment Company Act of 1940, and eliminating a related fundamental policy, enables the fund to track its index more efficiently and reduces transaction costs associated with the use of derivatives.

Vanguard Fund	For	Abstain	Against	Broker Non-Votes	Percentage For
Real Estate Index Portfolio	60,175,899	4,736,912	3,876,796	0	87.5%

About Your Portfolio's Expenses

As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross income, directly reduce the investment return of the portfolio.

A portfolio's expenses are expressed as a percentage of its average net assets. This figure is known as the expense ratio. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The accompanying table illustrates your portfolio's costs in two ways:

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, 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 divided by \$1,000 = 8.6), then multiply the result by the number given for your portfolio under the heading "Expenses Paid During Period."

- **Based on hypothetical 5% yearly return.** This section is intended to help you compare your portfolio's costs with those of other mutual funds. It assumes that the portfolio had a yearly return of 5% before expenses, but that the expense ratio is unchanged. In this case—because the return used is not the portfolio's actual return—the results do not apply to your investment. The example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to calculate expenses based on a 5% return. You can assess your portfolio's costs by comparing this hypothetical example with the hypothetical examples that appear in shareholder reports of other funds.

Note that the expenses shown in the table are meant to highlight and help you compare *ongoing* costs only and do not reflect transaction costs incurred by the portfolio for buying and selling securities. The portfolio's expense ratio does not reflect additional fees and expenses associated with the annuity or life insurance program through which you invest.

The calculations assume no shares were bought or sold during the period. Your actual costs may have been higher or lower, depending on the amount of your investment and the timing of any purchases or redemptions.

You can find more information about the portfolio's expenses, including annual expense ratios, in the Financial Statements section of this report. For additional information on operating expenses and other shareholder costs, please refer to your portfolio's current prospectus.

Six Months Ended June 30, 2021

	Beginning Account Value 12/31/2020	Ending Account Value 6/30/2021	Expenses Paid During Period
Real Estate Index Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,213.30	\$1.43
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.51	1.30

The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.26%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (181/365).

Real Estate Index Portfolio

Portfolio Allocation

As of June 30, 2021

Diversified Real Estate Activities	0.2%
Diversified REITs	3.9
Health Care REITs	8.4
Hotel & Resort REITs	3.1
Industrial REITs	10.7
Office REITs	7.2
Real Estate Development	0.3
Real Estate Operating Companies	0.2
Real Estate Services	3.9
Residential REITs	14.0
Retail REITs	10.0
Specialized REITs	38.1

The table reflects the portfolio's investments, except for short-term investments and derivatives. Sector categories are based on the Global Industry Classification Standard ("GICS"), except for the "Other" category (if applicable), which includes securities that have not been provided a GICS classification as of the effective reporting period.

The portfolio may invest in derivatives (such as futures and swap contracts) for various reasons, including, but not limited to, attempting to remain fully invested and tracking its target index as closely as possible.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard and Poor's, a division of McGraw-Hill Companies, Inc. ("S&P"), and is licensed for use by Vanguard. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classification makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of its affiliates or any third party involved in making or compiling the GICS or any GICS classification have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Financial Statements (unaudited)

Schedule of Investments

As of June 30, 2021

The portfolio files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT. The portfolio's Form N-PORT reports are available on the SEC's website at www.sec.gov.

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
Equity Real Estate Investment Trusts (REITs) (95.4%)					
Diversified REITs (3.9%)					
WP Carey Inc.	158,751	11,846	Rexford Industrial Realty Inc.	118,625	6,756
VEREIT Inc.	207,333	9,523	First Industrial Realty Trust Inc.	116,626	6,091
STORE Capital Corp.	213,423	7,365	EastGroup Properties Inc.	35,910	5,905
* DigitalBridge Group Inc.	435,586	3,441	STAG Industrial Inc.	143,182	5,359
Broadstone Net Lease Inc. Class A	131,467	3,078	Innovative Industrial Properties Inc.	21,665	4,138
PS Business Parks Inc.	18,597	2,754	Terreno Realty Corp.	61,890	3,993
Essential Properties Realty Trust Inc.	96,563	2,611	Lexington Realty Trust	250,250	2,991
Washington REIT	76,591	1,762	Monmouth Real Estate Investment Corp.	84,833	1,588
American Assets Trust Inc.	46,612	1,738	Industrial Logistics Properties Trust	59,551	1,557
Empire State Realty Trust Inc. Class A	131,536	1,578			142,460
Global Net Lease Inc.	80,445	1,488	Office REITs (7.2%)		
iStar Inc.	67,391	1,397	Alexandria Real Estate Equities Inc.	117,340	21,349
Alexander & Baldwin Inc.	66,018	1,209	Boston Properties Inc.	133,645	15,314
Gladstone Commercial Corp.	31,970	721	Vornado Realty Trust	147,078	6,864
Armada Hoffer Properties Inc.	53,021	705	Kilroy Realty Corp.	94,769	6,600
One Liberty Properties Inc.	14,724	418	Douglas Emmett Inc.	158,341	5,323
		51,634	SL Green Realty Corp.	63,764	5,101
Health Care REITs (8.4%)			Cousins Properties Inc.	134,539	4,948
Welltower Inc.	377,413	31,363	Highwoods Properties Inc.	94,003	4,246
Ventas Inc.	338,924	19,353	Hudson Pacific Properties Inc.	136,139	3,787
Healthpeak Properties Inc.	487,316	16,223	JBG SMITH Properties	106,690	3,362
Medical Properties Trust Inc.	522,883	10,510	Equity Commonwealth	110,432	2,893
Omega Healthcare Investors Inc.	209,370	7,598	Corporate Office Properties Trust	101,198	2,833
Healthcare Trust of America Inc. Class A	197,671	5,278	Brandywine Realty Trust	154,316	2,116
Healthcare Realty Trust Inc.	126,631	3,824	Piedmont Office Realty Trust Inc. Class A	112,141	2,071
Physicians Realty Trust	187,684	3,466	Columbia Property Trust Inc.	103,836	1,806
Sabra Health Care REIT Inc.	190,203	3,462	Paramount Group Inc.	158,908	1,600
National Health Investors Inc.	38,772	2,600	Easterly Government Properties Inc.	74,778	1,576
CareTrust REIT Inc.	86,823	2,017	Office Properties Income Trust	44,084	1,292
LTC Properties Inc.	35,751	1,372	Mack-Cali Realty Corp.	66,326	1,138
Community Healthcare Trust Inc.	20,462	971	City Office REIT Inc.	40,344	502
Diversified Healthcare Trust	212,970	890	Franklin Street Properties Corp.	91,911	484
Universal Health Realty Income Trust	12,313	758			95,205
Global Medical REIT Inc.	50,711	748	Residential REITs (14.0%)		
New Senior Investment Group Inc.	73,831	648	AvalonBay Communities Inc.	126,156	26,327
		111,081	Equity Residential	320,112	24,649
Hotel & Resort REITs (3.2%)			Invitation Homes Inc.	513,112	19,134
* Host Hotels & Resorts Inc.	638,153	10,906	Essex Property Trust Inc.	58,800	17,641
MGM Growth Properties LLC Class A	136,149	4,986	Mid-America Apartment Communities Inc.	103,416	17,417
* Park Hotels & Resorts Inc.	213,356	4,397	Sun Communities Inc.	97,357	16,687
* Ryman Hospitality Properties Inc.	47,364	3,740	UDR Inc.	268,194	13,136
Apple Hospitality REIT Inc.	191,245	2,919	Camden Property Trust	88,284	11,713
Pebblebrook Hotel Trust	118,507	2,791	Equity LifeStyle Properties Inc.	156,693	11,644
* Sunstone Hotel Investors Inc.	194,737	2,419	American Homes 4 Rent Class A	256,866	9,979
RLJ Lodging Trust	149,131	2,271	Apartment Income REIT Corp.	134,694	6,389
* Xenia Hotels & Resorts Inc.	102,951	1,928	American Campus Communities Inc.	124,344	5,809
Service Properties Trust	149,236	1,880	Independence Realty Trust Inc.	92,461	1,686
* DiamondRock Hospitality Co.	190,318	1,846	NexPoint Residential Trust Inc.	20,639	1,135
* Summit Hotel Properties Inc.	94,443	881	Centerspace	11,765	928
* Chatham Lodging Trust	42,530	547	Apartment Investment & Management Co. Class A	133,164	893
* CorePoint Lodging Inc.	36,886	395	UMH Properties Inc.	37,308	814
		41,906	Preferred Apartment Communities Inc. Class A	46,449	453
Industrial REITs (10.7%)					186,434
Prologis Inc.	668,489	79,905	Retail REITs (10.0%)		
Duke Realty Corp.	338,040	16,006	Simon Property Group Inc.	297,054	38,760
Americold Realty Trust	215,869	8,171	Realty Income Corp.	337,382	22,517
			Regency Centers Corp.	138,002	8,842
			Kimco Realty Corp.	390,805	8,148
			National Retail Properties Inc.	158,517	7,431

Real Estate Index Portfolio

	Shares	Market Value* (\$000)
Federal Realty Investment Trust	62,474	7,320
Brixmor Property Group Inc.	268,147	6,138
Spirit Realty Capital Inc.	103,623	4,957
Agree Realty Corp.	57,491	4,053
Weingarten Realty Investors	109,712	3,518
Macerich Co.	132,915	2,426
Retail Properties of America Inc. Class A	193,934	2,221
SITE Centers Corp.	139,795	2,105
Urban Edge Properties	106,073	2,026
Retail Opportunity Investments Corp.	106,819	1,886
Acadia Realty Trust	78,218	1,718
Kite Realty Group Trust	76,486	1,683
Tanger Factory Outlet Centers Inc.	83,954	1,582
Getty Realty Corp.	33,869	1,055
RPT Realty	72,952	947
American Finance Trust Inc. Class A	97,376	826
NETSTREIT Corp.	35,194	812
Saul Centers Inc.	12,708	578
*.1 Seritage Growth Properties Class A	31,104	572
Alexander's Inc.	2,056	551
Urstadt Biddle Properties Inc. Class A	26,672	517
*.2 Spirit MTA REIT	42,040	11
		133,200
Specialized REITs (38.0%)		
American Tower Corp.	401,730	108,523
Crown Castle International Corp.	389,933	76,076
Equinix Inc.	80,725	64,790
Public Storage	142,327	42,796
Digital Realty Trust Inc.	253,321	38,115
SBA Communications Corp.	98,840	31,500
Weyerhaeuser Co.	676,340	23,280
Extra Space Storage Inc.	118,703	19,446
VICI Properties Inc.	485,599	15,063
Iron Mountain Inc.	260,694	11,032
Gaming & Leisure Properties Inc.	199,999	9,266
CubeSmart	176,335	8,168
Lamar Advertising Co. Class A	78,057	8,151
CyrusOne Inc.	109,074	7,801
Life Storage Inc.	68,220	7,323
CoreSite Realty Corp.	38,639	5,201
QTS Realty Trust Inc. Class A	58,413	4,515
Rayonier Inc.	124,679	4,480
* EPR Properties	67,454	3,553
PotlatchDeltic Corp.	60,313	3,206
* Outfront Media Inc.	130,218	3,129
National Storage Affiliates Trust	57,914	2,928
Uniti Group Inc.	210,484	2,229
Four Corners Property Trust Inc.	68,945	1,904
Safehold Inc.	14,597	1,146
GEO Group Inc.	108,828	775
Gladstone Land Corp.	23,397	563
CatchMark Timber Trust Inc. Class A	44,164	517
		505,476
Total Equity Real Estate Investment Trusts (REITs) (Cost \$1,109,754)		1,267,396

	Shares	Market Value* (\$000)
Real Estate Management & Development (4.6%)		
Diversified Real Estate Activities (0.2%)		
St. Joe Co.	29,401	1,312
* RMR Group Inc. Class A	13,790	533
* Five Point Holdings LLC Class A	52,488	424
* Tejon Ranch Co.	667	10
		2,279
Real Estate Development (0.3%)		
* Howard Hughes Corp.	37,466	3,651
* Forestar Group Inc.	15,044	315
		3,966
Real Estate Operating Companies (0.2%)		
Kennedy-Wilson Holdings Inc.	115,087	2,287
* FRP Holdings Inc.	5,472	305
		2,592
Real Estate Services (3.9%)		
* CBRE Group Inc. Class A	303,243	25,997
* Jones Lang LaSalle Inc.	46,144	9,019
* Redfin Corp.	83,967	5,324
* eXp World Holdings Inc.	57,020	2,211
* Cushman & Wakefield plc	120,511	2,105
* Realogy Holdings Corp.	104,997	1,913
*.1 Opendoor Technologies Inc.	104,532	1,853
Newmark Group Inc. Class A	144,206	1,732
* Marcus & Millichap Inc.	21,314	829
RE/MAX Holdings Inc. Class A	16,513	550
* Altisource Portfolio Solutions SA	393	4
		51,537
Total Real Estate Management & Development (Cost \$44,166)		60,374
Temporary Cash Investments (0.0%)		
Money Market Fund (0.0%)		
^{3,4} Vanguard Market Liquidity Fund, 0.056% (Cost \$493)	4,930	493
Total Investments (100.0%)		1,328,263
(Cost \$1,154,413)		
Other Assets and Liabilities—Net (0.0%)		167
Net Assets (100%)		1,328,430

Cost is in \$000.

• See Note A in Notes to Financial Statements.

* Non-income-producing security.

1 Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$464,000.

2 Security value determined using significant unobservable inputs.

3 Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

4 Collateral of \$478,000 was received for securities on loan.
REIT—Real Estate Investment Trust.

Derivative Financial Instruments Outstanding as of Period End
Futures Contracts

				(\$000)
	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation)
Long Futures Contracts				
Dow Jones U.S. Real Estate Index	September 2021	33	1,310	(32)

See accompanying Notes, which are an integral part of the Financial Statements.

Statement of Assets and Liabilities

As of June 30, 2021

(\$000s, except shares and per-share amounts)	Amount
Assets	
Investments in Securities, at Value	
Unaffiliated Issuers (Cost \$1,153,920)	1,327,770
Affiliated Issuers (Cost \$493)	493
Total Investments in Securities	1,328,263
Investment in Vanguard	45
Cash Collateral Pledged—Futures Contracts	82
Receivables for Investment Securities Sold	5
Receivables for Accrued Income	3,816
Receivables for Capital Shares Issued	441
Total Assets	1,332,652
Liabilities	
Due to Custodian	1,616
Payables for Investment Securities Purchased	899
Collateral for Securities on Loan	478
Payables for Capital Shares Redeemed	1,077
Payables to Vanguard	143
Variation Margin Payable—Futures Contracts	9
Total Liabilities	4,222
Net Assets	1,328,430

At June 30, 2021, net assets consisted of:

Paid-in Capital	1,127,212
Total Distributable Earnings (Loss)	201,218
Net Assets	1,328,430

Net Assets	
Applicable to 92,701,734 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)	1,328,430
Net Asset Value Per Share	\$14.33

Statement of Operations

	Six Months Ended June 30, 2021
	(\$000)
Investment Income	
Income	
Dividends	15,728
Interest ¹	2
Securities Lending—Net	26
Total Income	15,756
Expenses	
The Vanguard Group—Note B	
Investment Advisory Services	89
Management and Administrative	1,400
Marketing and Distribution	31
Custodian Fees	8
Shareholders' Reports and Proxy Fees	8
Trustees' Fees and Expenses	—
Total Expenses	1,536
Net Investment Income	14,220
Realized Net Gain (Loss)	
Capital Gain Distributions Received	805
Investment Securities Sold ¹	11,465
Futures Contracts	279
Swap Contracts	1,315
Realized Net Gain (Loss)	13,864
Change in Unrealized Appreciation (Depreciation)	
Investment Securities ¹	202,158
Futures Contracts	(61)
Swap Contracts	(552)
Change in Unrealized Appreciation (Depreciation)	201,545
Net Increase (Decrease) in Net Assets Resulting from Operations	229,629

¹ Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the portfolio were \$2,000, (\$2,000), and \$2,000, respectively. Purchases and sales are for temporary cash investment purposes.

Statement of Changes in Net Assets

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
	(\$000)	(\$000)
Increase (Decrease) in Net Assets		
Operations		
Net Investment Income	14,220	22,598
Realized Net Gain (Loss)	13,864	36,511
Change in Unrealized Appreciation (Depreciation)	201,545	(132,843)
Net Increase (Decrease) in Net Assets Resulting from Operations	229,629	(73,734)
Distributions		
Total Distributions	(58,868)	(44,948)
Capital Share Transactions		
Issued	112,384	151,575
Issued in Lieu of Cash Distributions	58,868	44,948
Redeemed	(90,690)	(243,185)
Net Increase (Decrease) from Capital Share Transactions	80,562	(46,662)
Total Increase (Decrease)	251,323	(165,344)
Net Assets		
Beginning of Period	1,077,107	1,242,451
End of Period	1,328,430	1,077,107

See accompanying Notes, which are an integral part of the Financial Statements.

Financial Highlights

For a Share Outstanding Throughout Each Period	Six Months Ended June 30, 2021	Year Ended December 31,				
	2021	2020	2019	2018	2017	2016
Net Asset Value, Beginning of Period	\$12.43	\$13.74	\$11.57	\$13.14	\$13.48	\$13.77
Investment Operations						
Net Investment Income	.159 ¹	.259 ¹	.329 ¹	.367 ¹	.375 ¹	.346
Net Realized and Unrealized Gain (Loss) on Investments	2.421	(1.054)	2.874	(1.084)	.220	.734
Total from Investment Operations	2.580	(.795)	3.203	(.717)	.595	1.080
Distributions						
Dividends from Net Investment Income	(.293)	(.316)	(.368)	(.383)	(.336)	(.375)
Distributions from Realized Capital Gains	(.387)	(.199)	(.665)	(.470)	(.599)	(.995)
Total Distributions	(.680)	(.515)	(1.033)	(.853)	(.935)	(1.370)
Net Asset Value, End of Period	\$14.33	\$12.43	\$13.74	\$11.57	\$13.14	\$13.48
Total Return	21.33%	-4.85%	28.81%	-5.35%	4.78%	8.36%
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	\$1,328	\$1,077	\$1,242	\$965	\$1,077	\$1,093
Ratio of Total Expenses to Average Net Assets	0.26%	0.26%	0.26%	0.26%	0.27%	0.27%
Ratio of Net Investment Income to Average Net Assets	2.41%	2.19%	2.52%	3.04%	2.87%	2.55%
Portfolio Turnover Rate	5%	10%	7%	35%	10%	14%

The expense ratio and net investment income ratio for the current period have been annualized.

¹ Calculated based on average shares outstanding.

Notes to Financial Statements

The Real Estate Index Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts. Market disruptions associated with the COVID-19 pandemic have had a global impact, and uncertainty exists as to the long-term implications. Such disruptions can adversely affect assets of the portfolio and thus portfolio performance.

A. The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Securities are valued as of the close of trading on the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date. Equity securities are valued at the latest quoted sales prices or official closing prices taken from the primary market in which each security trades; such securities not traded on the valuation date are valued at the mean of the latest quoted bid and asked prices. Securities for which market quotations are not readily available, or whose values have been materially affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value. Temporary cash investments are valued using the latest bid prices or using valuations based on a matrix system (which considers such factors as security prices, yields, maturities, and ratings), both as furnished by independent pricing services.

2. **Futures Contracts:** The portfolio uses index futures contracts to a limited extent, with the objectives of maintaining full exposure to the stock market, maintaining liquidity, and minimizing transaction costs. The portfolio may purchase futures contracts to immediately invest incoming cash in the market, or sell futures in response to cash outflows, thereby simulating a fully invested position in the underlying index while maintaining a cash balance for liquidity. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract. Any securities pledged as initial margin for open contracts are noted in the Schedule of Investments.

Futures contracts are valued at their quoted daily settlement prices. The notional amounts of the contracts are not recorded in the Statement of Assets and Liabilities. Fluctuations in the value of the contracts are recorded in the Statement of Assets and Liabilities as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized gains (losses) on futures contracts.

During the six months ended June 30, 2021, the portfolio's average investments in long and short futures contracts represented less than 1% and 0% of net assets, respectively, based on the average of the notional amounts at each quarter-end during the period.

3. **Swap Contracts:** The portfolio has entered into equity swap contracts to earn the total return on selected reference stocks in the portfolio's target index. Under the terms of the swaps, the portfolio receives the total return on the referenced stock (i.e., receiving the increase or paying the decrease in value of the selected reference stock and receiving the equivalent of any dividends in respect of the selected referenced stock) over a specified period of time, applied to a notional amount that represents the value of a designated number of shares of the selected reference stock at the beginning of the equity swap contract. The portfolio also pays a floating rate that is based on short-term interest rates, applied to the notional amount. At the same time, the portfolio generally invests an amount approximating the notional amount of the swap in high-quality temporary cash investments.

A risk associated with all types of swaps is the possibility that a counterparty may default on its obligation to pay net amounts due to the portfolio. The portfolio's maximum amount subject to counterparty risk is the unrealized appreciation on the swap contract. The portfolio mitigates its counterparty risk by entering into swaps only with a diverse group of prequalified counterparties, monitoring their financial strength, entering into master netting arrangements with its counterparties, and requiring its counterparties to transfer collateral as security for their performance. In the absence of a default, the collateral pledged or received by the portfolio cannot be repledged, resold, or

rehypothecated. In the event of a counterparty's default (including bankruptcy), the portfolio may terminate any swap contracts with that counterparty, determine the net amount owed by either party in accordance with its master netting arrangements, and sell or retain any collateral held up to the net amount owed to the portfolio under the master netting arrangements. The swap contracts contain provisions whereby a counterparty may terminate open contracts if the portfolio's net assets decline below a certain level, triggering a payment by the portfolio if the portfolio is in a net liability position at the time of the termination. The payment amount would be reduced by any collateral the portfolio has pledged. Any securities pledged as collateral for open contracts are noted in the Schedule of Investments. The value of collateral received or pledged is compared daily to the value of the swap contracts exposure with each counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

The notional amounts of swap contracts are not recorded in the Statement of Assets and Liabilities. Swaps are valued daily based on market quotations received from independent pricing services or recognized dealers and the change in value is recorded in the Statement of Assets and Liabilities as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until periodic payments are made or the termination of the swap, at which time realized gain (loss) is recorded.

During the six months ended June 30, 2021, the portfolio's average amounts of investments in total return swaps represented 1% of net assets, based on the average of notional amounts at each quarter-end during the period.

4. Federal Income Taxes: The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. The portfolio's tax returns are open to examination by the relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return. Management has analyzed the portfolio's tax positions taken for all open federal and state income tax years, and has concluded that no provision for income tax is required in the portfolio's financial statements.

5. Distributions: Distributions to shareholders are recorded on the ex-dividend date. Distributions are determined on a tax basis at the fiscal year-end and may differ from net investment income and realized capital gains for financial reporting purposes.

6. Securities Lending: To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled before the opening of the market on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the event of a default, the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of Assets and Liabilities for the return of the collateral, during the period the securities are on loan. Collateral investments in Vanguard Market Liquidity Fund are subject to market appreciation or depreciation. Securities lending income represents fees charged to borrowers plus income earned on invested cash collateral, less expenses associated with the loan. During the term of the loan, the portfolio is entitled to all distributions made on or in respect of the loaned securities.

7. Credit Facilities and Interfund Lending Program: The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$4.3 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement and an uncommitted credit facility provided by Vanguard. Both facilities may be renewed annually. Each fund is individually liable for its borrowings, if any, under the credit facilities. Borrowings may be utilized for temporary or emergency purposes, subject to the portfolio's regulatory and contractual borrowing restrictions. With respect to the committed credit facility, the participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn committed amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio's board of trustees and included in Management and Administrative expenses on the portfolio's Statement of Operations. Any borrowings under either facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate (or an acceptable alternate rate, if necessary), federal funds effective

rate, or overnight bank funding rate plus an agreed-upon spread, except that borrowings under the uncommitted credit facility may bear interest based upon an alternative rate agreed to by the portfolio and Vanguard.

In accordance with an exemptive order (the “Order”) from the SEC, the portfolio may participate in a joint lending and borrowing program that allows registered open-end Vanguard funds to borrow money from and lend money to each other for temporary or emergency purposes (the “Interfund Lending Program”), subject to compliance with the terms and conditions of the Order, and to the extent permitted by the portfolio’s investment objective and investment policies. Interfund loans and borrowings normally extend overnight, but can have a maximum duration of seven days. Loans may be called on one business day’s notice. The interest rate to be charged is governed by the conditions of the Order and internal procedures adopted by the board of trustees. The board of trustees is responsible for overseeing the Interfund Lending Program.

For the six months ended June 30, 2021, the portfolio did not utilize the credit facilities or the Interfund Lending Program.

8. Other: Distributions received from investment securities are recorded on the ex-dividend date. Non-cash dividends included in income, if any, are recorded at the fair value of the securities received. Each investment security reports annually the tax character of its distributions. Dividend income, capital gain distributions received, and unrealized appreciation (depreciation) reflect the amounts of taxable income, capital gain, and return of capital reported by the investment securities, and management’s estimates of such amounts for investment security distributions for which actual information has not been reported. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

B. In accordance with the terms of a Funds’ Service Agreement (the “FSA”) between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard’s cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees and are generally settled twice a month.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At June 30, 2021, the portfolio had contributed to Vanguard capital in the amount of \$45,000, representing less than 0.01% of the portfolio’s net assets and 0.02% of Vanguard’s capital received pursuant to the FSA. The portfolio’s trustees and officers are also directors and employees, respectively, of Vanguard.

C. Various inputs may be used to determine the value of the portfolio’s investments and derivatives. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

Level 1—Quoted prices in active markets for identical securities.

Level 2—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3—Significant unobservable inputs (including the portfolio’s own assumptions used to determine the fair value of investments). Any investments and derivatives valued with significant unobservable inputs are noted on the Schedule of Investments.

The following table summarizes the market value of the portfolio's investments and derivatives as of June 30, 2021, based on the inputs used to value them:

	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)	Total (\$000)
Investments				
Assets				
Common Stocks	1,327,759	—	11	1,327,770
Temporary Cash Investments	493	—	—	493
Total	1,328,252	—	11	1,328,263
Derivative Financial Instruments				
Liabilities				
Futures Contracts ¹	32	—	—	32

¹ Includes cumulative appreciation (depreciation) on futures contracts and centrally cleared swaps, if any, as reported in the Schedule of Investments. Only current day's variation margin is reported within the Statement of Assets and Liabilities.

D. As of June 30, 2021, gross unrealized appreciation and depreciation for investments and derivatives based on cost for U.S. federal income tax purposes were as follows:

	Amount (\$000)
Tax Cost	1,155,401
Gross Unrealized Appreciation	302,457
Gross Unrealized Depreciation	(129,627)
Net Unrealized Appreciation (Depreciation)	172,830

E. During the six months ended June 30, 2021, the portfolio purchased \$139,755,000 of investment securities and sold \$53,815,000 of investment securities, other than temporary cash investments.

F. Capital shares issued and redeemed were:

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
	Shares (000)	Shares (000)
Issued	8,377	12,842
Issued in Lieu of Cash Distributions	4,535	4,527
Redeemed	(6,859)	(21,151)
Net Increase (Decrease) in Shares Outstanding	6,053	(3,782)

At June 30, 2021, one shareholder (an insurance company separate account whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders) was the record or beneficial owner of 42% of the portfolio's net assets. If this shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio, cause the portfolio to incur higher transaction costs, or lead to the realization of taxable capital gains.

G. Management has determined that no events or transactions occurred subsequent to June 30, 2021, that would require recognition or disclosure in these financial statements.

Trustees Approve Advisory Arrangement

The board of trustees of Vanguard Variable Insurance Funds Real Estate Index Portfolio has renewed the portfolio's investment advisory arrangement with The Vanguard Group, Inc. (Vanguard), through its Equity Index Group. The board determined that continuing the portfolio's internalized management structure was in the best interests of the portfolio and its shareholders.

The board based its decision upon an evaluation of the advisor's investment staff, portfolio management process, and performance. This evaluation included information provided to the board by Vanguard's Portfolio Review Department, which is responsible for fund and advisor oversight and product management. The Portfolio Review Department met regularly with the advisor and made monthly presentations to the board during the fiscal year that directed the board's focus to relevant information and topics.

The board, or an investment committee made up of board members, also received information throughout the year during advisor presentations. For each advisor presentation, the board was provided with letters and reports that included information about, among other things, the advisory firm and the advisor's assessment of the investment environment, portfolio performance, and portfolio characteristics.

In addition, the board received monthly reports, which included a Market and Economic Report, a Fund Dashboard Monthly Summary, and a Fund Performance Report.

Prior to their meeting, the trustees were provided with a memo and materials that summarized the information they received over the course of the year. They also considered the factors discussed below, among others. However, no single factor determined whether the board approved the arrangement. Rather, it was the totality of the circumstances that drove the board's decision.

Nature, extent, and quality of services

The board reviewed the quality of the portfolio's investment management services over both the short and long term, and took into account the organizational depth and stability of the advisor. The board considered that Vanguard has been managing investments for more than four decades. The Equity Index Group adheres to a sound, disciplined investment management process; the team has considerable experience, stability, and depth.

The board concluded that Vanguard's experience, stability, depth, and performance, among other factors, warranted continuation of the advisory arrangement.

Investment performance

The board considered the short- and long-term performance of the portfolio, including any periods of outperformance or underperformance compared with its target index and peer group. The board concluded that the performance was such that the advisory arrangement should continue.

Cost

The board concluded that the portfolio's expense ratio was well below the average expense ratio charged by funds in its peer group and that the portfolio's advisory expenses were also well below the peer-group average.

The board does not conduct a profitability analysis of Vanguard because of Vanguard's unique structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees.

The benefit of economies of scale

The board concluded that the portfolio's arrangement with Vanguard ensures that the portfolio will realize economies of scale as it grows, with the cost to shareholders declining as portfolio assets increase.

The board will consider whether to renew the advisory arrangement again after a one-year period.

Liquidity Risk Management

Vanguard funds (except for the money market funds) have adopted and implemented a written liquidity risk management program (the “Program”) as required by Rule 22e-4 under the Investment Company Act of 1940. Rule 22e-4 requires that each fund adopt a program that is reasonably designed to assess and manage the fund’s liquidity risk, which is the risk that the fund could not meet redemption requests without significant dilution of remaining investors’ interests in the fund.

Assessment and management of a fund’s liquidity risk under the Program take into consideration certain factors, such as the fund’s investment strategy and the liquidity of its portfolio investments during normal and reasonably foreseeable stressed conditions, its short- and long-term cash-flow projections during both normal and reasonably foreseeable stressed conditions, and its cash and cash-equivalent holdings and access to other funding sources. As required by the rule, the Program includes policies and procedures for classification of fund portfolio holdings in four liquidity categories, maintaining certain levels of highly liquid investments, and limiting holdings of illiquid investments.

The board of trustees of Vanguard Variable Insurance Funds approved the appointment of liquidity risk management program administrators responsible for administering the Real Estate Index Portfolio’s Program and for carrying out the specific responsibilities set forth in the Program, including reporting to the board on at least an annual basis regarding the Program’s operation, its adequacy, and the effectiveness of its implementation for the past year (the “Program Administrator Report”). The board has reviewed the Program Administrator Report covering the period from January 1, 2020, through December 31, 2020 (the “Review Period”). The Program Administrator Report stated that during the Review Period the Program operated and was implemented effectively to manage the portfolio’s liquidity risk.

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You can obtain a free copy of Vanguard's proxy voting guidelines by visiting vanguard.com/proxyreporting or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, www.sec.gov. In addition, you may obtain a free report on how your fund voted the proxies for securities it owned during the 12 months ended June 30. To get the report, visit either vanguard.com/proxyreporting or www.sec.gov.