Vanguard

Semiannual Report | June 30, 2021

Vanguard Variable Insurance Funds

Equity Income Portfolio

Contents

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

Equity Income Portfolio	Beginning Account Value 12/31/2020	Ending Account Value 6/30/2021	Expenses Paid During Period
Based on Actual Portfolio Return	$1,000.00	$1,155.90	$1.60
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.31	1.51

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 0.30%. 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).

Equity Income Portfolio

Portfolio Allocation

As of June 30, 2021

Communication Services	4.8%
Consumer Discretionary	5.0
Consumer Staples	14.5
Energy	6.1
Financials	21.8
Health Care	16.8
Industrials	10.3
Information Technology	9.1
Materials	3.6
Real Estate	1.0
Utilities	7.0

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.

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)
Common Stocks (97.0%)		
Communication Services (4.7%)		
Comcast Corp. Class A	691,096	39,406
Verizon Communications Inc.	489,294	27,415
AT&T Inc.	246,600	7,097
Lumen Technologies Inc.	267,880	3,641
Omnicom Group Inc.	34,109	2,728
Interpublic Group of Cos. Inc.	63,252	2,055
TEGNA Inc.	96,685	1,814
Telephone and Data Systems Inc.	20,746	470
		84,626
Consumer Discretionary (4.8%)		
Home Depot Inc.	109,579	34,944
McDonald's Corp.	78,548	18,144
Lowe's Cos. Inc.	52,681	10,219
TJX Cos. Inc.	70,454	4,750
Polaris Inc.	28,011	3,836
Best Buy Co. Inc.	33,340	3,833
Target Corp.	15,380	3,718
H&R Block Inc.	157,434	3,697
Kontoor Brands Inc.	30,776	1,736
Foot Locker Inc.	25,688	1,583
Big Lots Inc.	22,074	1,457
		87,917
Consumer Staples (14.0%)		
Procter & Gamble Co.	363,542	49,053
Philip Morris International Inc.	362,242	35,902
Mondelez International Inc. Class A	460,785	28,771
PepsiCo Inc.	148,340	21,980
Coca-Cola Co.	362,946	19,639
Archer-Daniels-Midland Co.	227,997	13,817
Unilever plc ADR	233,017	13,631
Walmart Inc.	88,859	12,531
Kimberly-Clark Corp.	80,020	10,705
Nestle SA ADR	80,307	10,018
Kellogg Co.	136,817	8,801
Altria Group Inc.	150,365	7,169
Tyson Foods Inc. Class A	53,790	3,968
General Mills Inc.	57,694	3,515
Vector Group Ltd.	222,711	3,149
Nu Skin Enterprises Inc. Class A	50,469	2,859
Campbell Soup Co.	38,488	1,755
Spectrum Brands Holdings Inc.	19,176	1,631
Hershey Co.	9,026	1,572
Medifast Inc.	4,065	1,150
Weis Markets Inc.	20,889	1,079
Colgate-Palmolive Co.	8,062	656
Ingredion Inc.	4,591	415
SpartanNash Co.	11,603	224
		253,990
Energy (5.9%)		
Pioneer Natural Resources Co.	137,586	22,360
ConocoPhillips	310,833	18,930
[1] TC Energy Corp.	235,738	11,665
Exxon Mobil Corp.	176,163	11,112
Phillips 66	128,155	10,998
Chevron Corp.	95,382	9,990
Schlumberger NV	171,166	5,479
Kinder Morgan Inc.	255,714	4,662
Targa Resources Corp.	78,734	3,500
Cimarex Energy Co.	31,382	2,274
Halliburton Co.	97,885	2,263
APA Corp.	73,436	1,588
Ovintiv Inc.	41,870	1,318
SFL Corp. Ltd.	36,574	280
		106,419
Financials (21.2%)		
JPMorgan Chase & Co.	429,030	66,731
Bank of America Corp.	1,342,393	55,347
Morgan Stanley	386,751	35,461
MetLife Inc.	424,777	25,423
BlackRock Inc.	28,132	24,615
Chubb Ltd.	148,338	23,577
Progressive Corp.	208,571	20,484
Truist Financial Corp.	337,373	18,724
PNC Financial Services Group Inc.	73,441	14,010
Blackstone Group Inc.	113,471	11,023
Citigroup Inc.	138,529	9,801
Wells Fargo & Co.	214,611	9,720
M&T Bank Corp.	61,941	9,001
Aflac Inc.	88,732	4,761
U.S. Bancorp	78,263	4,459
Ally Financial Inc.	85,339	4,253
Navient Corp.	208,820	4,036
Synchrony Financial	80,644	3,913
Jefferies Financial Group Inc.	112,754	3,856
Fidelity National Financial Inc.	80,231	3,487
First American Financial Corp.	54,106	3,373
First Horizon Corp.	192,362	3,324
Associated Banc-Corp.	146,882	3,008
CNO Financial Group Inc.	120,050	2,836
FNB Corp.	229,130	2,825
Bank of New York Mellon Corp.	37,438	1,918
New York Community Bancorp Inc.	166,800	1,838
Hope Bancorp Inc.	91,268	1,294
Fifth Third Bancorp	33,825	1,293
Umpqua Holdings Corp.	62,118	1,146
Mercury General Corp.	16,337	1,061
Old National Bancorp	55,789	982
Prudential Financial Inc.	8,973	919
PacWest Bancorp	21,373	880
Unum Group	28,772	817
CME Group Inc.	3,577	761
OneMain Holdings Inc.	12,436	745
First Financial Bancorp	27,125	641
Columbia Banking System Inc.	12,740	491
Westamerica BanCorp.	6,871	399
KeyCorp.	13,913	287
Virtu Financial Inc. Class A	10,118	280
		383,800
Health Care (16.3%)		
Johnson & Johnson	412,986	68,035
Eli Lilly & Co.	162,166	37,220
Pfizer Inc.	827,024	32,386
Merck & Co. Inc.	409,091	31,815
UnitedHealth Group Inc.	47,888	19,176
Becton Dickinson and Co.	62,693	15,246
Anthem Inc.	29,046	11,090
Medtronic plc	86,003	10,675
Baxter International Inc.	125,673	10,117
[1] AstraZeneca plc ADR	166,287	9,961
Roche Holding AG	24,610	9,274
Bristol-Myers Squibb Co.	132,334	8,843
Novartis AG (Registered)	88,951	8,115
Gilead Sciences Inc.	104,268	7,180
AbbVie Inc.	52,723	5,939
Cardinal Health Inc.	67,482	3,852
Amgen Inc.	13,505	3,292
CVS Health Corp.	30,963	2,584
* Organon & Co.	14,774	447
		295,247
Industrials (10.0%)		
Lockheed Martin Corp.	67,255	25,446
Caterpillar Inc.	98,421	21,419
Eaton Corp. plc	136,705	20,257
Raytheon Technologies Corp.	230,688	19,680
General Dynamics Corp.	83,026	15,631
Johnson Controls International plc	220,648	15,143
Union Pacific Corp.	47,630	10,475
Honeywell International Inc.	34,025	7,463
Illinois Tool Works Inc.	27,883	6,234
Waste Management Inc.	43,065	6,034
United Parcel Service Inc. Class B	25,498	5,303
Cummins Inc.	19,022	4,638
3M Co.	21,061	4,183
Triton International Ltd.	64,342	3,368
Ryder System Inc.	41,896	3,114
nVent Electric plc	86,214	2,693
ABM Industries Inc.	51,917	2,303
ManpowerGroup Inc.	18,135	2,156
Emerson Electric Co.	21,426	2,062
H&E Equipment Services Inc.	34,699	1,154
PACCAR Inc.	10,991	981
Watsco Inc.	1,516	435

	Shares	Market Value• ($000)
McGrath RentCorp.	3,996	326
		180,498
Information Technology (8.8%)		
Cisco Systems Inc.	868,413	46,026
TE Connectivity Ltd.	126,834	17,149
Corning Inc.	396,669	16,224
Automatic Data Processing Inc.	62,253	12,365
Analog Devices Inc.	65,512	11,279
Texas Instruments Inc.	50,245	9,662
International Business Machines Corp.	63,111	9,251
QUALCOMM Inc.	63,855	9,127
Intel Corp.	155,587	8,735
Broadcom Inc.	11,011	5,250
HP Inc.	162,246	4,898
KLA Corp.	9,981	3,236
Avnet Inc.	60,436	2,422
ADTRAN Inc.	92,845	1,917
Xperi Holding Corp.	76,377	1,699
Paychex Inc.	4,922	528
Hewlett Packard Enterprise Co.	20,257	295
		160,063
Materials (3.5%)		
PPG Industries Inc.	86,509	14,687
Celanese Corp. Class A	90,193	13,673
Rio Tinto plc ADR	96,700	8,112
Dow Inc.	81,881	5,181
Nucor Corp.	49,299	4,729
Linde plc	15,268	4,414
Steel Dynamics Inc.	57,374	3,419
Commercial Metals Co.	110,629	3,399
Reliance Steel & Aluminum Co.	21,389	3,228
Newmont Corp.	22,876	1,450
LyondellBasell Industries NV Class A	9,513	979
DuPont de Nemours Inc.	4,859	376
Worthington Industries Inc.	4,545	278
		63,925
Real Estate (1.0%)		
Crown Castle International Corp.	90,674	17,691
Utilities (6.8%)		
Dominion Energy Inc.	263,879	19,413
Sempra Energy	141,752	18,779
Duke Energy Corp.	157,148	15,514
American Electric Power Co. Inc.	137,862	11,662
Exelon Corp.	228,672	10,132
DTE Energy Co.	62,490	8,099
Entergy Corp.	77,432	7,720
UGI Corp.	165,704	7,674
AES Corp.	152,884	3,986
Evergy Inc.	59,605	3,602
NextEra Energy Inc.	47,936	3,513
Portland General Electric Co.	66,079	3,045
Southern Co.	43,248	2,617
MDU Resources Group Inc.	62,305	1,953
New Jersey Resources Corp.	44,376	1,756
Hawaiian Electric Industries Inc.	30,052	1,270
National Fuel Gas Co.	19,217	1,004
CMS Energy Corp.	10,523	622
PPL Corp.	17,998	503
Southwest Gas Holdings Inc.	5,788	383
		123,247
Total Common Stocks (Cost $1,467,944)		1,757,423
Temporary Cash Investments (3.5%)		
Money Market Fund (3.1%)		
[2,3] Vanguard Market Liquidity Fund, 0.056%	559,146	55,915

	Face Amount ($000)	Market Value• ($000)
Repurchase Agreement (0.4%)		
BNP Paribas Securities Corp. 0.050%, 7/1/21 (Dated 6/30/21, Repurchase Value $7,600,000, collateralized by Federal National Mortgage Association 3.000%, 7/1/51, U.S. Treasury Bill 0.000%, 7/22/21–4/21/22, and U.S. Treasury Note/Bond 1.750%–2.000%, 7/15/22–6/30/24, with a value of $7,752,000)	7,600	7,600
U.S. Government and Agency Obligations (0.0%)		
[4] U.S. Treasury Bill, 0.020%, 8/26/21	250	250
Total Temporary Cash Investments (Cost $63,765)		63,765
Total Investments (100.5%) (Cost $1,531,709)		1,821,188
Other Assets and Liabilities—Net (-0.5%)		(9,870)
Net Assets (100%)		1,811,318

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 $14,030,000.

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

3 Collateral of $14,678,000 was received for securities on loan.

4 Securities with a value of $98,000 have been segregated as initial margin for open futures contracts.

ADR—American Depositary Receipt.

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts

	Expiration	Number of Long (Short) Contracts	Notional Amount ($000)	Value and Unrealized Appreciation (Depreciation) ($000)
Long Futures Contracts				
E-mini S&P 500 Index	September 2021	203	43,529	528

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 $1,475,794)	1,765,273
Affiliated Issuers (Cost $55,915)	55,915
Total Investments in Securities	1,821,188
Investment in Vanguard	64
Cash	10,425
Cash Collateral Pledged—Futures Contracts	2,317
Receivables for Investment Securities Sold	2,870
Receivables for Accrued Income	3,067
Receivables for Capital Shares Issued	77
Variation Margin Receivable—Futures Contracts	72
Total Assets	**1,840,080**
Liabilities	
Payables for Investment Securities Purchased	12,143
Collateral for Securities on Loan	14,678
Payables to Investment Advisor	359
Payables for Capital Shares Redeemed	1,410
Payables to Vanguard	172
Total Liabilities	**28,762**
Net Assets	**1,811,318**

At June 30, 2021, net assets consisted of:

Paid-in Capital	1,186,537
Total Distributable Earnings (Loss)	624,781
Net Assets	**1,811,318**

Net Assets	
Applicable to 70,613,319 outstanding $.001 par value shares of beneficial interest (unlimited authorization)	**1,811,318**
Net Asset Value Per Share	**$25.65**

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

Statement of Operations

	Six Months Ended June 30, 2021
	($000)
Investment Income	
Income	
Dividends[1]	28,527
Interest[2]	31
Securities Lending—Net	5
Total Income	28,563
Expenses	
Investment Advisory Fees—Note B	
Basic Fee	961
Performance Adjustment	104
The Vanguard Group—Note C	
Management and Administrative	1,951
Marketing and Distribution	61
Custodian Fees	9
Shareholders' Reports	6
Trustees' Fees and Expenses	—
Total Expenses	3,092
Net Investment Income	**25,471**
Realized Net Gain (Loss)	
Investment Securities Sold[2,3]	298,844
Futures Contracts	15,461
Foreign Currencies	3
Realized Net Gain (Loss)	**314,308**
Change in Unrealized Appreciation (Depreciation)	
Investment Securities[2]	(23,225)
Futures Contracts	(854)
Foreign Currencies	(24)
Change in Unrealized Appreciation (Depreciation)	**(24,103)**
Net Increase (Decrease) in Net Assets Resulting from Operations	**315,676**

1 Dividends are net of foreign withholding taxes of $224,000.

2 Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the portfolio were $29,000, less than $1,000, and less than $1,000, respectively. Purchases and sales are for temporary cash investment purposes.

3 Includes $201,993,000 of net gain (loss) resulting from in-kind redemptions.

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	25,471	49,699
Realized Net Gain (Loss)	314,308	41,784
Change in Unrealized Appreciation (Depreciation)	(24,103)	(17,679)
Net Increase (Decrease) in Net Assets Resulting from Operations	315,676	73,804
Distributions		
Total Distributions	(90,458)	(106,167)
Capital Share Transactions		
Issued	293,012	395,902
Issued in Lieu of Cash Distributions	90,458	106,167
Redeemed	(818,807)	(282,471)
Net Increase (Decrease) from Capital Share Transactions	(435,337)	219,598
Total Increase (Decrease)	(210,119)	187,235
Net Assets		
Beginning of Period	**2,021,437**	**1,834,202**
End of Period	**1,811,318**	**2,021,437**

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, 2020	2019	2018	2017	2016
Net Asset Value, Beginning of Period	**$23.07**	**$24.17**	**$21.24**	**$24.64**	**$22.10**	**$21.22**
Investment Operations						
Net Investment Income	.306[1]	.595[1]	.619[1]	.620[1]	.582[1]	.568
Net Realized and Unrealized Gain (Loss) on Investments	3.248	(.305)	4.319	(1.977)	3.275	2.361
Total from Investment Operations	3.554	.290	4.938	(1.357)	3.857	2.929
Distributions						
Dividends from Net Investment Income	(.506)	(.618)	(.586)	(.562)	(.583)	(.583)
Distributions from Realized Capital Gains	(.468)	(.772)	(1.422)	(1.481)	(.734)	(1.466)
Total Distributions	(.974)	(1.390)	(2.008)	(2.043)	(1.317)	(2.049)
Net Asset Value, End of Period	**$25.65**	**$23.07**	**$24.17**	**$21.24**	**$24.64**	**$22.10**
Total Return	**15.59%**	**3.25%**	**24.43%**	**-5.96%**	**18.25%**	**15.07%**
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	$1,811	$2,021	$1,834	$1,374	$1,372	$1,172
Ratio of Total Expenses to Average Net Assets[2]	0.30%	0.30%	0.30%	0.29%	0.31%	0.30%
Ratio of Net Investment Income to Average Net Assets	2.45%	2.86%	2.76%	2.69%	2.56%	2.89%
Portfolio Turnover Rate	19%[3]	40%	33%	36%	38%	32%

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

1 Calculated based on average shares outstanding.

2 Includes performance-based investment advisory fee increases (decreases) of 0.01%, 0.01%, 0.01%, (0.00%), (0.00%), and (0.01%).

3 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the portfolio's capital shares.

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

Notes to Financial Statements

The Equity Income 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 affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued at their fair values calculated according to procedures adopted by the board of trustees. These procedures include obtaining quotations from an independent pricing service, monitoring news to identify significant market- or security-specific events, and evaluating changes in the values of foreign market proxies (for example, ADRs, futures contracts, or exchange-traded funds), between the time the foreign markets close and the portfolio's pricing time. When fair-value pricing is employed, the prices of securities used by a portfolio to calculate its net asset value may differ from quoted or published prices for the same securities. 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. Foreign Currency: Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates obtained from an independent third party as of the portfolio's pricing time on the valuation date. Realized gains (losses) and unrealized appreciation (depreciation) on investment securities include the effects of changes in exchange rates since the securities were purchased, combined with the effects of changes in security prices. Fluctuations in the value of other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains (losses) until the assets or liabilities are settled in cash, at which time they are recorded as realized foreign currency gains (losses).

3. Futures Contracts: The portfolio uses index futures contracts to a limited extent, with the objective of maintaining full exposure to the stock market while maintaining liquidity. The portfolio may purchase or sell futures contracts to achieve a desired level of investment, whether to accommodate portfolio turnover or cash flows from capital share transactions. 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 3% and 0% of net assets, respectively, based on the average of the notional amounts at each quarter-end during the period.

4. Repurchase Agreements: The portfolio enters into repurchase agreements with institutional counterparties. Securities pledged as collateral to the portfolio under repurchase agreements are held by a custodian bank until the agreements mature, and in the absence of a default, such collateral cannot be repledged, resold, or rehypothecated. Each agreement requires that the market value of

the collateral be sufficient to cover payments of interest and principal. The portfolio further mitigates its counterparty risk by entering into repurchase agreements only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master repurchase agreements with its counterparties. The master repurchase agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any repurchase agreements with that counterparty, determine the net amount owed, and sell or retain the collateral up to the net amount owed to the portfolio. Such action may be subject to legal proceedings, which may delay or limit the disposition of collateral.

5. 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.

6. 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.

7. 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.

8. 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 alternate 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.

9. Other: Dividend income is recorded on the ex-dividend date. Non-cash dividends included in income, if any, are recorded at the fair value of the securities received. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities are amortized and accreted, respectively, to interest income over the lives of the respective securities, except for premiums on certain callable debt securities that are amortized to the earliest call date. 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. Wellington Management Company LLP provides investment advisory services to a portion of the portfolio for a fee calculated at an annual percentage rate of average net assets managed by the advisor. The basic fee is subject to quarterly adjustments based on the portfolio's performance relative to the FTSE High Dividend Yield Index for the preceding three years.

Vanguard provides investment advisory services to a portion of the portfolio as described below; the portfolio paid Vanguard advisory fees of $314,000 for the six months ended June 30, 2021.

For the six months ended June 30, 2021, the aggregate investment advisory fee paid to all advisors represented an effective annual rate of 0.09% of the portfolio's average net assets, before an increase of $104,000 (0.01%) based on performance.

C. 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 $64,000, representing less than 0.01% of the portfolio's net assets and 0.03% of Vanguard's capital received pursuant to the FSA. The portfolio's trustees and officers are also directors and employees, respectively, of Vanguard.

D. 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	1,740,034	17,389	—	1,757,423
Temporary Cash Investments	55,915	7,850	—	63,765
Total	1,795,949	25,239	—	1,821,188
Derivative Financial Instruments				
Assets				
Futures Contracts[1]	528	—	—	528

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.

E. 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	1,532,578
Gross Unrealized Appreciation	308,585
Gross Unrealized Depreciation	(19,447)
Net Unrealized Appreciation (Depreciation)	289,138

F. During the six months ended June 30, 2021, the portfolio purchased $552,138,000 of investment securities and sold $1,012,790,000 of investment securities, other than temporary cash investments. Purchases and sales include $0 and $646,532,000, respectively, in connection with in-kind purchases and redemptions of the portfolio's capital shares.

G. Capital shares issued and redeemed were:

	Six Months Ended June 30, 2021	Year Ended December 31, 2020
	Shares (000)	Shares (000)
Issued	12,161	19,269
Issued in Lieu of Cash Distributions	3,683	6,241
Redeemed	(32,864)	(13,762)
Net Increase (Decrease) in Shares Outstanding	(17,020)	11,748

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 51% 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.

H. 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 Equity Income Portfolio has renewed the portfolio's investment advisory arrangements with Wellington Management Company LLP (Wellington Management) and The Vanguard Group, Inc. (Vanguard), through its Quantitative Equity Group. The board determined that renewing the portfolio's advisory arrangements was in the best interests of the portfolio and its shareholders.

The board based its decisions upon an evaluation of each 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 advisors 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 arrangements. Rather, it was the totality of the circumstances that drove the board's decisions.

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 each advisor. The board considered the following:

Wellington Management. Founded in 1928, Wellington Management is among the nation's oldest and most respected institutional investment managers. Utilizing fundamental research, Wellington Management seeks to build a portfolio with an above-market yield, superior growth rate, and very attractive valuation. While every company purchased for the portfolio will pay a dividend, the goal is to build a portfolio with an above-market yield in aggregate, allowing for individual companies with below-market yields. Normalized earnings, normalized price-to-earnings ratios, and improving returns on capital are key to the research process. The firm has advised a portion of the portfolio since 2003.

Vanguard. Vanguard has been managing investments for more than four decades. The Quantitative Equity Group adheres to a sound, disciplined investment management process; the team has considerable experience, stability, and depth. Vanguard has managed a portion of the portfolio since 2003.

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

Investment performance

The board considered the short- and long-term performance of each advisor, including any periods of outperformance or underperformance compared with a relevant benchmark index and peer group. The board concluded that the performance was such that each 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 expense rate was also well below the peer-group average.

The board did not consider the profitability of Wellington Management in determining whether to approve the advisory fee, because Wellington Management is independent of Vanguard and the advisory fee is the result of arm's-length negotiations. 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 realizes economies of scale that are built into the advisory fee rate negotiated with Wellington Management without any need for asset-level breakpoints. Wellington Management's advisory fee rate is very low relative to the average rate paid by funds in the portfolio's peer group. The board also 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 the portfolio's assets managed by Vanguard increase.

The board will consider whether to renew the advisory arrangements 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 Equity Income 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 review information about your fund on the SEC's website, and you can receive copies of this information, for a fee, by sending a request via email addressed to publicinfo@sec.gov.

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