

Semiannual Report | June 30, 2021

Vanguard Variable Insurance Funds

Capital Growth Portfolio

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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
Capital Growth Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,171.80	\$1.83
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.11	1.71

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 0.34%. 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).

Capital Growth Portfolio

Portfolio Allocation

As of June 30, 2021

Communication Services	7.0%
Consumer Discretionary	13.0
Energy	1.3
Financials	8.0
Health Care	25.7
Industrials	14.8
Information Technology	29.2
Materials	1.0

The table reflects the portfolio's investments, except for short-term investments. 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.

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)		Shares	Market Value* (\$000)
Common Stocks (95.7%)								
Communication Services (6.7%)								
* Alphabet Inc. Class A	18,100	44,196	* Boston Scientific Corp.	640,902	27,405	NVIDIA Corp.	17,650	14,122
* Alphabet Inc. Class C	9,670	24,236	Novartis AG ADR	283,950	25,907	Oracle Corp.	147,000	11,442
* Baidu Inc. ADR	116,300	23,714	Roche Holding AG	44,693	16,842	Analog Devices Inc.	65,600	11,294
* Walt Disney Co.	73,300	12,884	* Bristol-Myers Squibb Co.	183,400	12,255	HP Inc.	362,350	10,939
Activision Blizzard Inc.	91,300	8,714	* Elanco Animal Health Inc. (XNYS)	340,416	11,809	Hewlett Packard Enterprise Co.	723,050	10,542
* Facebook Inc. Class A	12,500	4,346	* BioMarin			Visa Inc. Class A	44,100	10,311
* Charter Communications Inc. Class A	5,400	3,896	* Pharmaceutical Inc.	129,100	10,772	* PayPal Holdings Inc.	24,000	6,996
		121,986	Abbott Laboratories	80,300	9,309	Entegris Inc.	51,300	6,308
Consumer Discretionary (12.5%)			* BeiGene Ltd. ADR	23,700	8,134	Cisco Systems Inc.	117,600	6,233
* Alibaba Group Holding Ltd. ADR	216,300	49,052	Medtronic plc	47,900	5,946	Apple Inc.	37,800	5,177
* Tesla Inc.	56,700	38,539	Zimmer Biomet Holdings Inc.	32,400	5,210	Applied Materials Inc.	31,800	4,528
* Sony Group Corp. ADR	336,800	32,744	CVS Health Corp.	62,400	5,207	Corning Inc.	96,250	3,937
Ross Stores Inc.	182,800	22,667	* Agilent Technologies Inc.	20,000	2,956	* Splunk Inc.	22,400	3,239
* Amazon.com Inc.	6,050	20,813	* IQVIA Holdings Inc.	10,200	2,472	* Plantronics Inc.	54,150	2,260
Whirlpool Corp.	79,500	17,333	Stryker Corp.	8,400	2,182	Fidelity National Information Services Inc.	13,300	1,884
TJX Cos. Inc.	192,500	12,978	Sanofi ADR	27,800	1,464	* BlackBerry Ltd.	148,000	1,809
* Mattel Inc.	615,200	12,365			449,634	* Autodesk Inc.	5,900	1,722
L Brands Inc.	91,100	6,565	Industrials (14.2%)			Mastercard Inc. Class A	4,700	1,716
* Royal Caribbean Cruises Ltd.	59,000	5,031	FedEx Corp.	213,400	63,664			510,557
* Carnival Corp.	158,300	4,173	* Southwest Airlines Co.	646,650	34,331	Materials (1.0%)		
eBay Inc.	35,400	2,485	* Siemens AG (Registered)	201,640	32,016	Albemarle Corp.	43,700	7,362
* Burlington Stores Inc.	5,800	1,868	* United Airlines Holdings Inc.	344,500	18,014	* Glencore plc	702,066	3,013
* Marriott International Inc. Class A	8,400	1,147	* Airbus SE	134,965	17,391	Freeport-McMoRan Inc.	65,500	2,431
		227,760	Caterpillar Inc.	63,700	13,863	Linde plc	6,300	1,821
Energy (1.2%)			* Union Pacific Corp.	57,700	12,690	DuPont de Nemours Inc.	18,066	1,399
Hess Corp.	134,700	11,762	* American Airlines Group Inc.	535,000	11,347	Dow Inc.	18,066	1,143
Pioneer Natural Resources Co.	48,500	7,882	* Delta Air Lines Inc.	252,500	10,923	Corteva Inc.	18,066	801
EOG Resources Inc.	32,700	2,729	United Parcel Service Inc. Class B	45,450	9,452			17,970
		22,373	* Alaska Air Group Inc.	108,100	6,520	Total Common Stocks (Cost \$932,323) 1,747,838		
Financials (7.6%)			Textron Inc.	77,100	5,302	Temporary Cash Investments (5.4%)		
Wells Fargo & Co.	684,100	30,983	* TransDigm Group Inc.	7,450	4,822	Money Market Fund (5.4%)		
JPMorgan Chase & Co.	184,000	28,619	Deere & Co.	9,400	3,315	^{2,3} Vanguard Market Liquidity Fund, 0.056% (Cost \$97,812)	978,117	97,812
Charles Schwab Corp.	392,100	28,549	AMETEK Inc.	21,000	2,804			
Bank of America Corp.	538,900	22,219	CSX Corp.	77,700	2,493	Total Investments (101.1%) (Cost \$1,030,135) 1,845,650		
Marsh & McLennan Cos. Inc.	116,000	16,319	* Carrier Global Corp.	42,600	2,070	Other Assets and Liabilities—Net (-1.1%) (19,440)		
U.S. Bancorp	61,500	3,503	Lyft Inc. Class A	33,400	2,020	Net Assets (100%) 1,826,210		
Progressive Corp.	33,600	3,300	General Dynamics Corp.	10,700	2,014			
Raymond James Financial Inc.	24,900	3,234	Raytheon Technologies Corp.	21,100	1,800			
Citigroup Inc.	31,700	2,243	Otis Worldwide Corp.	21,250	1,738			
		138,969			258,589			
Health Care (24.6%)			Information Technology (27.9%)					
Eli Lilly & Co.	460,771	105,756	* Microsoft Corp.	277,300	75,121			
* Biogen Inc.	214,800	74,379	* Adobe Inc.	124,400	72,854			
Amgen Inc.	225,071	54,861	* Texas Instruments Inc.	307,900	59,209			
¹ AstraZeneca plc ADR	630,400	37,761	* Micron Technology Inc.	639,700	54,362			
Thermo Fisher Scientific Inc.	57,500	29,007	KLA Corp.	106,500	34,528			
			Intel Corp.	477,400	26,801			
			NetApp Inc.	256,800	21,011			
			Telefonaktiebolaget LM Ericsson ADR	1,576,300	19,830			
			Intuit Inc.	36,700	17,989			
			QUALCOMM Inc.	100,700	14,393			

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 \$932,323)	1,747,838
Affiliated Issuers (Cost \$97,812)	97,812
Total Investments in Securities	1,845,650
Investment in Vanguard	62
Receivables for Accrued Income	1,744
Receivables for Capital Shares Issued	218
Total Assets	1,847,674
Liabilities	
Due to Custodian	1
Payables for Investment Securities Purchased	3
Collateral for Securities on Loan	19,710
Payables to Investment Advisor	713
Payables for Capital Shares Redeemed	896
Payables to Vanguard	141
Total Liabilities	21,464
Net Assets	1,826,210

At June 30, 2021, net assets consisted of:

Paid-in Capital	573,056
Total Distributable Earnings (Loss)	1,253,154
Net Assets	1,826,210
Net Assets	
Applicable to 37,369,373 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)	1,826,210
Net Asset Value Per Share	\$48.87

Statement of Operations

	Six Months Ended June 30, 2021
	(\$000)
Investment Income	
Income	
Dividends ¹	12,554
Interest ²	31
Securities Lending—Net	18
Total Income	12,603
Expenses	
Investment Advisory Fees—Note B	1,540
The Vanguard Group—Note C	
Management and Administrative	1,869
Marketing and Distribution	48
Custodian Fees	11
Shareholders' Reports	5
Trustees' Fees and Expenses	—
Total Expenses	3,473
Net Investment Income	9,130
Realized Net Gain (Loss)	
Investment Securities Sold ^{2,3}	430,327
Foreign Currencies	18
Realized Net Gain (Loss)	430,345
Change in Unrealized Appreciation (Depreciation)	
Investment Securities ²	(103,571)
Foreign Currencies	(27)
Change in Unrealized Appreciation (Depreciation)	(103,598)
Net Increase (Decrease) in Net Assets Resulting from Operations	335,877

1 Dividends are net of foreign withholding taxes of \$537,000.

2 Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the portfolio were \$31,000, less than \$1,000, and (\$1,000), respectively. Purchases and sales are for temporary cash investment purposes.

3 Includes \$359,607,000 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	9,130	22,897
Realized Net Gain (Loss)	430,345	153,694
Change in Unrealized Appreciation (Depreciation)	(103,598)	126,428
Net Increase (Decrease) in Net Assets Resulting from Operations	335,877	303,019
Distributions		
Total Distributions	(175,523)	(83,976)
Capital Share Transactions		
Issued	126,151	222,798
Issued in Lieu of Cash Distributions	175,523	83,976
Redeemed	(728,214)	(409,141)
Net Increase (Decrease) from Capital Share Transactions	(426,540)	(102,367)
Total Increase (Decrease)	(266,186)	116,676
Net Assets		
Beginning of Period	2,092,396	1,975,720
End of Period	1,826,210	2,092,396

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	\$45.21	\$40.76	\$33.49	\$35.12	\$28.36	\$26.64
Investment Operations						
Net Investment Income	.212 ¹	.478 ¹	.503 ¹	.429 ¹	.366 ¹	.374
Net Realized and Unrealized Gain (Loss) on Investments	7.283	5.768	8.182	(.754)	7.580	2.362
Total from Investment Operations	7.495	6.246	8.685	(.325)	7.946	2.736
Distributions						
Dividends from Net Investment Income	(.480)	(.574)	(.411)	(.315)	(.371)	(.318)
Distributions from Realized Capital Gains	(3.355)	(1.222)	(1.004)	(.990)	(.815)	(.698)
Total Distributions	(3.835)	(1.796)	(1.415)	(1.305)	(1.186)	(1.016)
Net Asset Value, End of Period	\$48.87	\$45.21	\$40.76	\$33.49	\$35.12	\$28.36
Total Return	17.18%	17.47%	26.50%	-1.18%	28.83%	10.84%
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	\$1,826	\$2,092	\$1,976	\$1,596	\$1,416	\$964
Ratio of Total Expenses to Average Net Assets	0.34%	0.34%	0.34%	0.34%	0.36%	0.36%
Ratio of Net Investment Income to Average Net Assets	0.89%	1.25%	1.37%	1.18%	1.16%	1.44%
Portfolio Turnover Rate	3% ²	6%	5%	6%	7%	5%

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

1 Calculated based on average shares outstanding.

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

Notes to Financial Statements

The Capital Growth 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.

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. **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.

4. **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.

5. **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.

6. 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.

7. 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. 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. PRIMECAP Management Company provides investment advisory services to the portfolio for a fee calculated at an annual percentage rate of average net assets. For the six months ended June 30, 2021, the investment advisory fee represented an effective annual basic rate of 0.15% of the portfolio's average net assets.

C. In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio 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 \$62,000, 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.

D. Various inputs may be used to determine the value of the portfolio's investments. 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 valued with significant unobservable inputs are noted on the Schedule of Investments.

Capital Growth Portfolio

The following table summarizes the market value of the portfolio's investments 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	1,678,576	69,262	—	1,747,838
Temporary Cash Investments	97,812	—	—	97,812
Total	1,776,388	69,262	—	1,845,650

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

	Amount (\$000)
Tax Cost	1,030,135
Gross Unrealized Appreciation	849,893
Gross Unrealized Depreciation	(34,378)
Net Unrealized Appreciation (Depreciation)	815,515

F. During the six months ended June 30, 2021, the portfolio purchased \$63,475,000 of investment securities and sold \$657,456,000 of investment securities, other than temporary cash investments. Purchases and sales include \$0 and \$549,520,000, 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	2,638	5,930
Issued in Lieu of Cash Distributions	3,846	2,763
Redeemed	(15,397)	(10,888)
Net Increase (Decrease) in Shares Outstanding	(8,913)	(2,195)

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 59% 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 Capital Growth Portfolio has renewed the portfolio's investment advisory arrangement with PRIMECAP Management Company (PRIMECAP). The board determined that renewing the portfolio's advisory arrangement 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 PRIMECAP, founded in 1983, is recognized for its long-term approach to equity investing. Five experienced portfolio managers are responsible for separate subportfolios, and each portfolio manager employs a fundamental, research-driven approach in seeking to identify companies with long-term growth potential that the market has yet to appreciate. The multi-counselor approach that the advisor employs is designed to emphasize individual decision-making and enable the portfolio managers to invest only in their highest-conviction ideas. PRIMECAP's fundamental research focuses on developing opinions independent from Wall Street's consensus and maintaining a long-term horizon. The firm has managed the portfolio since its inception in 2002.

The board concluded that the advisor'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 a relevant benchmark 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 fee rate was also well below the peer-group average.

The board did not consider the profitability of PRIMECAP in determining whether to approve the advisory fee, because PRIMECAP is independent of Vanguard and the advisory fee is the result of arm's-length negotiations.

The benefit of economies of scale

The board concluded that the portfolio realizes economies of scale that are built into the negotiated advisory fee rate without any need for asset-level breakpoints. The advisory fee rate is very low relative to the average rate paid by funds in the portfolio's peer group.

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 Capital Growth 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.