



**Annual Report** | December 31, 2018

# Vanguard Variable Insurance Fund

Mid-Cap Index 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](http://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](http://vanguard.com). Your election to receive paper copies will apply to all the funds you hold through an intermediary or directly with Vanguard.

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## 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%

## Mid-Cap Index Portfolio

For the 12 months ended December 31, 2018, Vanguard Variable Insurance Fund Mid-Cap Index Portfolio returned -9.33%, in line with its benchmark index. This result was about 4 percentage points behind that of the broad U.S. stock market, as measured by the Dow Jones U.S. Total Stock Market Float Adjusted Index. Please note that the portfolio returns in Vanguard Variable Insurance Fund are different from those in Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

The broad U.S. stock market finished 2018 with a return of about -5%, its first negative calendar year since 2008. Despite generally solid economic data and corporate earnings, stocks declined sharply in the fourth quarter. Investors grew more concerned about equity valuations, the possibility of slowing global growth, rising U.S. interest rates, and heightened geopolitical uncertainty.

### **Mid-capitalization equities lagged their larger brethren**

The Mid-Cap Index Portfolio offers investors broad exposure to the hundreds of mid-capitalization stocks in the U.S. equity market. Both growth and value stocks and every industry sector are represented. Over the period, large-cap stocks outpaced mid- and small-caps, and growth stocks beat their value counterparts.

Eight of ten sectors recorded negative returns. Financial stocks drove the portfolio's returns lower. While interest rates have risen from their rock-bottom lows in recent years, the expectation for aggressive hikes has moderated. This has curbed the appeal of banks and other financial companies that depend on interest. Asset managers and other investment firms were also hurt by the market's fourth-quarter swoon.

Industrials, consumer goods, oil and gas, and basic materials companies absorbed double-digit declining returns over the period. Falling oil prices set back energy firms in particular. The only sectors with positive results were technology and utilities—which serves as a safe haven when the broad market turns more volatile.

## About Your Portfolio's Expenses

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

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

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

- **Based on actual portfolio return.** This section helps you to estimate the actual expenses that you paid over the period. The "Ending Account Value" shown is derived from the portfolio's actual return, and the third column shows the dollar amount that would have been paid by an investor who started with \$1,000 in the portfolio. You may use the information here, together with the amount you invested, to estimate the expenses that you paid over the period.

To do so, simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number given for your portfolio under the heading "Expenses Paid During Period."

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

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

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

You can find more information about the portfolio's expenses 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>
Mid-Cap Index Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$884.56	\$0.76
Based on Hypothetical 5% Yearly Return	1,000.00	1,024.40	0.82

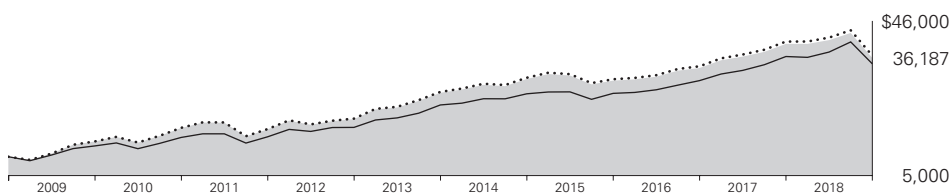
<sup>1</sup> The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.16%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value 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	
Mid-Cap Index Portfolio	-9.33%	6.08%	13.72%	\$36,187
Spliced Mid-Cap Index <sup>1</sup>	-9.22	6.24	13.91	36,789
Dow Jones U.S. Total Stock Market Float Adjusted Index	-5.30	7.86	13.22	34,625

<sup>1</sup> MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.  
See Financial Highlights for dividend and capital gains information.

## Sector Diversification

As of December 31, 2018

Basic Materials	3.7%
Consumer Goods	9.7
Consumer Services	10.9
Financials	20.5
Health Care	9.1
Industrials	18.8
Oil & Gas	5.2
Technology	15.3
Telecommunications	0.5
Utilities	6.3

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 Industry Classification Benchmark ("ICB"), except for the "Other" category (if applicable), which includes securities that have not been provided an ICB classification as of the effective reporting period.



# 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)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
<b>Common Stocks (99.8%)<sup>1</sup></b>								
<b>Basic Materials (3.6%)</b>			Jefferies Financial Group Inc.	122,097	2,120	Nordstrom Inc.	52,594	2,451
Newmont Mining Corp.	237,201	8,219	Hanesbrands Inc.	160,750	2,014	* DISH Network Corp. Class A	96,908	2,420
International Flavors & Fragrances Inc.	47,467	6,373	Polaris Industries Inc.	26,217	2,010	Rollins Inc.	65,598	2,368
Freeport-McMoRan Inc.	613,176	6,322	*^ Under Armour Inc. Class A	82,815	1,463	Vail Resorts Inc.	9,000	1,897
Celanese Corp. Class A	59,620	5,364	Ingredia Inc.	15,713	1,436	* Discovery Communications Inc. Class A	67,004	1,658
Mosaic Co.	154,578	4,515	* Under Armour Inc. Class C	86,369	1,397	* GrubHub Inc.	20,200	1,552
CF Industries Holdings Inc.	102,830	4,474	Coty Inc. Class A	199,836	1,311	* Live Nation Entertainment Inc.	30,300	1,492
FMC Corp.	60,042	4,441	* Keurig Dr Pepper Inc.	46,422	1,190	* Liberty Media Corp-Liberty SiriusXM Class A	36,545	1,345
Eastman Chemical Co.	56,137	4,104	* Wayfair Inc.	13,100	1,180	* TripAdvisor Inc.	23,724	1,280
Albemarle Corp.	47,401	3,653	Goodyear Tire & Rubber Co.	52,236	1,066	Hyatt Hotels Corp. Class A	18,148	1,227
Avery Dennison Corp.	38,617	3,469	* Elanco Animal Health Inc.	32,513	1,025	Wyndham Hotels & Resorts Inc.	22,078	1,002
* Axalta Coating Systems Ltd.	95,797	2,244	Lennar Corp. Class B	6,899	216	* Liberty Broadband Corp. Class A	11,465	823
Reliance Steel & Aluminum Co.	29,882	2,127			157,635	* Carvana Co. Class A	7,800	255
Steel Dynamics Inc.	48,547	1,458	<b>Consumer Services (10.9%)</b>			* Viacom Inc. Class A	4,664	130
Westlake Chemical Corp.	17,347	1,148	* Dollar Tree Inc.	105,986	9,573	News Corp. Class B	3,475	40
* Alcoa Corp.	41,754	1,110	Royal Caribbean Cruises Ltd.	74,482	7,284			175,849
		59,021	* Ulta Beauty Inc.	25,315	6,198	<b>Financials (20.5%)</b>		
<b>Consumer Goods (9.7%)</b>			Expedia Group Inc.	51,570	5,809	Moody's Corp.	72,570	10,163
Clorox Co.	56,855	8,764	Darden Restaurants Inc.	55,343	5,527	Digital Realty Trust Inc.	91,888	9,791
McCormick & Co. Inc.	54,234	7,552	Best Buy Co. Inc.	102,800	5,444	Realty Income Corp.	131,405	8,284
Church & Dwight Co. Inc.	109,810	7,221	* Chipotle Mexican Grill Inc. Class A	12,405	5,356	* SBA Communications Corp. Class A	50,501	8,176
Genuine Parts Co.	62,214	5,974	MGM Resorts International	211,506	5,131	M&T Bank Corp.	56,268	8,054
* Lululemon Athletica Inc.	46,397	5,642	Kohl's Corp.	74,205	4,923	* IHS Markit Ltd.	158,106	7,584
DR Horton Inc.	158,999	5,511	* CarMax Inc.	77,863	4,884	Essex Property Trust Inc.	29,393	7,207
* Take-Two Interactive Software Inc.	50,756	5,225	Advance Auto Parts Inc.	30,851	4,858	Hartford Financial Services Group Inc.	159,782	7,102
Lennar Corp. Class A	130,186	5,097	* AutoZone Inc.	5,665	4,749	KeyCorp	460,803	6,811
Hormel Foods Corp.	118,823	5,071	Domino's Pizza Inc.	18,520	4,593	* First Republic Bank	73,340	6,373
Lamb Weston Holdings Inc.	65,209	4,797	Tractor Supply Co.	54,350	4,535	Citizens Financial Group Inc.	208,467	6,198
Conagra Brands Inc.	216,357	4,621	* Copart Inc.	93,949	4,489	Regions Financial Corp.	460,559	6,162
JM Smucker Co.	48,140	4,501	* United Continental Holdings Inc.	51,564	4,317	* Market Corp.	5,875	6,099
Molson Coors Brewing Co. Class B	78,422	4,404	Norwegian Cruise Line Holdings Ltd.	98,004	4,154	Arthur J Gallagher & Co.	81,780	6,027
Tapestry Inc.	129,304	4,364	Tiffany & Co.	51,580	4,153	HCP Inc.	209,224	5,844
Hasbro Inc.	50,692	4,119	Macy's Inc.	136,770	4,073	* CBRE Group Inc. Class A	144,239	5,775
* NVR Inc.	1,531	3,731	Wynn Resorts Ltd.	41,054	4,061	Annaly Capital Management Inc.	584,876	5,744
Aptiv plc	58,787	3,619	Viacom Inc. Class B	157,172	4,039	Huntington Bancshares Inc.	472,933	5,637
Lear Corp.	28,560	3,509	Nielsen Holdings plc	158,338	3,694	Principal Financial Group Inc.	126,058	5,568
Tyson Foods Inc. Class A	65,669	3,507	Omnicom Group Inc.	49,973	3,660	Alexandria Real Estate Equities Inc.	47,923	5,523
Newell Brands Inc.	187,332	3,482	* Qurate Retail Group Inc. QVC Group Class A	187,355	3,657	Host Hotels & Resorts Inc.	330,586	5,511
Garmin Ltd.	54,681	3,462	Interpublic Group of Cos. Inc.	171,210	3,532	MSCI Inc. Class A	37,267	5,494
BorgWarner Inc.	92,809	3,224	* Discovery Communications Inc.	151,716	3,502	AvalonBay Communities Inc.	30,810	5,363
* LKQ Corp.	134,892	3,201	Liberty Broadband Corp.	47,300	3,407	Cincinnati Financial Corp.	68,852	5,331
Bunge Ltd.	59,709	3,191	FactSet Research Systems Inc.	16,960	3,394	Loews Corp.	111,992	5,098
PVH Corp.	34,246	3,183	Alaska Air Group Inc.	54,933	3,343	Equifax Inc.	53,674	4,999
* Mohawk Industries Inc.	26,453	3,094	Gap Inc.	128,372	3,307	E*TRADE Financial Corp.	113,228	4,968
Whirlpool Corp.	28,395	3,035	Aramark	109,971	3,186	Comerica Inc.	72,038	4,948
PulteGroup Inc.	112,523	2,924	L Brands Inc.	104,244	2,676	Cboe Global Markets Inc.	49,965	4,888
* Campbell Soup Co.	87,276	2,879	* Liberty Media Corp-Liberty SiriusXM Class C	71,957	2,661	Lincoln National Corp.	95,072	4,878
Ralph Lauren Corp. Class A	24,382	2,523	AmerisourceBergen Corp. Class A	35,505	2,642	UDR Inc.	122,666	4,860
* WABCO Holdings Inc.	23,280	2,499	Altice USA Inc. Class A	156,382	2,583			
Harley-Davidson Inc.	72,732	2,482	News Corp. Class A	221,621	2,515			
* Michael Kors Holdings Ltd.	63,445	2,406						
Fortune Brands Home & Security Inc.	62,980	2,393						

Mid-Cap Index Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
Mid-America Apartment Communities Inc.	50,648	4,847	* Jazz Pharmaceuticals plc	25,526	3,164	Pentair plc	77,520	2,929
Extra Space Storage Inc.	53,523	4,843	Cardinal Health Inc.	66,223	2,953	Wabtec Corp.	38,732	2,721
Vornado Realty Trust	76,304	4,733	* Alnylam Pharmaceuticals Inc.	40,505	2,953	* Arrow Electronics Inc.	38,824	2,677
* Arch Capital Group Ltd.	171,450	4,581	* DaVita Inc.	55,559	2,859	* Keysight Technologies Inc.	41,700	2,589
* SVB Financial Group	23,706	4,502	* Seattle Genetics Inc.	46,358	2,627	Allison Transmission Holdings Inc.	57,719	2,534
KKR & Co. Inc. Class A	223,692	4,391	* Nektar Therapeutics Class A	77,154	2,536	* Crown Holdings Inc.	60,028	2,495
Raymond James Financial Inc.	57,405	4,272	* DexCom Inc.	19,800	2,372	Sealed Air Corp.	69,783	2,431
Regency Centers Corp.	71,719	4,209	Perrigo Co. plc	54,313	2,105	Hubbell Inc. Class B	24,397	2,424
Ally Financial Inc.	184,367	4,178	* Alkermes plc	68,926	2,034	Jack Henry & Associates Inc.	17,200	2,176
Nasdaq Inc.	51,061	4,165				Owens Corning	48,693	2,142
Iron Mountain Inc.	127,500	4,132				Fluor Corp.	62,673	2,018
Duke Realty Corp.	159,544	4,132				Xerox Corp.	89,874	1,776
AGNC Investment Corp.	235,190	4,125	<b>Industrials (18.8%)</b>		<b>146,432</b>	* IPG Photonics Corp.	15,441	1,749
Everest Re Group Ltd.	18,116	3,945	* Fiserv Inc.	177,500	13,045	Cognex Corp.	36,241	1,401
Reinsurance Group of America Inc. Class A	28,025	3,930	Roper Technologies Inc.	46,046	12,272	AO Smith Corp.	31,989	1,366
Alleghany Corp.	6,247	3,894	Amphenol Corp. Class A	134,212	10,874	FLIR Systems Inc.	30,891	1,345
Federal Realty Investment Trust	32,906	3,884	* Worldpay Inc. Class A	134,488	10,279	Flowserve Corp.	28,975	1,102
Fidelity National Financial Inc.	116,449	3,661	Willis Towers Watson plc	57,890	8,791	ManpowerGroup Inc.	13,855	898
Camden Property Trust	41,465	3,651	Waste Connections Inc.	117,361	8,714	^ ADT Inc.	50,360	303
Zions Bancorp NA	85,544	3,485	* Verisk Analytics Inc. Class A	69,563	7,585			<b>304,185</b>
Western Union Co.	197,091	3,362	* FleetCor Technologies Inc.	39,539	7,343	<b>Oil &amp; Gas (5.2%)</b>		
Torchmark Corp.	44,742	3,335	Global Payments Inc.	70,413	7,262	ONEOK Inc.	183,107	9,879
VEREIT Inc.	431,666	3,086	* TransDigm Group Inc.	21,170	7,199	* Concho Resources Inc.	89,253	9,174
Invesco Ltd.	183,340	3,069	AMETEK Inc.	103,476	7,005	Diamondback Energy Inc.	73,072	6,774
WR Berkley Corp.	40,814	3,017	Ball Corp.	151,032	6,944	* Cheniere Energy Inc.	103,017	6,098
SL Green Realty Corp.	37,951	3,001	Fastenal Co.	127,885	6,687	Marathon Oil Corp.	370,737	5,316
SEI Investments Co.	62,237	2,875	Cintas Corp.	38,136	6,406	Hess Corp.	125,569	5,086
Unum Group	97,679	2,870	* Mettler-Toledo International Inc.	11,159	6,311	Devon Energy Corp.	197,800	4,458
* Black Knight Inc.	63,140	2,845	L3 Technologies Inc.	35,093	6,094	Apache Corp.	169,125	4,440
* Athene Holding Ltd. Class A	69,928	2,785	* Waters Corp.	32,085	6,053	National Oilwell Varco Inc.	170,798	4,389
Voya Financial Inc.	69,167	2,776	WW Grainger Inc.	21,326	6,022	Cabot Oil & Gas Corp.	192,312	4,298
Macerich Co.	63,009	2,727	Total System Services Inc.	73,258	5,955	Noble Energy Inc.	213,715	4,009
Kimco Realty Corp.	178,798	2,619	Vulcan Materials Co.	58,872	5,817	HollyFrontier Corp.	77,283	3,951
Jones Lang LaSalle Inc.	20,351	2,576	* CoStar Group Inc.	16,239	5,478	Targa Resources Corp.	102,098	3,678
Invitation Homes Inc.	127,225	2,555	Xylem Inc.	80,086	5,343	OGE Energy Corp.	88,928	3,485
People's United Financial Inc.	168,671	2,434	Expeditors International of Washington Inc.	76,849	5,233	Cimarex Energy Co.	42,619	2,627
Affiliated Managers Group Inc.	23,363	2,277	CH Robinson Worldwide Inc.	61,257	5,151	Baker Hughes a GE Co. Class A	114,452	2,461
Franklin Resources Inc.	62,688	1,859	Broadridge Financial Solutions Inc.	52,002	5,005	* Continental Resources Inc.	41,813	1,680
AXA Equitable Holdings Inc.	94,404	1,570	Martin Marietta Materials Inc.	27,884	4,792	Helmerich & Payne Inc.	23,010	1,103
Lazard Ltd. Class A	28,804	1,063	TransUnion	82,456	4,684	* Equitrans Midstream Corp.	45,006	901
CIT Group Inc.	23,568	902	Dover Corp.	65,157	4,623			<b>83,807</b>
		<b>331,623</b>	Textron Inc.	97,347	4,477	<b>Technology (15.3%)</b>		
<b>Health Care (9.0%)</b>			Kansas City Southern	45,357	4,329	* Red Hat Inc.	78,670	13,818
* Edwards Lifesciences Corp.	93,167	14,270	Westrock Co.	114,313	4,316	* Autodesk Inc.	97,426	12,530
* Centene Corp.	86,933	10,023	Old Dominion Freight Line Inc.	32,778	4,048	* Xilinx Inc.	112,821	9,609
* IQVIA Holdings Inc.	75,826	8,809	* First Data Corp. Class A	238,722	4,037	* Twitter Inc.	305,150	8,770
ResMed Inc.	63,469	7,227	Masco Corp.	135,847	3,972	Motorola Solutions Inc.	72,857	8,381
* IDEXX Laboratories Inc.	38,400	7,143	Jacobs Engineering Group Inc.	63,387	3,706	* Advanced Micro Devices Inc.	422,886	7,807
* Align Technology Inc.	33,840	7,087	* United Rentals Inc.	36,022	3,693	^ Microchip Technology Inc.	105,320	7,575
* BioMarin Pharmaceutical Inc.	79,328	6,755	* Trimble Inc.	111,826	3,680	* Palo Alto Networks Inc.	39,873	7,510
* ABIOMED Inc.	19,046	6,191	* Square Inc.	65,317	3,664	* Cerner Corp.	139,322	7,306
* Laboratory Corp. of America Holdings	44,974	5,683	Huntington Ingalls Industries Inc.	19,169	3,648	* VeriSign Inc.	48,454	7,185
Cooper Cos. Inc.	21,863	5,564	Snap-on Inc.	24,992	3,631	* ServiceNow Inc.	39,951	7,113
* Henry Schein Inc.	67,992	5,339	JB Hunt Transport Services Inc.	38,973	3,626	Harris Corp.	52,372	7,052
* Hologic Inc.	128,859	5,296	Packaging Corp. of America	42,116	3,515	* Splunk Inc.	65,303	6,847
Teleflex Inc.	20,423	5,279	* Sensata Technologies Holding plc	73,066	3,276	NetApp Inc.	112,180	6,694
* WellCare Health Plans Inc.	22,300	5,265	Arconic Inc.	193,819	3,268	* IAC/InterActiveCorp	34,667	6,345
* Incyte Corp.	80,605	5,126	* XPO Logistics Inc.	56,551	3,226	Maxim Integrated Products Inc.	123,404	6,275
Quest Diagnostics Inc.	60,606	5,047	Alliance Data Systems Corp.	20,620	3,095	KLA-Tencor Corp.	68,179	6,101
* Varian Medical Systems Inc.	40,628	4,603	Robert Half International Inc.	51,316	2,935	Citrix Systems Inc.	57,015	5,842
Universal Health Services Inc. Class B	38,042	4,434				* Synopsys Inc.	66,121	5,570

Mid-Cap Index Portfolio

	Shares	Market Value* (\$000)
Skyworks Solutions Inc.	79,026	5,296
Symantec Corp.	270,383	5,109
* Arista Networks Inc.	23,505	4,953
* Gartner Inc.	38,487	4,920
* Veeva Systems Inc. Class A	54,300	4,850
* GoDaddy Inc. Class A	70,816	4,647
* Fortinet Inc.	64,500	4,543
SS&C Technologies Holdings Inc.	100,413	4,530
Western Digital Corp.	122,455	4,527
Marvell Technology Group Ltd.	278,867	4,515
Seagate Technology plc	114,663	4,425
* F5 Networks Inc.	27,036	4,381
* Akamai Technologies Inc.	68,766	4,200
* Juniper Networks Inc.	153,693	4,136
* Qorvo Inc.	55,482	3,369
* Dell Technologies Inc.	60,811	2,972
CDK Global Inc.	57,506	2,753
*^ Snap Inc.	261,318	1,440
*^ Dropbox Inc. Class A	67,133	1,372
Match Group Inc.	22,755	973
		<b>247,726</b>
<b>Telecommunications (0.5%)</b>		
CenturyLink Inc.	433,355	6,565
* Zayo Group Holdings Inc.	89,420	2,043
		<b>8,608</b>
<b>Utilities (6.3%)</b>		
WEC Energy Group Inc.	140,571	9,736
Eversource Energy	141,148	9,180
DTE Energy Co.	81,049	8,940
FirstEnergy Corp.	227,868	8,556
American Water Works Co. Inc.	80,485	7,306
Ameren Corp.	108,730	7,092
Entergy Corp.	80,632	6,940
Evergy Inc.	117,235	6,655
CenterPoint Energy Inc.	223,573	6,312
CMS Energy Corp.	126,186	6,265
* Alliant Energy Corp.	105,034	4,438
AES Corp.	294,946	4,265
Pinnacle West Capital Corp.	49,895	4,251
NiSource Inc.	164,603	4,173
* Vistra Energy Corp.	180,088	4,122
* PG&E Corp.	115,172	2,735
Avangrid Inc.	27,645	1,385
		<b>102,351</b>
<b>Total Common Stocks</b> <b>(Cost \$1,496,592)</b>		<b>1,617,237</b>

	Shares	Market Value* (\$000)
<b>Temporary Cash Investments (0.6%)<sup>1</sup></b>		
<b>Money Market Fund (0.6%)</b>		
<sup>2,3</sup> Vanguard Market Liquidity Fund, 2.530%	93,870	9,387
	Face Amount (\$000)	
<b>U.S. Government and Agency Obligations (0.0%)</b>		
<sup>4</sup> United States Treasury Bill, 2.302%, 2/28/19	500,000	498
<b>Total Temporary Cash Investments (Cost \$9,886)</b>		<b>9,885</b>
<b>Total Investments (100.4%) (Cost \$1,506,478)</b>		<b>1,627,122</b>
		Amount (\$000)
<b>Other Assets and Liabilities (-0.4%)</b>		
<b>Other Assets</b>		
Investment in Vanguard		94
Receivables for Investment Securities Sold		1,717
Receivables for Accrued Income		2,115
Receivables for Capital Shares Issued		1,033
Variation Margin Receivable—Futures Contracts		76
<b>Total Other Assets</b>		<b>5,035</b>
<b>Liabilities</b>		
Payables for Investment Securities Purchased		(1,876)
Collateral for Securities on Loan		(4,204)
Payables for Capital Shares Redeemed		(3,854)
Payables to Vanguard		(931)
Other Liabilities		(35)
<b>Total Liabilities</b>		<b>(10,900)</b>
<b>Net Assets (100%)</b>		
Applicable to 80,158,802 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)		1,621,257
<b>Net Asset Value Per Share</b>		<b>\$20.23</b>

At December 31, 2018, net assets consisted of:

	Amount (\$000)
Paid-in Capital	1,331,396
Total Distributable Earnings (Loss)	289,861
<b>Net Assets</b>	<b>1,621,257</b>

• See Note A in Notes to Financial Statements.

\* Non-income-producing security.

<sup>^</sup> Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$3,974,000.

<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 100.0% and 0.4%, 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 \$4,204,000 of collateral received for securities on loan.

<sup>4</sup> Securities with a value of \$448,000 have been segregated as initial margin for open futures contracts.

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts

	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation)
Long Futures Contracts				(\$000)
E-mini S&P Mid-Cap 400 Index	March 2019	25	4,156	(184)
E-mini S&P 500 Index	March 2019	1	125	(2)
				(186)

## Statement of Operations

	Year Ended December 31, 2018
	(\$000)
<b>Investment Income</b>	
<b>Income</b>	
Dividends	30,194
Interest <sup>1</sup>	110
Securities Lending—Net	50
<b>Total Income</b>	<b>30,354</b>
<b>Expenses</b>	
The Vanguard Group—Note B	
Investment Advisory Services	277
Management and Administrative	2,457
Marketing and Distribution	271
Custodian Fees	39
Auditing Fees	34
Shareholders' Reports	34
Trustees' Fees and Expenses	1
<b>Total Expenses</b>	<b>3,113</b>
<b>Net Investment Income</b>	<b>27,241</b>
<b>Realized Net Gain (Loss)</b>	
Investment Securities Sold <sup>1</sup>	144,401
Futures Contracts	(745)
<b>Realized Net Gain (Loss)</b>	<b>143,656</b>
<b>Change in Unrealized Appreciation (Depreciation)</b>	
Investment Securities <sup>1</sup>	(339,642)
Futures Contracts	(193)
<b>Change in Unrealized Appreciation (Depreciation)</b>	<b>(339,835)</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(168,938)</b>

<sup>1</sup> Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the portfolio were \$97,000, \$1,000, and (\$1,000), respectively. Purchases and sales are for temporary cash investment purposes.

## 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	27,241	21,647
Realized Net Gain (Loss)	143,656	88,310
Change in Unrealized Appreciation (Depreciation)	(339,835)	175,708
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(168,938)</b>	<b>285,665</b>
<b>Distributions</b>		
Net Investment Income	(21,762)	(19,300)
Realized Capital Gain <sup>1</sup>	(88,481)	(70,544)
<b>Total Distributions</b>	<b>(110,243)</b>	<b>(89,844)</b>
<b>Capital Share Transactions</b>		
Issued	255,681	246,883
Issued in Lieu of Cash Distributions	110,243	89,844
Redeemed	(269,732)	(223,550)
<b>Net Increase (Decrease) from Capital Share Transactions</b>	<b>96,192</b>	<b>113,177</b>
<b>Total Increase (Decrease)</b>	<b>(182,989)</b>	<b>308,998</b>
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>1,804,246</b>	<b>1,495,248</b>
<b>End of Period</b>	<b>1,621,257</b>	<b>1,804,246</b>

<sup>1</sup> Includes fiscal 2018 and 2017 short-term gain distributions totaling \$3,072,000 and \$1,194,000, respectively. Short-term gain distributions are treated as ordinary income 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>\$23.72</b>	<b>\$21.11</b>	<b>\$20.76</b>	<b>\$22.49</b>	<b>\$20.77</b>
<b>Investment Operations</b>					
Net Investment Income	.343 <sup>1</sup>	.292 <sup>1</sup>	.280	.291	.266
Net Realized and Unrealized Gain (Loss) on Investments	(2.386)	3.575	1.814	(.552)	2.446
<b>Total from Investment Operations</b>	<b>(2.043)</b>	<b>3.867</b>	<b>2.094</b>	<b>(.261)</b>	<b>2.712</b>
<b>Distributions</b>					
Dividends from Net Investment Income	(.286)	(.270)	(.292)	(.268)	(.200)
Distributions from Realized Capital Gains	(1.161)	(.987)	(1.452)	(1.201)	(.792)
<b>Total Distributions</b>	<b>(1.447)</b>	<b>(1.257)</b>	<b>(1.744)</b>	<b>(1.469)</b>	<b>(.992)</b>
<b>Net Asset Value, End of Period</b>	<b>\$20.23</b>	<b>\$23.72</b>	<b>\$21.11</b>	<b>\$20.76</b>	<b>\$22.49</b>
<b>Total Return</b>	<b>-9.33%</b>	<b>19.08%</b>	<b>11.11%</b>	<b>-1.43%</b>	<b>13.59%</b>
<b>Ratios/Supplemental Data</b>					
Net Assets, End of Period (Millions)	\$1,621	\$1,804	\$1,495	\$1,363	\$1,364
Ratio of Total Expenses to Average Net Assets	0.17%	0.19%	0.19%	0.19%	0.24%
Ratio of Net Investment Income to Average Net Assets	1.49%	1.32%	1.40%	1.35%	1.29%
Portfolio Turnover Rate	21%	18%	21%	23%	16%

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

## Notes to Financial Statements

Mid-Cap Index Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts.

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

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

2. **Futures Contracts:** The portfolio uses index futures contracts to a limited extent, with the objectives of maintaining full exposure to the stock market, maintaining liquidity, and minimizing transaction costs. The portfolio may purchase futures contracts to immediately invest incoming cash in the market, or sell futures in response to cash outflows, thereby simulating a fully invested position in the underlying index while maintaining a cash balance for liquidity. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract. Any 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 less than 1% and 0% of net assets, respectively, based on the average of the notional amounts at each quarter-end during the period.

3. **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.

4. **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.

5. **Securities Lending:** To earn additional income, the portfolio lends its securities to qualified institutional borrowers. Security loans are subject to termination by the portfolio at any time, and are required to be secured at all times by collateral in an amount at least equal to the market value of securities loaned. Daily market fluctuations could cause the value of loaned securities to be more or less than the value of the collateral received. When this occurs, the collateral is adjusted and settled before the opening of the market on the next business day. The portfolio further mitigates its counterparty risk by entering into securities lending transactions only with a diverse group of prequalified counterparties, monitoring their financial strength, and entering into master securities lending agreements with its counterparties. The master securities lending agreements provide that, in the event of a counterparty's default (including bankruptcy), the portfolio may terminate any loans with that borrower, determine the net amount owed, and sell or retain the collateral up to the net

amount owed to the portfolio; however, such actions may be subject to legal proceedings. While collateral mitigates counterparty risk, in the event of a default, the portfolio may experience delays and costs in recovering the securities loaned. The portfolio invests cash collateral received in Vanguard Market Liquidity Fund, and records a liability in the Statement of 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.

6. 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.

7. 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. 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 \$94,000, representing 0.01% of the portfolio’s net assets and 0.04% of Vanguard’s capitalization. The portfolio’s trustees and officers are also directors and employees, respectively, of Vanguard.

C. Various inputs may be used to determine the value of the portfolio’s investments. 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	1,617,237	—	—
Temporary Cash Investments	9,387	498	—
Futures Contracts—Assets <sup>1</sup>	76	—	—
Total	1,626,700	498	—

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

D. 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	31,322
Undistributed Long-Term Gains	138,701
Capital Loss Carryforwards (Non-expiring)	—
Net Unrealized Gains (Losses)	120,644

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	1,506,478
Gross Unrealized Appreciation	314,100
Gross Unrealized Depreciation	(193,456)
Net Unrealized Appreciation (Depreciation)	120,644

E. During the year ended December 31, 2018, the portfolio purchased \$399,165,000 of investment securities and sold \$383,381,000 of investment securities, other than temporary cash investments.

The portfolio purchased securities from and sold securities to other Vanguard funds or accounts managed by Vanguard or its affiliates, in accordance with procedures adopted by the board of trustees in compliance with Rule 17a-7 of the Investment Company Act of 1940. For the year ended December 31, 2018, such purchases and sales were \$38,682,000 and \$80,488,000, respectively; these amounts are included in the purchases and sales of investment securities noted above.

F. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2018 Shares (000)	2017 Shares (000)
Issued	11,048	11,082
Issued in Lieu of Cash Distributions	4,812	4,272
Redeemed	(11,768)	(10,126)
Net Increase (Decrease) in Shares Outstanding	4,092	5,228

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 43% 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.

G. 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 Mid-Cap Index Portfolio

### Opinion on the Financial Statements

We have audited the accompanying statement of net assets of Mid-Cap Index 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 14, 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 Mid Cap 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 \$85,409,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 75.9% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

# 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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