



**Annual Report** | December 31, 2018

# Vanguard Variable Insurance Fund

Equity Income Portfolio

See the inside front cover for important information about access to your fund's annual and semiannual shareholder reports.

## Important information about access to shareholder reports

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of your fund's annual and semiannual shareholder reports will no longer be sent to you by mail, unless you specifically request them. Instead, you will be notified by mail each time a report is posted on the website and will be provided with a link to access the report.

If you have already elected to receive shareholder reports electronically, you will not be affected by this change and do not need to take any action. You may elect to receive shareholder reports and other communications from the fund electronically by contacting your financial intermediary (such as a broker-dealer or bank) or, if you invest directly with the fund, by calling Vanguard at one of the phone numbers on the back cover of this report or by logging on to [vanguard.com](https://www.vanguard.com).

You may elect to receive paper copies of all future shareholder reports free of charge. If you invest through a financial intermediary, you can contact the intermediary to request that you continue to receive paper copies. If you invest directly with the fund, you can call Vanguard at one of the phone numbers on the back cover of this report or log on to [vanguard.com](https://www.vanguard.com). Your election to receive paper copies will apply to all the funds you hold through an intermediary or directly with Vanguard.

### Contents

CEO's Perspective	1
Market Perspective	2
Equity Income Portfolio	3

## CEO's Perspective



**Tim Buckley**  
Chairman and Chief Executive Officer

Dear Planholder,

Over the years, I've found that prudent investors exhibit a common trait: discipline. No matter how the markets move or what new investing fad hits the headlines, those who stay focused on their goals and tune out the noise are set up for long-term success.

The prime gateway to investing is saving, and you don't usually become a saver without a healthy dose of discipline. Savers make the decision to sock away part of their income, which means spending less and delaying gratification, no matter how difficult that may be.

Of course, disciplined investing extends beyond diligent saving. The financial markets, in the short term especially, are unpredictable; I have yet to meet the investor who can time them perfectly. It takes discipline to resist the urge to go all-in when markets are frothy or to retreat when things look bleak.

Staying put with your investments is one strategy for handling volatility. Another, rebalancing, requires even more discipline because it means steering your money away from strong performers and toward poorer performers.

Patience—a form of discipline—is also the friend of long-term investors. Higher returns are the potential reward for weathering the market's turbulence and uncertainty.

It's important to be prepared for that turbulence, whenever it appears. Don't panic. Don't chase returns or look for answers outside the asset classes you trust. And be sure to rebalance periodically, even when there's turmoil.

Whether you're a master of self-control, get a boost from technology, or work with a professional advisor, know that discipline is necessary to get the most out of your investment portfolio. And know that Vanguard is with you for the entire ride.

Thank you for your continued loyalty.

Sincerely,

A handwritten signature in black ink, appearing to read "Mortimer J. Buckley". The signature is fluid and cursive.

Mortimer J. Buckley  
Chairman and Chief Executive Officer  
January 17, 2019

## Market Perspective

### Stocks slide and volatility climbs

After a strong start, global stock markets fell, and volatility rose substantially at the end of the year. The spike in volatility resulted primarily from concerns over slowing global growth, rising U.S. interest rates, and heightened geopolitical uncertainty. These factors led to sharp declines across major equity markets for the 12-month period.

The CRSP US Total Market Index, the benchmark for Vanguard Total Stock Market Index Fund, returned -5.17% for the 12 months ended December 31, 2018. Seven of the fund's ten industry sectors declined, with only health care, utilities, and consumer services gaining ground. Financials and industrials were the sectors that detracted the most.

In the United States, technology stocks were hurt by concerns about slowing sales and high valuations. Manufacturers lost ground in part because of continued trade tensions between the United States and China. And stocks in the energy sector retreated amid declining oil prices.

Stocks outside the United States were also in negative territory. The U.K., for example, continued to be challenged by

the Brexit negotiations. And European stocks lagged because of concerns about Italy's debt and Europe's economic dependence on emerging markets, which were hurt throughout much of the year by a rising dollar and trade protectionism.

### Mixed results for bonds

Despite a solid macroeconomic backdrop throughout the year, bond markets also experienced bouts of volatility, as bond investors shared some of the same concerns that affected equity investors.

In the final quarter of the year, fixed income investors shied away from risky assets, including U.S. high-yield and investment-grade corporate bonds, which underperformed as credit spreads with U.S. Treasuries widened significantly. The impending partial shutdown of the U.S. government also weighed on investor sentiment and contributed to the relative strength of safe-haven assets as the year drew to a close.

For the year, the return for the bond market was essentially flat. The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.01%. Bonds with shorter durations tended to perform the best. Mortgage-backed

securities outperformed both U.S. Treasuries and corporate bonds for the year.

Treasury yields generally fell over the final quarter but finished the year higher. The yield of the 2-year Treasury note climbed 61 basis points to close the year at 2.49%. The yield of the 10-year Treasury increased 27 basis points to 2.68%.

The 12-month rise in yields was encouraged by the U.S. Federal Reserve. In December, the Fed lifted its target for short-term interest rates for the fourth time in 2018, to a range of 2.25%–2.5%. The central bank maintained that U.S. growth fundamentals and labor market conditions remain solid despite the recent market volatility, and lowered its long-term neutral target range to 2.75%–3%, signaling the likelihood for two more rate increases in 2019.

Bonds outside the United States, as measured by the Bloomberg Barclays Global Aggregate Index ex USD, returned -2.15% for the period. In general, higher-quality bonds with longer maturities tended to perform the best.

### Market Barometer

	Average Annual Total Returns Periods Ended December 31, 2018		
	One Year	Three Years	Five Years
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	-4.78%	9.09%	8.21%
Russell 2000 Index (Small-caps)	-11.01	7.36	4.41
Russell 3000 Index (Broad U.S. market)	-5.24	8.97	7.91
FTSE All-World ex US Index (International)	-14.13	4.58	1.05
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	0.01%	2.06%	2.52%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	1.28	2.30	3.82
FTSE Three-Month U.S. Treasury Bill Index	1.86	0.98	0.59
<b>CPI</b>			
Consumer Price Index	1.91%	2.03%	1.51%

# Equity Income Portfolio

## Advisors' Report

The Equity Income Portfolio returned -5.96% for the 12 months ended December 31, 2018. The portfolio trailed the -5.85% return of its benchmark, the FTSE High Dividend Yield Index.

Please note that the returns for Vanguard Variable Insurance Fund are different from those of Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

The portfolio is managed by two independent advisors, a strategy that enhances diversification by providing exposure to distinct yet complementary investment approaches. It is not uncommon for different advisors to have different views about individual securities or the broader investment environment.

The advisors, the amount and percentage of the portfolio's assets each manages, and brief descriptions of their investment strategies are presented in the accompanying table. Each advisor has also provided a discussion of the investment environment that existed during the 12 months and its effect on the portfolio's positioning. These comments were prepared on January 15, 2019.

### Wellington Management Company LLP

Portfolio Manager:

W. Michael Reckmeyer, III, CFA,  
Senior Managing Director

#### Investment environment

U.S. equities posted negative results over the 12 months. The Federal Reserve raised its benchmark interest rate by 25 basis points four times, in line with expectations, albeit signaling a more dovish path heading into 2019. Bullish sentiment was exceptionally strong to start the year, as better-than-expected corporate profits helped drive U.S. equities higher.

Signs of inflation entered the market in February and led to heightened volatility. By the summer, tariff and trade war rhetoric had progressed to implementation, raising concerns in an otherwise strong economy. Nonetheless, positive sentiment persisted, fueled by robust earnings growth, low unemployment, fiscal stimulus, the announcement of a preliminary trade deal between the U.S. and Mexico, and expectations for stronger domestic economic growth relative to other regions of the world.

This changed in the final months of 2018, when concerns surrounding slowing global growth, heightened valuations, rising interest rates, and capricious U.S.-China trade tensions were top of mind for investors. Market performance in October and December was sharply negative, with the latter representing the U.S. equity market's largest monthly decline this decade. As a result, U.S. equity returns were negative for the first calendar year since 2008.

Our portion of the portfolio benefited from strong stock selection. In particular, our holdings in health care, information technology, and industrials contributed most to relative performance. This was partially offset by weaker selection in the consumer staples, energy, and materials sectors. Sector allocation, a result of our bottom-up selection process, slightly contributed to overall results as well. Our overweighted positions in health care and utilities, as well as underweighted positions in industrials and consumer discretionary, added to relative results.

Top contributors to relative performance included our position in Eli Lilly and our out-of-benchmark position in Medtronic. Our decision to eliminate General Electric early in the year and our lack of exposure to benchmark constituent AT&T also added to results, as those stocks experienced weak returns.

Individual detractors included exposure to British American Tobacco, which we eliminated toward the end of 2018, Philip Morris International, and Suncor Energy. During the period, we chose not to own Boeing and CME Group, which also outperformed and subsequently weighed on returns.

At the end of 2018, we were most overweighted in health care, real estate, and energy, and most underweighted in consumer discretionary, information technology, and consumer staples.

Our largest new positions during the year included Comcast, Lockheed Martin, and Koninklijke Philips. We also added to positions in Johnson & Johnson and Procter & Gamble. We eliminated our stakes in Microsoft, VF Corp., and Raytheon. We trimmed our position in BlackRock and reduced exposure to Phillips 66 and Canadian Natural Resources.

As always, we remain focused on finding investment opportunities in quality dividend-paying companies with superior total return potential at discounted valuations.

### Vanguard Quantitative Equity Group

Portfolio Managers:

James P. Stetler

Binbin Guo, Principal, Head of  
Alpha Equity Investments

#### The investment environment

Macroeconomic fundamentals were supportive throughout the 12 months. The U.S. economy expanded at an average annualized pace of above 3% for the first three quarters of 2018, boosted in part by the tax cuts that were part of legislation enacted at the end of 2017 and congressional approval in March to increase federal government spending.

The labor market remained robust, with the economy creating an average of well over 200,000 jobs per month in 2018. After dipping to an almost 50-year low of 3.7% in November, the unemployment rate ticked up to 3.9% in December as plentiful opportunities drew more workers back into the labor market. There was some improvement in wage gains, and inflation moved up to hover near the Federal Reserve's target of 2%.

Given this healthy backdrop, the Fed raised rates four times during the year, which pushed the federal funds target range a full percentage point higher, to 2.25%–2.50%.

The FTSE High Dividend Yield Index finished the year close to –6%. The downturn in U.S. stocks reflected a number of concerns weighing on the market, including escalations in trade tensions, political uncertainties in Europe, the potential negative impact of Fed policy, the pace of growth at home and abroad, and, at the close of the period, the partial shutdown of the federal government.

Eight of 11 industry sectors declined, with energy and materials being among the worst performers. Only health care, information technology, and utilities gained ground.

#### Investment objective and strategy

Although our overall performance is affected by the macroeconomic factors we've described, our approach to investing focuses on specific stock fundamentals that we believe are more likely to produce outperformance over the long run. Those fundamentals include high quality, management decisions, consistent earnings growth, strong market sentiment, and reasonable valuation.

Using these five themes, we generate a daily composite stock ranking, seeking to capitalize on investor biases. We then monitor our portfolio based on those rankings and adjust when appropriate to maximize expected return, while minimizing exposure to risks that our research indicates do not improve returns (such as industry selection and other risks relative to the benchmark).

#### Our successes and shortfalls

Over the 12 months, our sentiment alpha model was the primary detractor, although quality and management decisions also hurt relative performance. Growth made a significant positive contribution. Results lagged the benchmark in seven of 11 industry sectors. Financials, materials and industrials were the largest detractors from relative performance; the portfolio's biggest outperformance came from health care.

For the lagging sectors, the greatest shortfalls came from overweighting H&E Equipment Services in industrials and Huntsman in materials. The strongest relative returns in health care came from Eli Lilly.

#### Equity Income Portfolio Investment Advisors

Investment Advisor	Portfolio Assets Managed		Investment Strategy
	%	\$ Million	
Wellington Management Company <small>LLP</small>	63	863	Employs a fundamental approach to identify desirable individual stocks, seeking those that typically offer above-average dividend yields, below-average valuations, and the potential for dividend increases in the future.
Vanguard Quantitative Equity Group	33	456	Employs a quantitative approach that focuses on fundamental factors, using models that assess valuation, growth prospects, management decisions, market sentiment, and earnings and balance-sheet quality of companies as compared with their peers.
Cash Investments	4	55	These short-term reserves are invested by Vanguard in equity index products to simulate investment in stocks. Each advisor may also maintain a modest cash position.

## 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 table below 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 in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

### Six Months Ended December 31, 2018

	Beginning Account Value 6/30/2018	Ending Account Value 12/31/2018	Expenses Paid During Period <sup>1</sup>
Equity Income Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$953.32	\$1.38
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.79	1.43

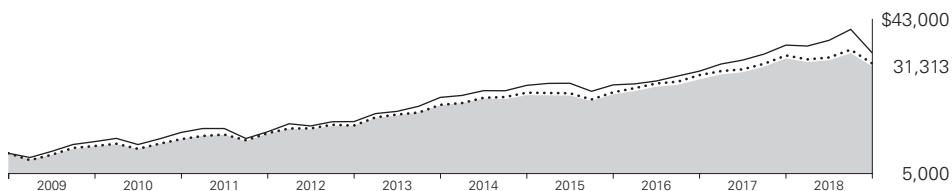
<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.28%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value 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 (184/365).

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

### Cumulative Performance: December 31, 2008–December 31, 2018

Initial Investment of \$10,000



	Average Annual Total Returns Periods Ended December 31, 2018			Final Value of a \$10,000 Investment
	One Year	Five Years	Ten Years	
Equity Income Portfolio	-5.96%	7.53%	12.09%	\$31,313
FTSE High Dividend Yield Index	-5.85	7.91	12.34	32,027
Dow Jones U.S. Total Stock Market Float Adjusted Index	-5.30	7.86	13.22	34,625



## Sector Diversification

As of December 31, 2018

Communication Services	6.9%
Consumer Discretionary	3.7
Consumer Staples	12.7
Energy	10.0
Financials	16.2
Health Care	16.9
Industrials	10.5
Information Technology	10.2
Materials	3.7
Real Estate	1.1
Utilities	8.1

The table reflects the portfolio's equity exposure, based on its investments in stocks and stock index futures. Any holdings in short-term reserves are excluded. 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 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

## Statement of Net Assets

As of December 31, 2018

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov.

	Shares	Market Value* (\$000)
<b>Common Stocks (94.1%)<sup>1</sup></b>		
<b>Communication Services (6.4%)</b>		
Verizon Communications Inc.	747,893	42,047
Comcast Corp. Class A	703,980	23,970
AT&T Inc.	277,238	7,912
BCE Inc.	172,974	6,833
Omnicom Group Inc.	37,290	2,731
Cogent Communications Holdings Inc.	40,518	1,832
Gannett Co. Inc.	101,491	866
Telephone & Data Systems Inc.	22,882	745
National CineMedia Inc.	104,658	678
		<b>87,614</b>
<b>Consumer Discretionary (3.4%)</b>		
McDonald's Corp.	68,655	12,191
Home Depot Inc.	62,158	10,680
General Motors Co.	131,803	4,409
Cie Generale des Etablissements Michelin SCA	41,624	4,097
Darden Restaurants Inc.	29,440	2,940
Tapestry Inc.	72,208	2,437
Brinker International Inc.	51,122	2,248
Macy's Inc.	64,322	1,916
Tailored Brands Inc.	113,807	1,552
Best Buy Co. Inc.	26,501	1,404
Ralph Lauren Corp. Class A	11,573	1,197
Abercrombie & Fitch Co.	51,892	1,040
Las Vegas Sands Corp.	9,955	518
Dine Brands Global Inc.	1,152	78
		<b>46,707</b>
<b>Consumer Staples (11.9%)</b>		
Philip Morris International Inc.	320,263	21,381
Coca-Cola Co.	440,773	20,871
PepsiCo Inc.	187,013	20,661
Procter & Gamble Co.	221,514	20,362
Unilever NV	308,104	16,576
Sysco Corp.	160,643	10,066
Walmart Inc.	100,015	9,316
Mondelez International Inc. Class A	221,773	8,878
Nestle SA	87,269	7,083
Kraft Heinz Co.	156,339	6,729
Kimberly-Clark Corp.	30,641	3,491
Archer-Daniels-Midland Co.	78,578	3,219
Coca-Cola European Partners plc	66,501	3,049
Altria Group Inc.	48,872	2,414
Nu Skin Enterprises Inc. Class A	33,810	2,074
Walgreens Boots Alliance Inc.	29,944	2,046
Universal Corp.	30,122	1,631
Weis Markets Inc.	29,709	1,419
Flowers Foods Inc.	68,977	1,274
Molson Coors Brewing Co. Class B	7,923	445

	Shares	Market Value* (\$000)
Conagra Brands Inc.	16,860	360
Colgate-Palmolive Co.	2,159	128
		<b>163,473</b>
<b>Energy (9.2%)</b>		
Chevron Corp.	302,148	32,871
Exxon Mobil Corp.	358,258	24,430
Suncor Energy Inc.	603,828	16,889
Occidental Petroleum Corp.	174,600	10,717
TransCanada Corp.	247,456	8,836
Kinder Morgan Inc.	485,222	7,463
Canadian Natural Resources Ltd.	205,041	4,948
Schlumberger Ltd.	136,714	4,933
Phillips 66	52,673	4,538
Valero Energy Corp.	33,137	2,484
ConocoPhillips	38,497	2,400
Murphy Oil Corp.	85,004	1,988
PBF Energy Inc. Class A	55,110	1,800
HollyFrontier Corp.	30,807	1,575
		<b>125,872</b>
<b>Financials (14.9%)</b>		
JPMorgan Chase & Co.	535,214	52,248
Wells Fargo & Co.	510,358	23,517
MetLife Inc.	407,932	16,750
Marsh & McLennan Cos. Inc.	150,132	11,973
PNC Financial Services Group Inc.	87,783	10,263
Bank of America Corp.	401,094	9,883
Chubb Ltd.	74,028	9,563
M&T Bank Corp.	54,785	7,841
Travelers Cos. Inc.	53,201	6,371
American International Group Inc.	150,641	5,937
US Bancorp	128,508	5,873
Aflac Inc.	92,344	4,207
Principal Financial Group Inc.	91,529	4,043
T. Rowe Price Group Inc.	36,440	3,364
BlackRock Inc.	8,304	3,262
SunTrust Banks Inc.	60,516	3,052
Regions Financial Corp.	203,108	2,718
Fifth Third Bancorp	115,279	2,712
Popular Inc.	54,353	2,567
LPL Financial Holdings Inc.	40,448	2,471
First American Financial Corp.	53,808	2,402
RLI Corp.	29,934	2,065
Bank of NT Butterfield & Son Ltd.	65,811	2,063
Kemper Corp.	29,178	1,937
Cullen/Frost Bankers Inc.	15,919	1,400
Ameriprise Financial Inc.	11,164	1,165
Citizens Financial Group Inc.	38,954	1,158
Community Bank System Inc.	16,499	962
Fidelity National Financial Inc.	29,129	916
Waddell & Reed Financial Inc. Class A	46,343	838

	Shares	Market Value* (\$000)
CME Group Inc.	3,955	744
Moelis & Co. Class A	7,458	256
Cincinnati Financial Corp.	3,296	255
American National Insurance Co.	897	114
		<b>204,890</b>
<b>Health Care (16.2%)</b>		
Johnson & Johnson	345,931	44,642
Pfizer Inc.	770,123	33,616
Merck & Co. Inc.	396,624	30,306
Eli Lilly & Co.	249,545	28,877
Medtronic plc	176,602	16,064
Bristol-Myers Squibb Co.	307,016	15,959
Novartis AG	137,157	11,747
Koninklijke Philips NV	276,937	9,709
Amgen Inc.	45,604	8,878
AbbVie Inc.	89,280	8,231
Roche Holding AG	30,716	7,625
Cardinal Health Inc.	52,418	2,338
Gilead Sciences Inc.	36,756	2,299
CVS Health Corp.	31,227	2,046
Meridian Bioscience Inc.	29,893	519
		<b>222,856</b>
<b>Industrials (10.0%)</b>		
Caterpillar Inc.	137,441	17,465
Lockheed Martin Corp.	56,347	14,754
3M Co.	65,753	12,529
Union Pacific Corp.	89,819	12,416
Deere & Co.	78,616	11,727
Boeing Co.	33,443	10,785
Eaton Corp. plc	152,279	10,455
Honeywell International Inc.	62,290	8,230
United Technologies Corp.	70,277	7,483
BAE Systems plc	1,167,010	6,826
Emerson Electric Co.	63,954	3,821
CH Robinson Worldwide Inc.	28,818	2,423
McGrath RentCorp	44,187	2,275
Triton International Ltd.	72,737	2,260
Raytheon Co.	13,300	2,039
Delta Air Lines Inc.	35,062	1,750
* Norfolk Southern Corp.	11,699	1,749
Covanta Holding Corp.	117,803	1,581
National Presto Industries Inc.	12,305	1,439
^ Seaspac Corp. Class A	177,094	1,387
United Parcel Service Inc. Class B	9,877	963
General Electric Co.	117,552	890
Hillenbrand Inc.	18,679	708
GATX Corp.	9,200	651
HNI Corp.	2,647	94
		<b>136,700</b>
<b>Information Technology (9.6%)</b>		
Intel Corp.	687,854	32,281
Cisco Systems Inc.	740,286	32,077
Analog Devices Inc.	169,976	14,589
QUALCOMM Inc.	160,215	9,118
Texas Instruments Inc.	72,788	6,878
Maxim Integrated Products Inc.	128,666	6,543
KLA-Tencor Corp.	71,470	6,396
International Business Machines Corp.	36,650	4,166
HP Inc.	186,668	3,819
TE Connectivity Ltd.	39,832	3,012
Seagate Technology plc	69,215	2,671
Cypress Semiconductor Corp.	197,617	2,514
Broadcom Inc.	8,741	2,223

Equity Income Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Amount (\$000)
ManTech International Corp. Class A	40,163	2,100	Clearway Energy Inc. Class A	71,744	1,214	<b>Other Assets and Liabilities (-0.1%)</b>	
Western Union Co.	103,785	1,770	Ameren Corp.	8,798	574	<b>Other Assets</b>	
Automatic Data Processing Inc.	9,693	1,271	Clearway Energy Inc.	27,857	481	Investment in Vanguard	78
National Instruments Corp.	19,389	880			<b>110,149</b>	Receivables for Investment Securities Sold	22
Hewlett Packard Enterprise Co.	18,238	241				Receivables for Accrued Income	2,879
		<b>132,549</b>	<b>Total Common Stocks</b>		<b>1,292,439</b>	Receivables for Capital Shares Issued	1,164
			<b>(Cost \$1,206,390)</b>			Variation Margin Receivable—	
<b>Materials (3.5%)</b>			<b>Temporary Cash Investments (6.0%)<sup>1</sup></b>			Futures Contracts	443
DowDuPont Inc.	374,967	20,053	<b>Money Market Fund (4.0%)</b>			Other Assets	210
Nutrien Ltd.	163,669	7,692	<sup>2,3</sup> Vanguard Market Liquidity Fund, 2.530%	547,480	54,748		
Linde plc	30,494	4,758				<b>Total Other Assets</b>	<b>4,796</b>
International Paper Co.	99,178	4,003				<b>Liabilities</b>	
CF Industries Holdings Inc.	68,501	2,980				Payables for Investment Securities Purchased	(1,282)
Nucor Corp.	54,634	2,831				Collateral for Securities on Loan	(929)
LyondellBasell Industries NV Class A	30,236	2,514	<b>Repurchase Agreement (1.8%)</b>			Payables to Investment Advisor	(229)
Domtar Corp.	59,743	2,099	BNP Paribas Securities Corp. 3.000%, 1/2/19			Payables for Capital Shares Redeemed	(3,258)
Commercial Metals Co.	28,510	457	(Dated 12/31/18, Repurchase Value \$24,604,000, collateralized by Federal Home Loan Mortgage Corp. 5.000%, 9/01/48, and Federal National Mortgage Assn. 6.000%–7.500%, 12/01/21–8/01/31, with a value of \$25,092,000)	24,600	24,600	Payables to Vanguard	(1,039)
Schnitzer Steel Industries Inc.	11,485	248				<b>Total Liabilities</b>	<b>(6,737)</b>
		<b>47,635</b>				<b>Net Assets (100%)</b>	
<b>Real Estate (1.0%)</b>						<b>Applicable to 64,664,975 outstanding \$ .001 par value shares of beneficial interest (unlimited authorization)</b>	<b>1,373,511</b>
Crown Castle International Corp.	123,427	13,408				<b>Net Asset Value Per Share</b>	<b>\$21.24</b>
Kennedy-Wilson Holdings Inc.	32,276	586					
		<b>13,994</b>					
<b>Utilities (8.0%)</b>							
NextEra Energy Inc.	101,052	17,565	<b>U.S. Government and Agency Obligations (0.2%)</b>				
Dominion Energy Inc.	169,258	12,095	<sup>4</sup> United States Treasury Bill, 2.292%, 2/28/19	200	199		
Sempra Energy	96,162	10,404	<sup>4</sup> United States Treasury Bill, 2.479%, 5/9/19	2,000	1,983		
American Electric Power Co. Inc.	137,001	10,239	<sup>4</sup> United States Treasury Bill, 2.502%, 6/20/19	1,500	1,483		
Exelon Corp.	206,811	9,327			<b>3,665</b>		
Eversource Energy	137,651	8,953	<b>Total Temporary Cash Investments</b>		<b>83,013</b>		
Duke Energy Corp.	88,157	7,608	<b>(Cost \$83,018)</b>				
Xcel Energy Inc.	123,593	6,089	<b>Total Investments (100.1%)</b>		<b>1,375,452</b>		
Edison International	106,726	6,059	<b>(Cost \$1,289,408)</b>				
FirstEnergy Corp.	97,439	3,659					
Entergy Corp.	38,978	3,355					
AES Corp.	217,431	3,144					
Atmos Energy Corp.	32,876	3,048					
UGI Corp.	55,326	2,952					
OGE Energy Corp.	53,468	2,095					
Otter Tail Corp.	25,956	1,288					

	Amount (\$000)
<b>Other Assets and Liabilities (-0.1%)</b>	
<b>Other Assets</b>	
Investment in Vanguard	78
Receivables for Investment Securities Sold	22
Receivables for Accrued Income	2,879
Receivables for Capital Shares Issued	1,164
Variation Margin Receivable—	
Futures Contracts	443
Other Assets	210
<b>Total Other Assets</b>	<b>4,796</b>
<b>Liabilities</b>	
Payables for Investment Securities Purchased	(1,282)
Collateral for Securities on Loan	(929)
Payables to Investment Advisor	(229)
Payables for Capital Shares Redeemed	(3,258)
Payables to Vanguard	(1,039)
<b>Total Liabilities</b>	<b>(6,737)</b>
<b>Net Assets (100%)</b>	
<b>Applicable to 64,664,975 outstanding \$ .001 par value shares of beneficial interest (unlimited authorization)</b>	<b>1,373,511</b>
<b>Net Asset Value Per Share</b>	<b>\$21.24</b>

At December 31, 2018, net assets consisted of:

	Amount (\$000)
Paid-in Capital	1,155,668
Total Distributable Earnings (Loss)	217,843
<b>Net Assets</b>	<b>1,373,511</b>

• See Note A in Notes to Financial Statements.

<sup>A</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$808,000.

\* Non-income-producing security.

<sup>1</sup> The portfolio invests a portion of its cash reserves in equity markets through the use of index futures contracts. After giving effect to futures investments, the portfolio's effective common stock and temporary cash investment positions represent 98.3% and 1.8%, respectively, of net assets.

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

<sup>3</sup> Includes \$929,000 of collateral received for securities on loan.

<sup>4</sup> Securities with a value of \$3,171,000 have been segregated as initial margin for open futures contracts.

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts					(\$000)
	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation)	
<b>Long Futures Contracts</b>					
E-mini S&P 500 Index	March 2019	461	57,745	(1,622)	

## Statement of Operations

	Year Ended December 31, 2018
	(\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends—Unaffiliated Issuers <sup>1</sup>	40,629
Dividends—Affiliated Issuers	228
Interest—Unaffiliated Issuers	453
Interest—Affiliated Issuers	879
Securities Lending—Net	98
<b>Total Income</b>	<b>42,287</b>
<b>Expenses</b>	
Investment Advisory Fees—Note B	
Basic Fee	1,213
Performance Adjustment	(18)
The Vanguard Group—Note C	
Management and Administrative	2,624
Marketing and Distribution	218
Custodian Fees	34
Auditing Fees	35
Shareholders' Reports	21
Trustees' Fees and Expenses	2
<b>Total Expenses</b>	<b>4,129</b>
<b>Net Investment Income</b>	<b>38,158</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold— Unaffiliated Issuers	95,588
Investment Securities Sold— Affiliated Issuers	3,002
Futures Contracts	(1,839)
Foreign Currencies	(21)
<b>Realized Net Gain (Loss)</b>	<b>96,730</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities— Unaffiliated Issuers	(217,007)
Investment Securities— Affiliated Issuers	(3,209)
Futures Contracts	(1,520)
Foreign Currencies	(10)
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>(221,746)</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(86,858)</b>

<sup>1</sup> Dividends are net of foreign withholding taxes of \$515,000.

## Statement of Changes in Net Assets

	Year Ended December 31,	
	2018	2017
	(\$000)	(\$000)
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	38,158	31,503
Realized Net Gain (Loss)	96,730	83,246
Change in Unrealized Appreciation (Depreciation)	(221,746)	93,723
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(86,858)</b>	<b>208,472</b>
<b>Distributions</b>		
Net Investment Income	(31,643)	(30,286)
Realized Capital Gain <sup>1</sup>	(83,467)	(38,130)
<b>Total Distributions</b>	<b>(115,110)</b>	<b>(68,416)</b>
<b>Capital Share Transactions</b>		
Issued	314,593	185,060
Issued in Lieu of Cash Distributions	115,110	68,416
Redeemed	(226,263)	(193,435)
<b>Net Increase (Decrease) from Capital Share Transactions</b>	<b>203,440</b>	<b>60,041</b>
<b>Total Increase (Decrease)</b>	<b>1,472</b>	<b>200,097</b>
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>1,372,039</b>	<b>1,171,942</b>
<b>End of Period</b>	<b>1,373,511</b>	<b>1,372,039</b>

<sup>1</sup> Includes fiscal 2018 and 2017 short-term gain distributions totaling \$10,108,000 and \$5,782,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Net Asset Value, Beginning of Period</b>	<b>\$24.64</b>	<b>\$22.10</b>	<b>\$21.22</b>	<b>\$23.04</b>	<b>\$22.36</b>
<b>Investment Operations</b>					
Net Investment Income	.620 <sup>1</sup>	.582 <sup>1</sup>	.568	.597	.603
Net Realized and Unrealized Gain (Loss) on Investments	(1.977)	3.275	2.361	(.437)	1.782
<b>Total from Investment Operations</b>	<b>(1.357)</b>	<b>3.857</b>	<b>2.929</b>	<b>.160</b>	<b>2.385</b>
<b>Distributions</b>					
Dividends from Net Investment Income	(.562)	(.583)	(.583)	(.596)	(.555)
Distributions from Realized Capital Gains	(1.481)	(.734)	(1.466)	(1.384)	(1.150)
<b>Total Distributions</b>	<b>(2.043)</b>	<b>(1.317)</b>	<b>(2.049)</b>	<b>(1.980)</b>	<b>(1.705)</b>
<b>Net Asset Value, End of Period</b>	<b>\$21.24</b>	<b>\$24.64</b>	<b>\$22.10</b>	<b>\$21.22</b>	<b>\$23.04</b>
<b>Total Return</b>	<b>-5.96%</b>	<b>18.25%</b>	<b>15.07%</b>	<b>0.85%</b>	<b>11.41%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$1,374	\$1,372	\$1,172	\$940	\$978
Ratio of Total Expenses to Average Net Assets <sup>2</sup>	0.29%	0.31%	0.30%	0.31%	0.32%
Ratio of Net Investment Income to Average Net Assets	2.69%	2.56%	2.89%	2.76%	2.69%
Portfolio Turnover Rate	36%	38%	32%	36%	31%

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

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

## Notes to Financial Statements

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.

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 assets pledged as initial margin for open contracts are noted in the Statement of Net Assets.

Futures contracts are valued at their quoted daily settlement prices. The notional amounts of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets 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 futures gains (losses).

During the year ended December 31, 2018, 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. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2015–2018), and has concluded that no provision for federal 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 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 Net Assets for the return of the collateral, during the period the securities are on loan. 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 Facility: The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn 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 this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at December 31, 2018, or at any time during the period then ended.

9. Other: Dividend income is recorded on the ex-dividend date. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. Premiums and discounts on debt securities purchased are amortized and accreted, respectively, to interest income over the lives of the respective securities. 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.** The investment advisory firm 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 of Wellington Management Company LLP is subject to quarterly adjustments based on 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 \$327,000 for the year ended December 31, 2018.

For the year ended December 31, 2018, the aggregate investment advisory fee paid to all advisors represented an effective annual basic rate of 0.09% of the portfolio's average net assets, before a decrease of \$18,000 (0.00%) 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. Vanguard does not require reimbursement in the current period for certain costs of operations (such as deferred compensation/benefits and risk/insurance costs); the portfolio's liability for these costs of operations is included in Payables to Vanguard on the Statement of Net Assets. All other costs of operations payable to Vanguard 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 December 31, 2018, the portfolio had contributed to Vanguard capital in the amount of \$78,000, representing 0.01% of the portfolio's net assets and 0.03% of Vanguard's capitalization. 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 Statement of Net Assets.

The following table summarizes the market value of the portfolio's investments as of December 31, 2018, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,245,352	47,087	—
Temporary Cash Investments	54,748	28,265	—
Futures Contracts—Assets <sup>1</sup>	443	—	—
Total	1,300,543	75,352	—

<sup>1</sup> Represents variation margin on the last day of the reporting period.

E. Permanent differences between book-basis and tax-basis components of net assets, if any, are reclassified among capital accounts in the financial statements to reflect their tax character. These reclassifications have no effect on net assets or net asset value per share.

Temporary differences between book-basis and tax-basis components of total distributable earnings (loss) arise when certain items of income, gain, or loss are recognized in different periods for financial statement and tax purposes; these differences will reverse at some time in the future. The differences are primarily related to the tax deferral of losses on wash sales and the realization of unrealized gains or losses on certain futures contracts. As of period end, the tax-basis components of total distributable earnings (loss) are detailed in the table as follows:

	Amount (\$000)
Undistributed Ordinary Income	41,440
Undistributed Long-Term Gains	91,255
Capital Loss Carryforwards (Non-expiring)	—
Net Unrealized Gains (Losses)	86,042



## Equity Income Portfolio

As of December 31, 2018, 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	1,289,408
Gross Unrealized Appreciation	198,292
Gross Unrealized Depreciation	(112,248)
Net Unrealized Appreciation (Depreciation)	86,044

F. During the year ended December 31, 2018, the portfolio purchased \$586,898,000 of investment securities and sold \$491,161,000 of investment securities, other than temporary cash investments.

G. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2018 Shares (000)	2017 Shares (000)
Issued	13,652	7,997
Issued in Lieu of Cash Distributions	5,121	3,147
Redeemed	(9,792)	(8,480)
Net Increase (Decrease) in Shares Outstanding	8,981	2,664

At December 31, 2018, 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 57% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

H. Transactions during the period in investments where the issuer is another member of The Vanguard Group were as follows:

	Dec. 31, 2017 Market Value (\$000)	Current Period Transactions						Dec. 31, 2018 Market Value (\$000)
		Purchases at Cost (\$000)	Proceeds from Securities Sold (\$000)	Net Realized Gain (Loss) (\$000)	Change in Net Unrealized App. (Dep.) (\$000)	Income (\$000)	Capital Gain Distributions Received (\$000)	
Vanguard High Dividend Yield ETF	10,218	—	10,012	3,000	(3,206)	228	—	—
Vanguard Market Liquidity Fund	39,324	NA <sup>1</sup>	NA <sup>1</sup>	2	(3)	879	—	54,748
Total	49,542			3,002	(3,209)	1,107	—	54,748

<sup>1</sup> Not applicable—purchases and sales are for temporary cash investment purposes.

I. Management has determined that no events or transactions occurred subsequent to December 31, 2018, that would require recognition or disclosure in these financial statements.

## Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Vanguard Variable Insurance Funds and Shareholders of Equity Income Portfolio

### Opinion on the Financial Statements

We have audited the accompanying statement of net assets of Equity Income Portfolio (one of the portfolios constituting Vanguard Variable Insurance Funds, referred to hereafter as the "Portfolio") as of December 31, 2018, the related statement of operations for the year ended December 31, 2018, the statement of changes in net assets for each of the two years in the period ended December 31, 2018, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2018 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Portfolio as of December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended December 31, 2018 and the financial highlights for each of the five years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on the Portfolio's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Portfolio in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodians and brokers and by agreement to the underlying ownership records of the transfer agent; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP  
Philadelphia, Pennsylvania  
February 13, 2019

We have served as the auditor of one or more investment companies in The Vanguard Group of Funds since 1975.

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### Special 2018 tax information (unaudited) for corporate shareholders only for Equity Income Portfolio, a portfolio of Vanguard Variable Insurance Funds

This information for the fiscal year ended December 31, 2018, is included pursuant to provisions of the Internal Revenue Code for corporate shareholders only.

The portfolio distributed \$73,359,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 84.2% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

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# The People Who Govern Your Fund

The trustees of your mutual fund are there to see that the fund is operated and managed in your best interests since, as a shareholder, you are a part owner of the fund. Your fund's trustees also serve on the board of directors of The Vanguard Group, Inc., which is owned by the Vanguard funds and provides services to them.

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals. The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 212 Vanguard funds.

Information for each trustee and executive officer of the fund appears below. The mailing address of the trustees and officers is P.O. Box 876, Valley Forge, PA 19482. More information about the trustees is in the *Statement of Additional Information*, which can be obtained, without charge, by contacting Vanguard at 800-662-7447, or online at [vanguard.com](http://vanguard.com).

## Interested Trustees<sup>1</sup>

### F. William McNabb III

Born in 1957. Trustee since July 2009. Principal occupation(s) during the past five years and other experience: chairman of the board (January 2010–present) of Vanguard and of each of the investment companies served by Vanguard, trustee (2009–present) of each of the investment companies served by Vanguard, and director (2008–present) of Vanguard. Chief executive officer and president (2008–2017) of Vanguard and each of the investment companies served by Vanguard, managing director (1995–2008) of Vanguard, and director (1997–2018) of Vanguard Marketing Corporation. Director (2018–present) of UnitedHealth Group.

### Mortimer J. Buckley

Born in 1969. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: chief executive officer (January 2018–present) of Vanguard; chief executive officer, president, and trustee (January 2018–present) of each of the investment companies served by Vanguard; president and director (2017–present) of Vanguard; and president (February 2018–present) of Vanguard Marketing Corporation. Chief investment officer (2013–2017), managing director (2002–2017), head of the Retail Investor Group (2006–2012), and chief information officer (2001–2006) of Vanguard. Chairman of the board (2011–2017) of the Children's Hospital of Philadelphia.

## Independent Trustees

### Emerson U. Fullwood

Born in 1948. Trustee since January 2008. Principal occupation(s) during the past five years and other experience: executive chief staff and marketing officer for North America and corporate vice president (retired 2008) of Xerox Corporation (document management products and services). Former president of the Worldwide Channels Group, Latin America, and Worldwide Customer Service and executive chief staff officer of Developing Markets of Xerox. Executive in residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology. Lead director of SPX FLOW, Inc. (multi-industry manufacturing). Director of the University of Rochester Medical Center, the Monroe Community College Foundation, the United Way of Rochester, North Carolina A&T University, and Roberts Wesleyan College. Trustee of the University of Rochester.

### Amy Gutmann

Born in 1949. Trustee since June 2006. Principal occupation(s) during the past five years and other experience: president (2004–present) of the University of Pennsylvania. Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and professor of communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania. Trustee of the National Constitution Center.

### JoAnn Heffernan Heisen

Born in 1950. Trustee since July 1998. Principal occupation(s) during the past five years and other experience: corporate vice president of Johnson & Johnson (pharmaceuticals/medical devices/consumer products) and member of its executive committee (1997–2008). Chief global diversity officer (retired 2008), vice president and chief information officer (1997–2006), controller (1995–1997), treasurer (1991–1995), and assistant treasurer (1989–1991) of Johnson & Johnson. Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation. Member of the advisory board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born in 1949. Trustee since October 2009. Principal occupation(s) during the past five years and other experience: president and chief operating officer (retired 2009) and vice chairman of the board (2008–2009) of Cummins Inc. (industrial machinery). Chairman of the board of Hillenbrand, Inc. (specialized consumer services), Oxfam America, and the Lumina Foundation for Education. Director of the V Foundation for Cancer Research. Member of the advisory council for the College of Arts and Letters and chair of the advisory board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born in 1953. Trustee since March 2012. Principal occupation(s) during the past five years and other experience: senior vice president and chief financial officer (retired 2013) of IBM (information technology services). Fiduciary member of IBM's Retirement Plan Committee (2004–2013), senior vice president and general manager (2002–2004) of IBM Global Financing, vice president and controller (1998–2002) of IBM, and a variety of other prior management roles at IBM. Member of the Council on Chicago Booth.

### Scott C. Malpass

Born in 1962. Trustee since March 2012. Principal occupation(s) during the past five years and other experience: chief investment officer (1989–present) and vice president (1996–present) of the University of Notre Dame. Assistant professor of finance at the Mendoza College of Business, University of Notre Dame, and member of the Notre Dame 403(b) Investment Committee. Chairman of the board of TIFF Advisory Services, Inc. Member of the board of Catholic Investment Services, Inc. (investment advisors), the board of advisors for Spruceview Capital Partners, and the board of superintendence of the Institute for the Works of Religion.

### Deanna Mulligan

Born in 1963. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: president (2010–present) and chief executive officer (2011–present) of The Guardian Life Insurance Company of America. Chief operating officer (2010–2011) and executive vice president (2008–2010) of Individual Life and Disability of The Guardian Life Insurance Company of America. Member of the board of The Guardian Life Insurance Company of America, the American Council of Life Insurers, the Partnership for New York City (business leadership), and the Committee Encouraging Corporate Philanthropy. Trustee of the Economic Club of New York and the Bruce Museum (arts and science). Member of the Advisory Council for the Stanford Graduate School of Business.

### André F. Perold

Born in 1952. Trustee since December 2004. Principal occupation(s) during the past five years and other experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011). Chief investment officer and co-managing partner of HighVista Strategies LLC (private investment firm). Overseer of the Museum of Fine Arts Boston.

### Sarah Bloom Raskin

Born in 1961. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: deputy secretary (2014–2017) of the United States Department of the Treasury. Governor (2010–2014) of the Federal Reserve Board. Commissioner (2007–2010) of financial regulation for the State of Maryland. Member of the board of directors (2012–2014) of Neighborhood Reinvestment Corporation. Director of i(x) Investments, LLC.

<sup>1</sup> Mr. McNabb and Mr. Buckley are considered "interested persons," as defined in the Investment Company Act of 1940, because they are officers of the Vanguard funds.

**Peter F. Volanakis**

Born in 1955. Trustee since July 2009. Principal occupation(s) during the past five years and other experience: president and chief operating officer (retired 2010) of Corning Incorporated (communications equipment) and director of Corning Incorporated (2000–2010) and Dow Corning (2001–2010). Director (2012) of SPX Corporation (multi-industry manufacturing). Overseer of the Amos Tuck School of Business Administration, Dartmouth College (2001–2013). Chairman of the board of trustees of Colby-Sawyer College. Member of the Board of Hypertherm Inc. (industrial cutting systems, software, and consumables).

**Executive Officers****Glenn Booraem**

Born in 1967. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Investment stewardship officer (2017–present), treasurer (2015–2017), controller (2010–2015), and assistant controller (2001–2010) of each of the investment companies served by Vanguard.

**Christine M. Buchanan**

Born in 1970. Principal occupation(s) during the past five years and other experience: principal of Vanguard and global head of Fund Administration at Vanguard. Treasurer (2017–present) of each of the investment companies served by Vanguard. Partner (2005–2017) at KPMG LLP (audit, tax, and advisory services).

**Brian Dvorak**

Born in 1973. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Chief compliance officer (2017–present) of Vanguard and each of the investment companies served by Vanguard. Assistant vice president (2017–present) of Vanguard Marketing Corporation. Vice president and director of Enterprise Risk Management (2011–2013) at Oppenheimer Funds, Inc.

**Thomas J. Higgins**

Born in 1957. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Chief financial officer (2008–present) and treasurer (1998–2008) of each of the investment companies served by Vanguard.

**Peter Mahoney**

Born in 1974. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Controller (2015–present) of each of the investment companies served by Vanguard. Head of International Fund Services (2008–2014) at Vanguard.

**Anne E. Robinson**

Born in 1970. Principal occupation(s) during the past five years and other experience: general counsel (2016–present) of Vanguard. Secretary (2016–present) of Vanguard and of each of the investment companies served by Vanguard. Managing director (2016–present) of Vanguard. Director and senior vice president (2016–2018) of Vanguard Marketing Corporation. Managing director and general counsel of Global Cards and Consumer Services (2014–2016) at Citigroup. Counsel (2003–2014) at American Express.

**Michael Rollings**

Born in 1963. Principal occupation(s) during the past five years and other experience: finance director (2017–present) and treasurer (2017) of each of the investment companies served by Vanguard. Managing director (2016–present) of Vanguard. Chief financial officer (2016–present) of Vanguard. Director (2016–present) of Vanguard Marketing Corporation. Executive vice president and chief financial officer (2006–2016) of MassMutual Financial Group.

**Vanguard Senior Management Team**

<b>Joseph Brennan</b>	<b>Chris D. McIsaac</b>
<b>Mortimer J. Buckley</b>	<b>James M. Norris</b>
<b>Gregory Davis</b>	<b>Thomas M. Rampulla</b>
<b>John James</b>	<b>Karin A. Risi</b>
<b>Martha G. King</b>	<b>Anne E. Robinson</b>
<b>John T. Marcante</b>	<b>Michael Rollings</b>

**Chairman Emeritus and Senior Advisor****John J. Brennan**

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

**Founder****John C. Bogle**

Chairman and Chief Executive Officer, 1974–1996



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You can obtain a free copy of Vanguard's proxy voting guidelines by visiting [vanguard.com/proxyreporting](http://vanguard.com/proxyreporting) or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, [sec.gov](http://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](http://vanguard.com/proxyreporting) or [sec.gov](http://sec.gov).

All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

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