

Semiannual Report | June 30, 2018

Vanguard Variable Insurance Fund

International Portfolio

Vanguard's Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard's research and experience, can put you on the right path.

Goals. Create clear, appropriate investment goals.

Balance. Develop a suitable asset allocation using broadly diversified funds.

Cost. Minimize cost.

Discipline. Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: Nautical images have been part of Vanguard's rich heritage since its start in 1975. For an incoming ship, a lighthouse offers a beacon and safe path to shore. You can similarly depend on Vanguard to put you first—and light the way—as you strive to meet your financial goals. Our client focus and low costs, stemming from our unique ownership structure, assure that your interests are paramount.

CEO's Perspective



Tim Buckley
President and Chief Executive Officer

Dear Planholder,

I feel extremely fortunate to have the chance to lead a company filled with people who come to work every day passionate about Vanguard's core purpose: to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

When I joined Vanguard in 1991, I found a mission-driven team focused on improving lives—helping people retire more comfortably, put their children through college, and achieve financial security. I also found a company with purpose in an industry ripe for improvement.

It was clear, even early in my career, that the cards were stacked against most investors. Hidden fees, performance-chasing, and poor advice were relentlessly eroding investors' dreams.

We knew Vanguard could be different and, as a result, could make a real difference. We have lowered the costs of investing for our shareholders significantly. And we're proud of the performance of our funds.

Vanguard is built for Vanguard investors—we focus solely on you, our fund shareholders. Everything we do is designed to give our clients the best chance for investment success. In my role as CEO,

I'll keep this priority front and center. We're proud of what we've achieved, but we're even more excited about what's to come.

Steady, time-tested guidance

Our guidance for investors, as always, is to stay the course, tune out the hyperbolic headlines, and focus on your goals and what you can control, such as costs and how much you save. This time-tested advice has served our clients well over the decades.

Regardless of how the markets perform in the short term, I'm incredibly optimistic about the future for our investors. We have a dedicated team serving you, and we will never stop striving to make Vanguard the best place for you to invest through our high-quality funds and services, advice and guidance to help you meet your financial goals, and an experience that makes you feel good about entrusting us with your hard-earned savings.

Thank you for your continued loyalty.

Sincerely,

A handwritten signature in black ink, appearing to read "Mortimer J. Buckley".

Mortimer J. Buckley
President and Chief Executive Officer
July 13, 2018

Market Perspective

U.S. stocks continued to climb, even with periods of volatility

U.S. stocks advanced over the six months ended June 30, 2018, although their path forward was marked by significant bouts of volatility. Corporate earnings remained strong and the U.S. economy continued to indicate growth. Investors worried, however, about high stock valuations, the possibility of inflation, and continued tightening of monetary policy by the Federal Reserve.

The Fed's June increase in the federal funds target rate by a quarter percentage point, to 1.75%–2%, was its second in 2018. In announcing it, Fed Chair Jerome Powell offered a positive assessment of the U.S. economy. The Fed has also continued to shrink the \$4.5 trillion balance sheet it had amassed since it began providing monetary stimulus in the wake of the 2007–2009 recession.

For the six months, the broad U.S. stock market returned 3.22%. U.S. large- and mid-capitalization stocks trailed small-caps, while growth stocks exceeded value. Among sectors, information technology, consumer discretionary, and energy posted the strongest returns. Consumer staples, communication services, and industrials fared the worst.

For U.S. investors, a stronger dollar hurt international stocks, which returned –3.83%. Developed European and Pacific markets declined, as did emerging markets.

Bond returns were down as inflation concerns heightened

Bond yields rose and prices fell over the six months as inflation expectations rose, the labor market improved, and the Fed suggested that more rate hikes were in store for 2018. (Bond prices and yields move in opposite directions.)

The yield of the benchmark 10-year Treasury note closed the period at 2.86%, up from 2.41% at the end of December 2017. The broad U.S. bond market returned –1.62% for the period. U.S. Treasuries and mortgage-backed securities generally outpaced investment-grade corporate bonds.

International bonds returned –1.31%, as measured by the Barclays Global Aggregate Index ex USD. U.S. investors were hampered by the dollar's strengthening against many currencies. Without this currency impact, international bonds were up more than 1%.

Market Barometer

	Total Returns Periods Ended June 30, 2018		
	Six Months	One Year	Five Years ¹
Stocks			
Russell 1000 Index (Large-caps)	2.85%	14.54%	13.37%
Russell 2000 Index (Small-caps)	7.66	17.57	12.46
Russell 3000 Index (Broad U.S. market)	3.22	14.78	13.29
FTSE All-World ex US Index (International)	–3.83	7.28	6.35
Bonds			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	–1.62%	–0.40%	2.27%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	–0.25	1.56	3.53
FTSE Three-Month U.S. Treasury Bill Index	0.78	1.33	0.38
CPI			
Consumer Price Index	2.22%	2.87%	1.54%

¹ Annualized.

International Portfolio

Advisors' Report

For the six months ended June 30, 2018, the International Portfolio returned 3.89%. The benchmark index returned -3.77% and peer funds, on average, returned -2.66%. 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 table on the next page. Each advisor has also prepared a discussion of the investment

environment that existed during the half year and its effect on the portfolio's positioning. These reports were prepared on July 19, 2018.

Baillie Gifford Overseas Ltd.

Portfolio Managers:

James K. Anderson, Partner
Head of Global Equities

Thomas Coutts, Partner

Exceptional companies have always been critical to investment returns, with a small handful responsible for lifting stock market results above a mediocre level. We anticipate that this concentration of returns will persist and may even intensify. As investors, we aim to identify and own substantial positions in enough of the winners to generate attractive returns for our clients. To benefit fully, we must also avoid the pitfalls of taking profits and rebalancing into inferior opportunities. While many of our holdings have rose substantially over the period, we believe

the potential for further growth is compelling, so we have made few changes to the portfolio.

How large can a successful company become in the modern era? Evidence is accumulating that the scale advantages of large technology platforms are intensifying and are transferable to adjacent business areas. It is highly unusual for companies of the scale of Alibaba and Amazon.com to report rapid and accelerating growth rates. Their success in doing so reflects the dynamics of a digitized and interconnected global economy and an increasing advantage that accrues to companies able to take a long-term view.

ASML, the Dutch supplier of lithography equipment for the semiconductor industry, is a good example of a company thinking in terms of decades rather than quarters. Making further progress with Moore's Law is one of the most important engineering challenges of our generation. ASML continues to drive the technology forward with its industry-leading chip-making machines. It has fought its way through the challenges of extreme ultraviolet lithography and now believes it has a clear path to develop this technology until around 2030. It is exciting and challenging to consider that this progress will enable continued development in big data, machine learning, the Internet of Things, and artificial intelligence.

Two European banks, Svenska Handelsbanken and Banco Bilbao Vizcaya Argentaria (BBVA), performed weakly over the period. Low interest rates continue to weigh on profitability across the sector. More structurally,

Total Returns

	Six Months Ended June 30, 2018
International Portfolio	3.89%
MSCI All Country World Index ex USA	-3.77
Variable Insurance International Funds Average ¹	-2.66

Expense Ratios²

Your Portfolio Compared With Its Peer Group

	Portfolio	Variable Insurance International Funds Average
International Portfolio	0.39%	0.91%

¹ Derived from data provided by Lipper, a Thomson Reuters Company.

² The portfolio expense ratio shown is from the prospectus dated April 26, 2018, and represents estimated costs for the current fiscal year. For the six months ended June 30, 2018, the International Portfolio's annualized expense ratio was 0.38%. The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2017.

upstart competitors using technology to target profitable segments pose an increasing threat to traditional banks. We believe BBVA is leading the way in implementing seamless mobile products across its global customer base. We remain optimistic that it will be a winner in this new world of banking. Handelsbanken is consistently pursuing the decentralized model that has led to exceptional customer satisfaction over the decades. We continue to hold both banks.

Two unlisted companies that we held in the portfolio, Spotify and Home24, listed on public equity markets in recent months. We have maintained the position in Home24, a German-based online furniture retailer. We have significantly added to Spotify, which has surpassed Apple to be the leading provider of music streaming services and has tremendous growth potential. We also made a substantial new investment in Ping An Insurance, a Chinese provider of savings and protection products. Operating in a market with favorable long-term growth trends, Ping An has invested heavily in its systems and

successfully broadened its offering to clients. These new investments were funded by sales of Japanese e-commerce company Rakuten, luxury goods group Richemont, and Italian holding company EXOR, which we believe are strong businesses with declining growth potential.

Schroder Investment Management North America Inc.

Portfolio Manager:

Simon Webber, CFA

International markets declined over the first half of 2018. Early in the year, investors digested the destabilizing potential of an elevated U.S. inflation reading and its implications for tighter policy. While these worries ultimately passed, fears of a U.S.–China trade war then cast a pall that lingered. Through the second quarter, political risk also returned to Europe—especially in Italy—while a stronger U.S. dollar weighed heavily on some emerging markets.

Our positions in the technology sector have been particularly supportive, as have our financial holdings. Health care and telecommunication services companies detracted slightly, as did our underweight in the resurgent energy sector. Amid a challenging period for emerging markets overall, our exposure here was relatively resilient.

In March, we began a position in newly listed iQIYI—a video-streaming service with huge growth potential—and the shares have already performed very well since listing. Video streaming is growing rapidly in China, and iQIYI is the leading platform for self-generated video content, including dramas and reality TV shows. Through its relationship with Baidu, its search engine parent company, iQIYI can bring a very precise level of targeting and interactivity to its advertising, which we think will prove exceptionally valuable as the middle class grows in China. While the company operates in an extremely competitive industry with rising content costs, its management team has shown strong capability in content selection, development, and innovation.

Continental, a tire and auto parts supplier, performed poorly, as the market worried about rising oil-related cost pressure and the potential impact of tariffs on profitability in the auto sector. However, in previous periods when input costs have increased, Continental has demonstrated strong pricing power, and with exposure to high-growth areas such as autonomous driving and 48-volt “mild hybrid” technologies, we think the company’s outlook remains strong and have added to the position.

International Portfolio Investment Advisors

Investment Advisor	Portfolio Assets Managed		Investment Strategy
	%	\$ Million	
Baillie Gifford Overseas Ltd.	59	2,121	Uses a bottom-up, stock-driven approach to select stocks that it believes have above-average growth rates and trade at reasonable prices.
Schroder Investment Management North America Inc.	37	1,329	Uses fundamental research to identify high-quality companies in developed and emerging markets that it believes have above-average growth potential.
Cash Investments	4	130	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.

Looking ahead, international equities are at a very interesting juncture, after treading water for the last four years in dollar terms. Valuations have become much more attractive at approximately 13x forward earnings, about a 20% discount to U.S. equities. However, lead indicators of economic growth and business profits in international economies remain quite strong, and central bank monetary policy remains largely expansionary.

The main uncertainty for the outlook is probably the recent trend toward more protectionist economic policies. A protracted trade war would have implications far beyond the U.S. and China and could lead to a major weakening of business sentiment and investment.

With rising U.S. interest rates and a rising U.S. dollar, the usual pattern of pressure on emerging-market equities and currencies has repeated in 2018.

This has opened up some very interesting opportunities in strong companies in these markets, and we expect to continue increasing exposure over the summer. We are, however, cautious about companies and countries with high levels of debt. After a decade of low and declining interest rates, there is plenty of complacency in financial markets regarding the risks to equity holders from leverage.

Most importantly for us as active investors, we continue to believe that a period of disruptive change is unfolding across many industries, and that this will be a powerful source of investment performance. It remains critical for businesses and investors alike to ensure that they are on the right side of the disruption, and we are focused on identifying those businesses that are willing to invest for the long term, embrace change, and create sustainable growth business models.

Portfolio Profile

As of June 30, 2018

Portfolio Characteristics

	Portfolio	Comparative Index ¹
Number of Stocks	127	2,153
Turnover Rate ²	14%	—
Expense Ratio ³	0.39%	—
Short-Term Reserves	0.1	—

Volatility Measures

	Portfolio Versus Comparative Index ¹
R-Squared	0.87
Beta	1.11

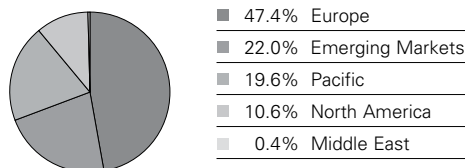
Sector Diversification (% of equity exposure)

	Portfolio	Comparative Index ¹
Consumer Discretionary	24.4%	11.2%
Consumer Staples	6.2	9.7
Energy	1.8	7.4
Financials	15.5	21.9
Health Care	8.9	8.1
Industrials	9.3	11.7
Information Technology	24.5	11.9
Materials	5.7	8.2
Other	0.6	0.0
Real Estate	0.0	3.2
Telecommunication Services	3.0	3.7
Utilities	0.1	3.0

Ten Largest Holdings⁴ (% of total net assets)

Company	Sector	Percentage
Alibaba Group Holding Ltd.	Internet Software & Services	5.1%
Tencent Holdings Ltd.	Internet Software & Services	4.6
Amazon.com Inc.	Internet & Direct Marketing Retail	3.6
ASML Holding NV	Semiconductor Equipment	3.6
AIA Group Ltd.	Life & Health Insurance	3.0
Baidu Inc.	Internet Software & Services	2.8
Industria de Diseno Textil SA	Apparel Retail	2.0
Ferrari NV	Automobile Manufacturers	2.0
Illumina Inc.	Life Sciences Tools & Services	1.7
Tesla Inc.	Automobile Manufacturers	1.7
Top Ten		30.1%

Allocation by Region



Market Diversification (% of equity exposure)

	Portfolio ⁵	Comparative Index ¹
Europe		
Germany	9.6%	6.5%
United Kingdom	8.4	12.2
France	6.9	7.5
Sweden	5.3	1.8
Netherlands	3.7	2.5
Spain	3.6	2.1
Italy	3.1	1.7
Switzerland	2.2	5.3
Denmark	2.1	1.1
Belgium	1.3	0.7
Other European Markets	1.2	2.0
Subtotal	47.4%	43.4%
Pacific		
Japan	12.1%	16.3%
Hong Kong	4.0	2.5
South Korea	2.2	3.7
Other Pacific Markets	1.3	5.8
Subtotal	19.6%	28.3%
Emerging Markets		
China	17.6%	8.2%
India	2.3	2.2
Other Emerging Markets	2.1	10.7
Subtotal	22.0	21.1%
North America		
United States	9.2%	0.0%
Canada	1.4	6.6
Subtotal	10.6%	6.6%
Middle East		
Israel	0.4%	0.4%
Other	0.0%	0.2%

Beta. A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of a given market index. The index is assigned a beta of 1.00. Compared with a given index, a portfolio with a beta of 1.20 typically would have seen its share price rise or fall by 12% when the index rose or fell by 10%. For this report, beta is based on returns over the past 36 months for both the portfolio and the index.

Equity Exposure. A measure that reflects a portfolio's investments in stocks and stock futures. Any holdings in short-term reserves are excluded.

R-Squared. A measure of how much of a portfolio's past returns can be explained by the returns from the market in general, as measured by a given index. If a portfolio's total returns were precisely synchronized with an index's returns, its R-squared would be 1.00. If the portfolio's returns bore no relationship to the index's returns, its R-squared would be 0. For this report, R-squared is based on returns over the past 36 months for both the portfolio and the index.

¹ MSCI All Country World Index ex USA.

² Annualized.

³ The expense ratio shown is from the prospectus dated April 26, 2018, and represents estimated costs for the current fiscal year. For the fiscal year ended June 30, 2018, the International Portfolio's annualized expense ratio was 0.38%.

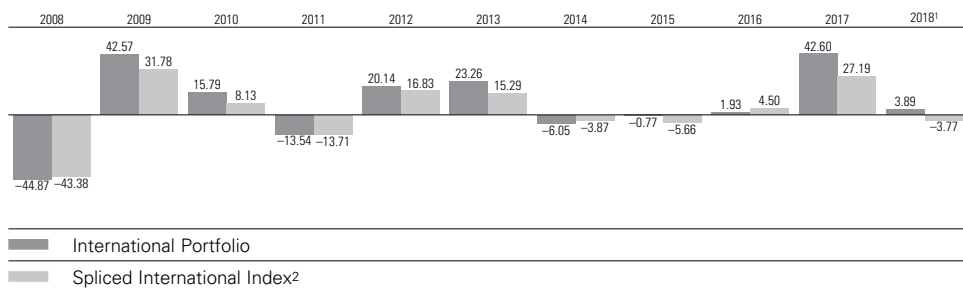
⁴ The holdings listed exclude any temporary cash investments and equity index products.

⁵ Market percentages exclude currency contracts held by the portfolio.

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.) 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.

Fiscal-Year Total Returns (%): December 31, 2007–June 30, 2018



Average Annual Total Returns: Periods Ended June 30, 2018

	Inception Date	One Year	Five Years	Ten Years
International Portfolio	6/3/1994	19.39%	11.50%	6.21%

¹ Six months ended June 30, 2018.

² MSCI EAFE Index through May 31, 2010; MSCI All Country World Index ex USA thereafter.

See Financial Highlights for dividend and capital gains information.

Financial Statements (unaudited)

Statement of Net Assets

As of June 30, 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. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
Common Stocks (95.4%)¹			Germany (9.0%)			Japan (11.0%)		
Australia (0.4%)			*.2 Zalando SE	1,013,535	56,486	M3 Inc.	1,308,600	52,041
Brambles Ltd.	1,938,251	12,725	BASF SE	426,407	40,709	SMC Corp.	131,000	47,958
Austria (0.3%)			Bayerische Motoren Werke AG	301,142	27,221	SoftBank Group Corp.	636,400	45,444
Erste Group Bank AG	294,493	12,277	Continental AG	106,888	24,325	Nidec Corp.	187,500	28,048
Belgium (1.2%)			Bayer AG	217,145	23,848	Recruit Holdings Co. Ltd.	938,000	25,906
Umicore SA	786,552	44,902	SAP SE	163,931	18,921	Nintendo Co. Ltd.	65,600	21,414
Brazil (0.5%)			*.2 Delivery Hero AG	334,976	17,755	Bridgestone Corp.	468,900	18,316
Telefonica Brasil SA			Deutsche Telekom AG	1,146,424	17,717	Kubota Corp.	1,127,900	17,702
Preference Shares	829,800	9,793	* HelloFresh SE	1,072,370	16,337	Keyence Corp.	30,300	17,090
Raia Drogasil SA	417,786	7,158	adidas AG	68,936	15,009	Sekisui Chemical Co. Ltd.	991,900	16,873
		16,951	Infineon Technologies AG	492,693	12,515	Toyota Motor Corp.	257,500	16,652
Canada (1.3%)			Linde AG- Tender Line	50,779	12,064	Pigeon Corp.	319,600	15,532
Toronto-Dominion Bank	496,292	28,725	HeidelbergCement AG	106,951	8,980	Shiseido Co. Ltd.	190,600	15,125
Nutrien Ltd.	346,343	18,842	* Rocket Internet SE	278,557	8,913	KDDI Corp.	451,700	12,352
		47,567	* MorphoSys AG	67,732	8,268	SBI Holdings Inc.	477,700	12,248
China (17.2%)			Puma SE	7,497	4,380	Murata Manufacturing Co. Ltd.	69,600	11,684
* Alibaba Group Holding Ltd. ADR	976,761	181,218	*.3 Home24 SE (Restricted)	115,713	3,635	ORIX Corp.	661,200	10,422
Tencent Holdings Ltd.	3,247,900	163,095	* AIXTRON SE	274,000	3,526	Suzuki Motor Corp.	173,600	9,567
* Baidu Inc. ADR	406,655	98,817	* Home24 SE	78,834	2,725			394,374
* TAL Education Group ADR	1,193,376	43,916						
* Ctrip.com International Ltd. ADR	810,093	38,585	Hong Kong (4.0%)			Netherlands (3.6%)		
New Oriental Education & Technology Group Inc. ADR	349,685	33,101	AIA Group Ltd.	12,352,200	107,605	ASML Holding NV	644,754	127,587
Ping An Insurance Group Co. of China Ltd.	3,489,500	31,956	Jardine Matheson Holdings Ltd.	310,098	19,540	Norway (0.8%)		
China Pacific Insurance Group Co. Ltd.	3,187,800	12,279	Hong Kong Exchanges & Clearing Ltd.	490,260	14,673	Norsk Hydro ASA	2,303,384	13,750
*. ^ iQIYI Inc. ADR	348,481	11,256				DNB ASA	704,990	13,728
		614,223	India (2.1%)					27,478
Denmark (2.1%)			Housing Development Finance Corp. Ltd.	1,021,362	28,460	Other (0.4%)		
* Genmab A/S	258,566	39,785	HDFC Bank Ltd.	919,771	28,333	⁶ Vanguard FTSE All-World ex-US ETF	298,796	15,490
Chr Hansen Holding A/S	163,100	15,015	Zee Entertainment Enterprises Ltd.	1,645,914	13,078			
Novozymes A/S	225,473	11,404	*.3,4,5 ANI Technologies	19,170	3,783	Portugal (0.1%)		
Vestas Wind Systems A/S	153,159	9,456				Jeronimo Martins SGPS SA	343,323	4,945
		75,660	Indonesia (0.3%)			Singapore (0.3%)		
France (6.4%)			Bank Central Asia Tbk PT	6,372,900	9,518	Oversea-Chinese Banking Corp. Ltd.	1,145,700	9,759
L'Oreal SA	229,268	56,521	Israel (0.4%)			South Korea (2.2%)		
Kering SA	89,975	50,683	* Check Point Software Technologies Ltd.	139,539	13,630	*. ^ Celltrion Inc.	174,387	47,378
Schneider Electric SE	452,449	37,629				Samsung Electronics Co. Ltd.	410,318	17,188
[^] TOTAL SA	489,050	29,698	Italy (3.0%)			Samsung SDI Co. Ltd.	39,131	7,506
Essilor International Cie Generale d'Optique SA	194,563	27,432	Ferrari NV	519,887	70,273	NAVER Corp.	10,280	7,035
Vivendi SA	691,223	16,909	* Fiat Chrysler Automobiles NV	1,376,016	25,957			79,107
LVMH Moet Hennessy Louis Vuitton SE	31,672	10,516	Intesa Sanpaolo SPA (Registered)	3,759,596	10,878	Spain (3.4%)		
		229,388	* Intesa Sanpaolo Rights Exp. 07/17/2018	3,759,596	—	Industria de Diseno Textil SA	2,100,029	71,515
						Banco Bilbao Vizcaya Argentaria SA	6,807,260	48,009
						Distribuidora Internacional de Alimentacion SA	1,347,136	3,913
								123,437
						Sweden (5.3%)		
						Svenska Handelsbanken AB Class A	3,750,234	41,535
						* Spotify Technology SA	242,712	40,834
						Kinnevik AB	1,012,007	34,486
						* Atlas Copco AB Class A	951,093	27,544
						Assa Abloy AB Class B	679,900	14,422
						SKF AB	584,874	10,827
						* Epiroc AB Class A	951,093	9,981
						Elekt AB Class B	668,047	8,781
								188,410

International Portfolio

	Shares	Market Value* (\$000)
Switzerland (2.1%)		
Nestle SA	479,007	37,123
UBS Group AG	1,377,896	21,124
Lonza Group AG	69,167	18,277
		76,524
Taiwan (0.9%)		
Taiwan Semiconductor Manufacturing Co. Ltd.	4,636,000	32,921
Thailand (0.4%)		
Kasikornbank PCL	2,410,400	14,103
Turkey (0.0%)		
Turkiye Garanti Bankasi AS	90,417	165
United Kingdom (7.7%)		
Rolls-Royce Holdings plc	3,819,412	49,749
Diageo plc	883,345	31,735
Burberry Group plc	953,709	27,105
Royal Dutch Shell plc		
Class A	726,176	25,202
BHP Billiton plc	945,081	21,210
Reckitt Benckiser Group plc	253,075	20,794
Aviva plc	2,867,484	19,026
* Ocado Group plc	1,403,300	18,965
AstraZeneca plc	264,814	18,317
Vodafone Group plc	6,896,803	16,706
Standard Chartered plc	1,774,697	16,121
Whitbread plc	189,101	9,857
Antofagasta plc	211,897	2,753
		277,540
United States (9.0%)		
* Amazon.com Inc.	76,589	130,186
* Illumina Inc.	223,073	62,302
*^ Tesla Inc.	178,353	61,166
MercadoLibre Inc.	153,825	45,983
* Booking Holdings Inc.	6,272	12,714
Philip Morris International Inc.	120,446	9,725
		322,076
Total Common Stocks (Cost \$2,421,543)		
		3,416,671
Preferred Stocks (0.8%)		
*.3,4,5 Meituan Dianping, 8.00%	2,083,522	11,605
*.3,4,5 You & Mr. Jones	5,200,000	5,346
*.2,3,4,5 Flipkart G Series, 0.01%	31,650	4,917
*.3,4,5 CureVac GmbH	1,452	3,620
*.2,3,4,5 Flipkart H Series, 0.01%	13,514	2,493
Total Preferred Stocks (Cost \$22,515)		
		27,981
Temporary Cash Investments (5.6%)¹		
Money Market Fund (5.4%)		
^{7,8} Vanguard Market Liquidity Fund, 2.122%	1,933,800	193,399

	Face Amount (\$000)	Market Value* (\$000)
U.S. Government and Agency Obligations (0.2%)		
⁹ United States Treasury Bill, 1.934%, 10/11/18	3,700	3,680
⁹ United States Treasury Bill, 1.986%, 10/18/18	1,500	1,491
⁹ United States Treasury Bill, 2.022%, 11/15/18	800	794
⁹ United States Treasury Bill, 2.033%, 11/23/18	1,000	992
		6,957
Total Temporary Cash Investments (Cost \$200,356)		
		200,356
Total Investments (101.8%) (Cost \$2,644,414)		
		3,645,008
Other Assets and Liabilities (-1.8%)		
Other Assets ¹⁰		33,331
Liabilities ⁸		(98,363)
		(65,032)
Net Assets (100%)		
Applicable to 130,148,089 outstanding \$,001 par value shares of beneficial interest (unlimited authorization)		
		3,579,976
Net Asset Value Per Share		
		\$27.51
Statement of Assets and Liabilities		
Assets		
Investments in Securities, at Value		
Unaffiliated Issuers	3,436,119	
Affiliated Issuers	208,889	
Total Investments in Securities	3,645,008	
Investment in Vanguard	191	
Receivables for Investment Securities Sold	4,002	
Receivables for Accrued Income	7,810	
Receivables for Capital Shares Issued	3,693	
Variation Margin Receivable—		
Futures Contracts	766	
Unrealized Appreciation—		
Forward Currency Contracts	105	
Other Assets ¹⁰	16,764	
Total Assets		
		3,678,339
Liabilities		
Payables for Investment Securities		
Purchased	(9,127)	
Collateral for Securities on Loan	(81,477)	
Payables to Investment Advisor	(1,630)	
Payables for Capital Shares Redeemed	(2,405)	
Payables to Vanguard	(2,526)	
Variation Margin Payable—		
Futures Contracts	(82)	
Unrealized Depreciation—		
Forward Currency Contracts	(1,116)	
Total Liabilities		
		98,363
Net Assets		
		3,579,976

At June 30, 2018, net assets consisted of:

	Amount (\$000)
Paid-in Capital	2,472,740
Undistributed Net Investment Income	31,215
Accumulated Net Realized Gains	77,918
Unrealized Appreciation (Depreciation)	
Investment Securities	1,000,594
Futures Contracts	(1,190)
Forward Currency Contracts	(1,011)
Foreign Currencies	(290)
Net Assets	
	3,579,976

• See Note A in Notes to Financial Statements.

* Non-income-producing security.

^A Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$78,267,000.

¹ 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 98.7% and 2.3%, respectively, of net assets.

² Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be sold in transactions exempt from registration, normally to qualified institutional buyers. At June 30, 2018, the aggregate value of these securities was \$90,564,000, representing 2.5% of net assets.

³ Restricted securities totaling \$35,399,000, representing 1.0% of net assets. See Restricted Securities table for additional information.

⁴ Security value determined using significant unobservable inputs.

⁵ Perpetual security with no stated maturity date.

⁶ Considered an affiliated company of the portfolio as the issuer is another member of The Vanguard Group.

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

⁸ Includes \$81,477,000 of collateral received for securities on loan.

⁹ Securities with a value of \$6,263,000 have been segregated as initial margin for open futures contracts.

¹⁰ Cash of \$1,820,000 has been segregated as collateral for open forward currency contracts.

ADR—American Depositary Receipt.

Restricted Securities as of Period End

Security Name	Acquisition Date	Acquisition Cost (\$'000)
Flipkart G Series	December 2014	3,790
Flipkart H Series	April 2015	1,922
HOME 24 SE (Restricted)	June 2015	7,610
You & Mr. Jones	September 2015	5,200
CureVac GmbH	October 2015	3,559
ANI Technologies	December 2015	5,969
Meituan Dianping	December 2015	8,044

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts

	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation) (\$'000)
Long Futures Contracts				
Dow Jones EURO STOXX 50 Index	September 2018	1,117	44,224	(876)
Topix Index	September 2018	208	32,496	(504)
S&P ASX 200 Index	September 2018	190	21,577	251
FTSE 100 Index	September 2018	182	18,265	(61)
				(1,190)

Unrealized appreciation (depreciation) on open futures contracts, except for Topix Index and S&P ASX 200 Index, is required to be treated as realized gain (loss) for tax purposes. Unrealized appreciation (depreciation) for Topix Index and S&P ASX 200 Index futures contracts is generally treated the same for financial reporting and tax purposes.

International Portfolio

Forward Currency Contracts

Counterparty	Contract Settlement Date		Contract Amount (000)			Unrealized Appreciation (Depreciation) (\$000)
			Receive		Deliver	
Bank of America, N.A.	9/26/2018	EUR	34,161	USD	40,572	(409)
Bank of America, N.A.	9/19/2018	JPY	3,554,610	USD	32,648	(356)
Toronto-Dominion Bank	9/25/2018	AUD	29,159	USD	21,522	63
Barclays Bank plc	9/26/2018	GBP	12,469	USD	16,756	(234)
Citibank, N.A.	9/26/2018	EUR	3,958	USD	4,707	(53)
JPMorgan Chase Bank, N.A.	9/19/2018	JPY	329,379	USD	3,017	(25)
Barclays Bank plc	9/26/2018	EUR	1,832	USD	2,147	7
Deutsche Bank AG	9/26/2018	GBP	927	USD	1,229	(1)
Credit Suisse International	9/26/2018	GBP	768	USD	1,033	(16)
Citibank, N.A.	9/25/2018	AUD	1,364	USD	1,010	–
Barclays Bank plc	9/26/2018	EUR	813	USD	965	(9)
JPMorgan Chase Bank, N.A.	9/26/2018	GBP	665	USD	893	(13)
Bank of America, N.A.	9/25/2018	AUD	587	USD	434	1
BNP Paribas	9/26/2018	USD	2,359	EUR	2,002	6
Barclays Bank plc	9/19/2018	USD	1,745	JPY	189,915	20
BNP Paribas	9/25/2018	USD	1,711	AUD	2,308	2
UBS AG	9/26/2018	USD	1,197	GBP	899	6
						(1,011)

AUD—Australian dollar.

EUR—Euro.

GBP—British pound.

JPY—Japanese yen.

USD—U.S. dollar.

Unrealized appreciation (depreciation) on open forward currency contracts is treated as realized gain (loss) for tax purposes.

Statement of Operations

	Six Months Ended June 30, 2018
	(\$000)
Investment Income	
Income	
Dividends—Unaffiliated Issuers ¹	40,669
Dividends—Affiliated Issuers	230
Interest—Unaffiliated Issuers	63
Interest—Affiliated Issuers	890
Securities Lending—Net	1,276
Total Income	43,128
Expenses	
Investment Advisory Fees—Note B	
Basic Fee	2,700
Performance Adjustment	518
The Vanguard Group—Note C	
Management and Administrative	3,025
Marketing and Distribution	305
Custodian Fees	223
Shareholders' Reports	6
Trustees' Fees and Expenses	3
Total Expenses	6,780
Net Investment Income	36,348
Realized Net Gain (Loss)	
Investment Securities Sold— Unaffiliated Issuers	78,594
Investment Securities Sold— Affiliated Issuers	34
Futures Contracts	1,276
Forward Currency Contracts	(1,540)
Foreign Currencies	(572)
Realized Net Gain (Loss)	77,792
Change in Unrealized Appreciation (Depreciation)	
Investment Securities Sold— Unaffiliated Issuers	5,910
Investment Securities Sold— Affiliated Issuers	(855)
Futures Contracts	(1,478)
Forward Currency Contracts	(1,493)
Foreign Currencies	(197)
Change in Unrealized Appreciation (Depreciation)	1,887
Net Increase (Decrease) in Net Assets Resulting from Operations	116,027

¹ Dividends are net of foreign withholding taxes of \$5,022,000.

Statement of Changes in Net Assets

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
	(\$000)	(\$000)
Increase (Decrease) in Net Assets		
Operations		
Net Investment Income	36,348	25,211
Realized Net Gain (Loss)	77,792	88,986
Change in Unrealized Appreciation (Depreciation)	1,887	807,230
Net Increase (Decrease) in Net Assets Resulting from Operations	116,027	921,427
Distributions		
Net Investment Income	(26,488)	(28,317)
Realized Capital Gain	(88,646)	(17,320)
Total Distributions	(115,134)	(45,637)
Capital Share Transactions		
Issued	598,876	473,459
Issued in Lieu of Cash Distributions	115,134	45,637
Redeemed	(332,916)	(327,894)
Net Increase (Decrease) from Capital Share Transactions	381,094	191,202
Total Increase (Decrease)	381,987	1,066,992
Net Assets		
Beginning of Period	3,197,989	2,130,997
End of Period¹	3,579,976	3,197,989

¹ Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$31,215,000 and \$21,927,000.

Financial Highlights

For a Share Outstanding Throughout Each Period	Six Months Ended June 30, 2018	Year Ended December 31,				
		2017	2016	2015	2014	2013
Net Asset Value, Beginning of Period	\$27.34	\$19.54	\$19.80	\$20.63	\$22.28	\$18.35
Investment Operations						
Net Investment Income	.287 ¹	.224 ¹	.271 ¹	.278	.401 ²	.301
Net Realized and Unrealized Gain (Loss) on Investments	.806	7.992	.075	(.394)	(1.736)	3.909
Total from Investment Operations	1.093	8.216	.346	(.116)	(1.335)	4.210
Distributions						
Dividends from Net Investment Income	(.212)	(.258)	(.280)	(.392)	(.315)	(.280)
Distributions from Realized Capital Gains	(.711)	(.158)	(.326)	(.322)	—	—
Total Distributions	(.923)	(.416)	(.606)	(.714)	(.315)	(.280)
Net Asset Value, End of Period	\$27.51	\$27.34	\$19.54	\$19.80	\$20.63	\$22.28
Total Return	3.89%	42.60%	1.93%	-0.77%	-6.05%	23.26%

Ratios/Supplemental Data

Net Assets, End of Period (Millions)	\$3,580	\$3,198	\$2,131	\$2,253	\$2,203	\$2,284
Ratio of Total Expenses to Average Net Assets ³	0.38%	0.39%	0.39%	0.40%	0.46%	0.47%
Ratio of Net Investment Income to Average Net Assets	1.95%	0.93%	1.40%	1.37%	1.89% ²	1.63%
Portfolio Turnover Rate	14%	16%	29%	23%	24%	22%

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

¹ Calculated based on average shares outstanding.

² Net investment income per share and the ratio of net investment income to average net assets include \$0.061 and 0.28%, respectively, resulting from income received from Vodafone Group Plc in the form of cash and shares in Verizon Communications Inc. in February 2014.

³ Includes performance-based investment advisory fee increases (decreases) of 0.03%, 0.03%, 0.03%, 0.03%, 0.03%, and 0.03%.

Notes to Financial Statements

International 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. The portfolio invests in securities of foreign issuers, which may subject it to investment risks not normally associated with investing in securities of U.S. corporations.

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 and Forward Currency 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.

The portfolio enters into forward currency contracts to provide the appropriate currency exposure related to any open futures contracts or to protect the value of securities and related receivables and payables against changes in foreign exchange rates. The portfolio's risks in using these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the ability of the counterparties to fulfill their obligations under the contracts. The portfolio mitigates its counterparty risk by entering into forward currency contracts only with a diverse group of prequalified counterparties, monitoring their financial strength, entering into master netting arrangements with its counterparties, and requiring its counterparties to transfer collateral as security for their performance. In the absence of a default, the collateral pledged or received by the portfolio cannot be repledged, resold, or rehypothecated. The master netting arrangements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate the forward currency contracts, determine the net amount owed by either party in accordance with its master netting arrangements, and sell or retain any collateral held up to the net amount owed to the portfolio under the master netting arrangements. The forward currency contracts contain provisions whereby a counterparty may terminate open contracts if the portfolio's net assets decline below a certain level, triggering a payment by the portfolio if the portfolio is in a net liability position at the time of the termination. The payment amount would be reduced by any collateral the portfolio has pledged. Any assets pledged as collateral for open contracts are noted in the Statement of Net Assets. The value of collateral received or pledged is compared daily to the value of the forward currency contracts exposure with each counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

Futures contracts are valued at their quoted daily settlement prices. Forward currency contracts are valued at their quoted daily prices obtained from an independent third party, adjusted for currency risk based on the expiration date of each contract. 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 Assets and Liabilities as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized gains (losses) on futures or forward currency contracts.

During the six months ended June 30, 2018, the portfolio's average investments in long and short futures contracts represented 2% and 0% of net assets, respectively, based on the average of the notional amounts at each quarter-end during the period. The portfolio's average investment in forward currency contracts represented 2% of net assets, based on the average of the notional amounts at each quarter-end during the period.

4. Federal Income Taxes: The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2014–2017), and for the period ended June 30, 2018, and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

5. Distributions: Distributions to shareholders are recorded on the ex-dividend date.

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

7. Credit 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 June 30, 2018, or at any time during the period then ended.

8. 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.

Withholding taxes on foreign dividends and capital gains have been provided for in accordance with the fund's understanding of the applicable countries' tax rules and rates. The fund has filed tax reclaims or previously withheld taxes on dividends earned in certain European Union countries. These filings are subject to various administrative and judicial proceedings within these countries. Such tax reclaims received during the year, if any, are included in dividend income. No other amounts for additional tax reclaims are reflected in the financial statements due to the uncertainty as to the ultimate resolution of proceedings, the likelihood of receipt of these reclaims, and the potential timing of payment.

B. The investment advisory firms Baillie Gifford Overseas Ltd. and Schroder Investment Management North America Inc. each provide 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 Baillie Gifford Overseas Ltd. and Schroder Investment Management North America Inc. is subject to quarterly adjustments based on performance relative to the MSCI All Country World Index ex USA for the preceding three years.

Vanguard manages the cash reserves of the portfolio as described below.

For the six months ended June 30, 2018, the aggregate investment advisory fee represented an effective annual basic rate of 0.15% of the portfolio's average net assets, before an increase of \$518,000 (0.03%) 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 corporate management, administrative, marketing, distribution, and cash management 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 Assets and Liabilities. 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 June 30, 2018, the portfolio had contributed to Vanguard capital in the amount of \$191,000, representing 0.01% of the portfolio's net assets and 0.08% 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 June 30, 2018, based on the inputs used to value them:

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks—North and South America	386,594	—	—
Common Stocks—Other	476,847	2,549,447	3,783
Preferred Stocks	—	—	27,981
Temporary Cash Investments	193,399	6,957	—
Futures Contracts—Assets ¹	766	—	—
Futures Contracts—Liabilities ¹	(82)	—	—
Forward Currency Contracts—Assets	—	105	—
Forward Currency Contracts—Liabilities	—	(1,116)	—
Total	1,057,524	2,555,393	31,764

¹ Represents variation margin on the last day of the reporting period.

E. At June 30, 2018, the fair values of derivatives were reflected in the Statement of Assets and Liabilities as follows:

Statement of Assets and Liabilities Caption	Equity Contracts (\$000)	Foreign Exchange Contracts (\$000)	Total (\$000)
Variation Margin Receivable—Futures Contracts	766	—	766
Unrealized Appreciation—Forward Currency Contracts	—	105	105
Total Assets	766	105	871
Variation Margin Payable—Futures Contracts	(82)	—	(82)
Unrealized Depreciation—Forward Currency Contracts	—	(1,116)	(1,116)
Total Liabilities	(82)	(1,116)	(1,198)

International Portfolio

Realized net gain (loss) and the change in unrealized appreciation (depreciation) on derivatives for the six months ended June 30, 2018, were:

	Equity Contracts (\$000)	Foreign Exchange Contracts (\$000)	Total (\$000)
Realized Net Gain (Loss) on Derivatives			
Futures Contracts	1,276	—	1,276
Forward Currency Contracts	—	(1,540)	(1,540)
Realized Net Gain (Loss) on Derivatives	1,276	(1,540)	(264)
Change in Unrealized Appreciation (Depreciation) on Derivatives			
Futures Contracts	(1,478)	—	(1,478)
Forward Currency Contracts	—	(1,493)	(1,493)
Change in Unrealized Appreciation (Depreciation) on Derivatives	(1,478)	(1,493)	(2,971)

F. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. The portfolio's tax-basis capital gains and losses are determined only at the end of each fiscal year.

At June 30, 2018, the cost of investment securities for tax purposes was \$2,645,992,000. Net unrealized appreciation of investment securities for tax purposes was \$999,016,000, consisting of unrealized gains of \$1,099,877,000 on securities that had risen in value since their purchase and \$100,861,000 in unrealized losses on securities that had fallen in value since their purchase.

G. During the six months ended June 30, 2018, the portfolio purchased \$464,092,000 of investment securities and sold \$235,659,000 of investment securities, other than temporary cash investments.

H. Capital shares issued and redeemed were:

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
	Shares (000)	Shares (000)
Issued	21,005	19,452
Issued in Lieu of Cash Distributions	4,051	2,105
Redeemed	(11,864)	(13,681)
Net Increase (Decrease) in Shares Outstanding	13,192	7,876

At June 30, 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 36% 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.

I. 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					June 30, 2018 Market Value (\$000)
		Purchases at Cost (\$000)	Proceeds from Securities Sold (\$000)	Realized Net Gain (Loss) (\$000)	Change in Unrealized App. (Dep.) (\$000)	Income (\$000)	
Vanguard Market Liquidity Fund	94,426	NA ¹	NA ¹	34	5	890	193,399
Vanguard FTSE All-World ex-US Fund ETF Shares	16,350	—	—	—	(860)	230	15,490
Total	110,776			34	(855)	1,120	208,889

¹ Not applicable—purchases and sales are for temporary cash investment purposes.

J. Management has determined that no events or transactions occurred subsequent to June 30, 2018, that would require recognition or disclosure in these financial statements.

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 June 30, 2018

	Beginning Account Value 12/31/2017	Ending Account Value 6/30/2018	Expenses Paid During Period ¹
International Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$1,038.89	\$1.92
Based on Hypothetical 5% Yearly Return	1,000.00	1,022.91	1.91

¹ 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 0.38%. 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).

Trustees Approve Advisory Arrangements

The board of trustees of Vanguard Variable Insurance Fund International Portfolio has renewed the portfolio's investment advisory arrangements with Baillie Gifford Overseas Ltd. (Baillie Gifford) and Schroder Investment Management North America Inc. (Schroder Inc.), as well as the sub-advisory agreement with Schroder Investment North America Ltd. (Schroder Ltd.). The board determined that renewing the portfolio's advisory arrangements was in the best interests of the portfolio and its shareholders.

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

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

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

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

Nature, extent, and quality of services

The board reviewed the quality of the portfolio's investment management services over both the short and long term and took into account the organizational depth and stability of each advisor. The board considered the following:

Baillie Gifford. Baillie Gifford—a unit of Baillie Gifford & Co., founded in 1908—is among the largest independently owned investment management firms in the United Kingdom. Baillie Gifford uses fundamental research to make long-term investments in companies that have above-average growth potential resulting from sustainable competitive advantages, special cultures and management, or competitive strength in underestimated technology shifts. Baillie Gifford believes that equities' asymmetrical return pattern means that alpha is generated by focusing on the upside and the potential to earn exponential returns rather than being overly concerned with avoiding losing investments. The advisor takes a bottom-up, stock-driven approach to sector and country allocation. Baillie Gifford has advised a portion of the portfolio since 2003.

Schroder. Schroders plc, the parent company of Schroder Inc. and Schroder Ltd. (collectively, Schroder), has been in existence for more than 200 years and has investment management experience dating back to 1926. Schroder uses fundamental research to identify quality growth stocks with sustainable competitive advantages selling at attractive valuations. Bottom-up research is conducted within the context of key structural trends shaping the global economy or a given industry that will drive a company's future growth prospects. The Schroder portfolio's holdings are classified as either "core" or "opportunistic." Core holdings generally constitute two-thirds of the Schroder portfolio and tend to be longer-term holdings because of competitive advantages that can support above-average growth rates for an extended period. Opportunistic holdings tend to be shorter-term and more cyclical in nature. Schroder Inc. has advised the portfolio since its inception in 1994, and its affiliate Schroder Ltd. has advised the portfolio since 2003.

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

Investment performance

The board considered the short- and long-term performance of 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 arrangements should continue. Information about the portfolio's most recent performance can be found in the Performance Summary section of this report.

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. Information about the portfolio's expense ratio appears in the About Your Portfolio's Expenses section as well as in the Financial Statements section, which also includes information about the portfolio's advisory fee rate.

The board did not consider the profitability of Baillie Gifford or Schroder in determining whether to approve the advisory fees, because the firms are independent of Vanguard and the advisory fees are 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 advisory fee rates negotiated with Baillie Gifford and Schroder without any need for asset-level breakpoints. The advisory fee rates are 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 arrangements again after a one-year period.

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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 on an at-cost basis.

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 208 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.

Interested Trustees¹

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.

¹ 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

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

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 or by calling Vanguard at 800-662-2739. The guidelines are also available from the SEC's website, 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 sec.gov.

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

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to publicinfo@sec.gov or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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