



Annual Report | December 31, 2018

Vanguard Variable Insurance Fund

Small Company Growth 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.

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. 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, with a long, sweeping tail on the final letter.

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
Stocks			
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
Bonds			
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
CPI			
Consumer Price Index	1.91%	2.03%	1.51%

Small Company Growth Portfolio

Advisors' Report

The Small Company Growth Portfolio returned -7.22% for the 12 months ended December 31, 2018, beating the -7.47% return of its benchmark, the Russell 2500 Growth Index.

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

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

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

Vanguard Quantitative Equity Group

Portfolio Managers:

James P. Stetler

Binbin Guo, Principal, Head of Alpha Equity Investments

The investment environment

Macroeconomic fundamentals were supportive throughout the period. The U.S. economy expanded at an average annualized pace above 3% for the first three quarters of 2018. It was boosted in part by the tax cuts enacted at the end of 2017 and by the federal spending increase approved last March.

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

Given this healthy backdrop, the Fed raised rates four times over the year, pushing the federal funds target range a full point higher to 2.25%-2.50%.

The benchmark Russell 2500 Growth Index finished the period down a little more than 10%. The downturn in U.S. stocks as a whole reflected concerns weighing on the market, including escalations in trade tensions, political uncertainties in Europe, the potential negative impact of Fed policy, the pace of growth at home and abroad, and, at the close of the period, the partial U.S. government shutdown.

Eight of 11 industry sectors declined on an absolute basis, and financials and industrials most weighed on the fund's overall return. Information technology and utilities were among the best performers.

Investment objective and strategy

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

Using these five themes, we generate a composite rank for all the stocks in our universe each day, seeking to capitalize on investor biases across the market. We then monitor our portfolio, based

on those rankings, and adjust when appropriate to maximize expected return while minimizing exposure to risks that our research indicates do not improve returns (such as industry selection and other risks relative to our benchmark).

Our successes and shortfalls

Over the 12 months, our portfolio produced gains mainly from our growth and management decisions quantitative models, but our three other models helped as well. Results exceeded the benchmark in six of 11 sectors, with consumer discretionary, IT, and communication services topping the leaderboard. Health care, materials, and industrials were the weakest relative performers.

The portfolio benefited from overweight allocations to Etsy in consumer discretionary, Medifast in consumer staples, Glu Mobile in communication services, and Square and Five9 in IT. Our biggest misstep was being underweight in the health care stock ABIOMED early in the year as it outperformed.

ArrowMark Partners

Portfolio Managers:

Chad Meade, Partner

Brian Schaub, CFA, Partner

Over the 12 months, unemployment reached its lowest level since 1969, household spending and business fixed investment grew, inflation hovered near 2%, and the Tax Cuts and Jobs Act reduced the U.S. corporate tax rate from 35% to 21%. As expected, the Federal Reserve raised the benchmark lending rate four times in 2018.

Over the last three months of the year, however, significant market turmoil arose amid concerns about politics, trade, and inflation's potential impact on corporate profitability. As a result, volatility spiked

following 2017’s historically low levels. With stock valuations retracting to more reasonable levels, we took the opportunity to add closely followed companies with predictable and recurring revenue streams, strong competitive advantages, and large addressable markets that finally also exhibited attractive risk–reward profiles.

Although our outlook for the economy remains positive, we believe that higher interest rates and inflation could continue to pressure market multiples.

Our investment process prioritizes the management of risk over the opportunity for return. Our goal is to build an all-weather portfolio that can perform well in a variety of market conditions. We look to build a portfolio that can mitigate capital losses on the downside and, secondarily, provide 100% upside participation during market recoveries.

In a reversal from the prior year, our underweight position in materials was the top contributor to relative performance as

the sector came under pressure. Given that materials companies tend to have levered balance sheets and are more influenced by unpredictable commodity price swings, we typically avoid the sector. Not surprisingly, our modest underweighting of the stressed energy sector also provided ballast as crude oil prices fell 25%.

Stock selection in consumer discretionary was a standout over the period. We avoided the poorly performing automobiles & components industry and saw several retailing and media holdings stabilize and put up strong results. Monro, an automotive repair and tire services retailer, recovered from uncertainty over new management, a weak period of same-store sales growth, and mild weather. It reported improved store performance and healthy growth in earnings per share, driven by acquisition synergies. Under Armour, after a period of decelerating revenue growth and margin degradation, stabilized its operations and financial results. Guided by its new president, the company also

initiated a strategic plan, well-received by the market, to accelerate growth and improve profitability.

Information technology and health care detracted from overall performance. In IT, both our underweighting of that top-performing sector and our individual holdings hurt results. Switch, a technology infrastructure company with proprietary data-center designs and patented cooling systems, declined 61%. Although Switch has continued to grow revenues, its earnings before interest, taxes, depreciation, and amortization (EBITDA) declined, and results fell short of analysts’ expectations. The company’s new focus on securing larger deals with customers is extending sales cycles and pressuring near-term revenue growth. Although disappointed with Switch’s performance, we continue to believe that its unmatched uptime statistics, low industry levels of churn, and low-cost position among its data-center rivals will result in better financial performance and a recovery in the share price.

In health care, Mednax, a provider of physician management services, was set back by a client contract dispute and rumors that a private equity firm had backed away from acquiring the company. We believe that Mednax’s cost-reduction plan will result in margin improvement with continued strong free cash flow.

Finally, our overweighting of the industrials sector, which underperformed the overall market, also hindered performance.

Small Company Growth Portfolio Investment Advisors

Investment Advisor	Portfolio Assets Managed		Investment Strategy
	%	\$ Million	
Vanguard Quantitative Equity Group	53	962	Employs a quantitative approach that focuses on fundamental factors, using models that assess valuation, growth prospects, management decisions, market sentiment, and earnings and balance-sheet quality of companies as compared with their peers.
ArrowMark Partners	45	822	The firm uses in-depth fundamental research to uncover companies that, in its opinion, can control their own economic destiny. It starts by identifying businesses with strong competitive advantages in industries with high barriers to entry, then narrows the focus to companies with large potential markets and high-quality business models focused on the future. Finally, considerations are made for potential downside risk, resulting in a diversified portfolio of between 75 and 100 stocks.
Cash Investments	2	43	These short-term reserves are invested by Vanguard in equity index products to simulate investment in stocks. Each advisor may also maintain a modest cash position.

About Your Portfolio's Expenses

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

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

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

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

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

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

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

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

You can find more information about the portfolio's expenses in the Financial Statements section. For additional information on operating expenses and other shareholder costs, please refer to the prospectus.

Six Months Ended December 31, 2018

	Beginning Account Value 6/30/2018	Ending Account Value 12/31/2018	Expenses Paid During Period ¹
Small Company Growth Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$847.95	\$1.44
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.64	1.58

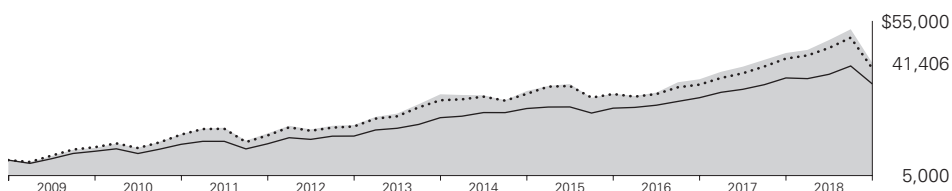
¹ The calculations are based on expenses incurred in the most recent six-month period. The portfolio's annualized six-month expense ratio for that period is 0.31%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, 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.) 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	
— Small Company Growth Portfolio	-7.22%	5.77%	15.27%	\$41,406
..... Russell 2500 Growth Index	-7.47	6.19	14.76	39,626
— Dow Jones U.S. Total Stock Market Float Adjusted Index	-5.30	7.86	13.22	34,625

Sector Diversification

As of December 31, 2018

Communication Services	2.8%
Consumer Discretionary	16.8
Consumer Staples	1.5
Energy	0.9
Financials	5.3
Health Care	20.1
Industrials	22.9
Information Technology	24.6
Materials	3.0
Real Estate	1.8
Utilities	0.3

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

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard and Poor's, a division of McGraw-Hill Companies, Inc. ("S&P"), and is licensed for use by Vanguard. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classification makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of its affiliates or any third party involved in making or compiling the GICS or any GICS classification have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Financial Statements

Statement of Net Assets

As of December 31, 2018

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

	Shares	Market Value* (\$000)
Common Stocks (97.1%)¹		
Communication Services (2.7%)		
Cinemark Holdings Inc.	287,408	10,289
National CineMedia Inc.	996,444	6,457
World Wrestling Entertainment Inc.		
Class A	78,151	5,839
* Boingo Wireless Inc.	234,713	4,828
* TripAdvisor Inc.	66,699	3,598
* Glu Mobile Inc.	444,265	3,585
New York Times Co.		
Class A	140,892	3,140
Match Group Inc.	65,134	2,786
* TechTarget Inc.	164,496	2,009
* Tribune Publishing Co.	123,706	1,403
* Cargurus Inc.	35,956	1,213
* Liberty TripAdvisor Holdings Inc. Class A	75,740	1,204
* Pandora Media Inc.	147,078	1,190
* Vonage Holdings Corp.	135,516	1,183
* Zayo Group Holdings Inc.	27,865	636
* QuinStreet Inc.	33,019	536
		49,896
Consumer Discretionary (16.3%)		
* Grand Canyon Education Inc.	190,237	18,289
* Skechers U.S.A. Inc.		
Class A	773,730	17,711
* Sally Beauty Holdings Inc.	1,020,360	17,397
Carter's Inc.	193,764	15,815
Hanesbrands Inc.	1,260,496	15,794
Polaris Industries Inc.	157,412	12,070
Shutterstock Inc.	308,509	11,109
* ServiceMaster Global Holdings Inc.	276,086	10,143
Wolverine World Wide Inc.	302,083	9,633
* frontdoor Inc.	361,442	9,618
* Deckers Outdoor Corp.	64,339	8,232
PulteGroup Inc.	282,117	7,332
* Crocs Inc.	268,578	6,978
* Planet Fitness Inc. Class A	128,698	6,901
* Etsy Inc.	130,928	6,228
Churchill Downs Inc.	23,577	5,751
* Under Armour Inc.	352,152	5,694
^ Brinker International Inc.	126,059	5,544
Bloomin' Brands Inc.	302,228	5,407
* Urban Outfitters Inc.	156,499	5,196
Domino's Pizza Inc.	20,825	5,164
H&R Block Inc.	203,034	5,151
BJ's Restaurants Inc.	100,436	5,079
^* RH	36,314	4,351
Dunkin' Brands Group Inc.	64,111	4,111
American Eagle Outfitters Inc.	211,071	4,080
Dick's Sporting Goods Inc.	129,450	4,039
Tailored Brands Inc.	291,975	3,983
* NVR Inc.	1,550	3,777
* Weight Watchers International Inc.	93,695	3,612

	Shares	Market Value* (\$000)
Lear Corp.	29,297	3,599
* Chegg Inc.	120,923	3,437
* Five Below Inc.	32,483	3,324
* Burlington Stores Inc.	18,983	3,088
Tenneco Inc. Class A	110,247	3,020
* Boot Barn Holdings Inc.	153,816	2,620
* SeaWorld Entertainment Inc.	117,461	2,595
* Penn National Gaming Inc.	136,973	2,579
Dine Brands Global Inc.	36,060	2,428
Callaway Golf Co.	153,815	2,353
Movado Group Inc.	64,294	2,033
Nordstrom Inc.	35,526	1,656
* Fossil Group Inc.	101,874	1,602
Ruth's Hospitality Group Inc.	68,202	1,550
* Stoneridge Inc.	61,905	1,526
* Farfetch Ltd. Class A	81,854	1,450
* Shake Shack Inc. Class A	30,938	1,405
* Zumiez Inc.	68,938	1,322
Core-Mark Holding Co. Inc.	50,789	1,181
Genex Corp.	56,630	1,145
Wendy's Co.	68,364	1,067
^ PetMed Express Inc.	40,275	937
KB Home	48,785	932
Tilly's Inc. Class A	85,071	924
* MarineMax Inc.	49,853	913
* MasterCraft Boat Holdings Inc.	42,280	791
* America's Car-Mart Inc.	8,910	646
* Conn's Inc.	33,989	641
* ZAGG Inc.	62,372	610
* Denny's Corp.	37,567	609
* Malibu Boats Inc. Class A	15,877	553
Dana Inc.	38,388	523
Six Flags Entertainment Corp.	8,255	459
* Career Education Corp.	40,049	457
		298,164
Consumer Staples (1.5%)		
Casey's General Stores Inc.	40,006	5,126
Cal-Maine Foods Inc.	93,822	3,969
Medifast Inc.	30,781	3,848
* BJ's Wholesale Club Holdings Inc.	149,007	3,302
* Boston Beer Co. Inc. Class A	10,169	2,449
Calavo Growers Inc.	31,283	2,282
* USANA Health Sciences Inc.	17,131	2,017
* Herbalife Nutrition Ltd.	27,668	1,631
* Post Holdings Inc.	12,913	1,151
* Chefs' Warehouse Inc.	32,233	1,031
		26,806
Energy (0.9%)		
* Renewable Energy Group Inc.	129,038	3,316
* RigNet Inc.	221,753	2,803
* W&T Offshore Inc.	501,672	2,067
* Carrizo Oil & Gas Inc.	180,258	2,035
* ProPetro Holding Corp.	137,076	1,689

	Shares	Market Value* (\$000)
* Denbury Resources Inc.	940,538	1,608
* CONSOL Energy Inc.	34,669	1,100
Mammoth Energy Services Inc.	39,339	707
Delek US Holdings Inc.	19,555	636
		15,961
Financials (5.1%)		
LPL Financial Holdings Inc.	391,997	23,943
WisdomTree Investments Inc.	972,237	6,465
Primerica Inc.	60,148	5,877
Universal Insurance Holdings Inc.	142,723	5,412
MSCI Inc. Class A	34,659	5,110
FirstCash Inc.	52,938	3,830
Greenhill & Co. Inc.	148,435	3,622
* SVB Financial Group	18,685	3,549
Synovus Financial Corp.	102,031	3,264
Bank of NT Butterfield & Son Ltd.	101,277	3,175
Cadence Bancorp Class A	176,921	2,969
Santander Consumer USA Holdings Inc.	165,601	2,913
* NMI Holdings Inc. Class A	159,638	2,850
Bank OZK	120,268	2,746
Voya Financial Inc.	61,670	2,475
* Blucora Inc.	91,042	2,425
* Enova International Inc.	122,027	2,375
Enterprise Financial Services Corp.	56,826	2,138
* Cowen Inc. Class A	113,124	1,509
* OneMain Holdings Inc.	60,581	1,472
* Regional Management Corp.	36,908	888
Independent Bank Corp.	12,249	861
* Credit Acceptance Corp.	2,175	830
East West Bancorp Inc.	18,660	812
* Ambac Financial Group Inc.	46,245	797
Walker & Dunlop Inc.	11,400	493
* On Deck Capital Inc.	74,543	440
		93,240
Health Care (19.5%)		
STERIS plc	121,467	12,979
* DexCom Inc.	101,854	12,202
* Syneos Health Inc.	306,862	12,075
* MEDNAX Inc.	278,424	9,188
* athenahealth Inc.	68,990	9,102
* Veeva Systems Inc. Class A	98,378	8,787
* Prestige Consumer Healthcare Inc.	262,421	8,104
Cooper Cos. Inc.	31,773	8,086
* Medidata Solutions Inc.	109,154	7,359
* Amedisys Inc.	61,443	7,196
Encompass Health Corp.	114,390	7,058
* Charles River Laboratories International Inc.	61,394	6,949
* Nevro Corp.	165,445	6,434
Chemed Corp.	22,657	6,418
* PRA Health Sciences Inc.	67,074	6,168
* Quidel Corp.	123,814	6,045
* ICU Medical Inc.	26,212	6,019
* Genomic Health Inc.	91,753	5,910
* Masimo Corp.	54,411	5,842
* AxoGen Inc.	283,770	5,797
* Ionis Pharmaceuticals Inc.	99,825	5,397
* Acorda Therapeutics Inc.	325,819	5,076
* Catalent Inc.	162,058	5,053
* Atara Biotherapeutics Inc.	143,089	4,971
* Heron Therapeutics Inc.	188,969	4,902
* HealthEquity Inc.	80,998	4,832
* Exact Sciences Corp.	75,398	4,758

Small Company Growth Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Shares	Market Value* (\$000)
* Spectrum Pharmaceuticals Inc.	529,243	4,631	* REGENXBIO Inc.	16,990	713	* Evoqua Water Technologies Corp.	450,362	4,324
* Medpace Holdings Inc.	84,186	4,456	* Pieris Pharmaceuticals Inc.	243,036	646	EMCOR Group Inc.	70,777	4,225
* Inogen Inc.	35,595	4,420	* Exelixis Inc.	31,765	625	* Proto Labs Inc.	33,680	3,799
* ABIOMED Inc.	13,419	4,362	* Karyopharm Therapeutics Inc.	63,415	594	* Comfort Systems USA Inc.	76,758	3,353
* Insulet Corp.	54,617	4,332	* Collegium Pharmaceutical Inc.	34,025	584	* Atkore International Group Inc.	165,571	3,285
* Integer Holdings Corp.	55,225	4,211	* Novavax Inc.	308,027	567	Simpson Manufacturing Co. Inc.	54,277	2,938
* Revance Therapeutics Inc.	206,749	4,162	* Ligand Pharmaceuticals Inc.	4,176	567	Insperty Inc.	31,115	2,905
* Bruker Corp.	139,280	4,146	* Madrigal Pharmaceuticals Inc.	4,534	511	IDEX Corp.	22,626	2,857
* Immunomedics Inc.	284,296	4,057	* Inovio Pharmaceuticals Inc.	125,905	504	Korn/Ferry International	69,432	2,745
* Integra LifeSciences Holdings Corp.	89,270	4,026	* Voyager Therapeutics Inc.	52,426	493	* Meritor Inc.	159,512	2,697
* Alkermes plc	131,786	3,889	* Tactile Systems Technology Inc.	10,424	475	* TrueBlue Inc.	115,937	2,580
* Loxo Oncology Inc.	27,731	3,884	* NewLink Genetics Corp.	302,850	460	MSA Safety Inc.	25,464	2,401
* Tenet Healthcare Corp.	225,518	3,865	* Alder Biopharmaceuticals Inc.	44,894	460	Albany International Corp.	36,986	2,309
* Vanda Pharmaceuticals Inc.	147,605	3,857	^* Insys Therapeutics Inc.	122,838	430	* Casella Waste Systems Inc. Class A	76,830	2,189
* Halozyme Therapeutics Inc.	235,715	3,449	* Jounce Therapeutics Inc.	126,213	425	Rush Enterprises Inc. Class A	60,359	2,081
* Emergent BioSolutions Inc.	57,650	3,418	^* Moderna Inc.	27,580	421	Global Brass & Copper Holdings Inc.	80,156	2,016
* Addus HomeCare Corp.	49,829	3,382	* Intellia Therapeutics Inc.	20,542	280	* Gardner Denver Holdings Inc.	97,885	2,002
* Agios Pharmaceuticals Inc.	70,656	3,258	^* Conatus Pharmaceuticals Inc.	152,005	263	* Milacron Holdings Corp.	158,265	1,882
* Enanta Pharmaceuticals Inc.	45,451	3,219	^* TransEnterix Inc.	111,058	251	Exponent Inc.	36,900	1,871
* Molina Healthcare Inc.	27,190	3,160				* Hub Group Inc. Class A	47,856	1,774
* Ironwood Pharmaceuticals Inc. Class A	299,336	3,101			356,927	* SP Plus Corp.	57,789	1,707
* Neurocrine Biosciences Inc.	43,263	3,089	Industrials (22.2%)			* Covanta Holding Corp.	122,362	1,642
* Mettler-Toledo International Inc.	5,291	2,992	* Sensata Technologies Holding plc	590,969	26,499	* Vicor Corp.	42,086	1,590
* Surmodics Inc.	60,427	2,856	MSC Industrial Direct Co. Inc. Class A	237,268	18,251	Systemax Inc.	60,482	1,445
* Tivity Health Inc.	115,083	2,855	* TriNet Group Inc.	406,816	17,066	* Echo Global Logistics Inc.	68,553	1,394
* Pacira Pharmaceuticals Inc.	63,427	2,729	* Kirby Corp.	242,049	16,304	Federal Signal Corp.	64,775	1,289
* Seattle Genetics Inc.	47,779	2,707	Heartland Express Inc.	827,312	15,140	* Herc Holdings Inc.	48,809	1,269
* STAAR Surgical Co.	83,453	2,663	ABM Industries Inc.	468,144	15,032	* XPO Logistics Inc.	20,828	1,188
* Haemonetics Corp.	26,007	2,602	* Clean Harbors Inc.	289,735	14,298	Greenbrier Cos. Inc.	28,526	1,128
* IQVIA Holdings Inc.	22,260	2,586	* Middleby Corp.	135,406	13,910	Advanced Drainage Systems Inc.	41,771	1,013
* Endo International plc	333,462	2,434	Kennametal Inc.	390,538	12,997	* Gates Industrial Corp. plc	72,513	960
Ensign Group Inc.	59,978	2,327	Forward Air Corp.	230,249	12,629	* NCI Building Systems Inc.	128,518	932
* MacroGenics Inc.	183,017	2,324	HEICO Corp. Class A	197,149	12,420	Kimball International Inc. Class B	64,327	913
* Myriad Genetics Inc.	77,998	2,267	Woodward Inc.	162,153	12,046	Graco Inc.	20,335	851
* DBV Technologies SA ADR	326,023	2,093	Allegion plc	148,142	11,808	DMC Global Inc.	24,122	847
* CorVel Corp.	33,631	2,076	Multi-Color Corp.	311,363	10,926	McGrath RentCorp	15,529	799
^* Viking Therapeutics Inc.	269,926	2,065	John Bean Technologies Corp.	139,307	10,004	* SPX FLOW Inc.	25,399	773
* CareDx Inc.	80,297	2,019	Tennant Co.	179,991	9,379	Cubic Corp.	11,668	627
* Tandem Diabetes Care Inc.	51,033	1,938	Allison Transmission Holdings Inc.	191,969	8,429	Lennox International Inc.	2,462	539
Phibro Animal Health Corp. Class A	59,913	1,927	Ritchie Bros Auctioneers Inc.	248,841	8,142	Barrett Business Services Inc.	8,899	509
* Akebia Therapeutics Inc.	347,727	1,923	Huntington Ingalls Industries Inc.	41,471	7,892			406,332
* Assertio Therapeutics Inc.	528,241	1,907	* Cimpress NV	65,954	6,821	Information Technology (24.0%)		
* Sangamo Therapeutics Inc.	145,856	1,674	* Generac Holdings Inc.	135,861	6,752	CDW Corp.	321,575	26,064
* Vericel Corp.	85,822	1,493	* HD Supply Holdings Inc.	177,542	6,661	LogMeIn Inc.	272,581	22,234
* Align Technology Inc.	6,677	1,398	Spirit AeroSystems Holdings Inc. Class A	90,512	6,525	* Trimble Inc.	624,281	20,545
Luminex Corp.	60,247	1,392	Armstrong World Industries Inc.	103,669	6,035	* CyberArk Software Ltd.	168,890	12,521
US Physical Therapy Inc.	13,305	1,362	* Aerojet Rocketdyne Holdings Inc.	165,218	5,821	* Advanced Micro Devices Inc.	649,654	11,993
* CytomX Therapeutics Inc.	85,268	1,288	Robert Half International Inc.	96,949	5,546	SS&C Technologies Holdings Inc.	264,226	11,919
* NanoString Technologies Inc.	85,723	1,271	* Harsco Corp.	271,000	5,382	j2 Global Inc.	166,772	11,571
* Array BioPharma Inc.	86,026	1,226	ArcBest Corp.	145,013	4,968	* 2U Inc.	223,530	11,114
LeMaitre Vascular Inc.	50,977	1,205	* Wabtec Corp.	68,490	4,811	* Euronet Worldwide Inc.	107,352	10,991
* FibroGen Inc.	25,916	1,199	* Aerovironment Inc.	67,842	4,610	* Carbonite Inc.	418,588	10,574
* Biohaven Pharmaceutical Holding Co. Ltd.	27,347	1,011	* Continental Building Products Inc.	179,247	4,562	* Fortinet Inc.	149,055	10,498
* Natera Inc.	71,731	1,001	Kforce Inc.	146,431	4,528	* Zebra Technologies Corp.	63,885	10,172
* Innoviva Inc.	56,537	987	Hillenbrand Inc.	118,380	4,490	* Cornerstone OnDemand Inc.	197,518	9,961
* AtriCure Inc.	31,291	958				* ON Semiconductor Corp.	603,122	9,958
* Select Medical Holdings Corp.	60,173	924				* SolarWinds Corp.	706,393	9,769
* ImmunoGen Inc.	191,721	920				* GoDaddy Inc. Class A	148,616	9,752
* BioTelemetry Inc.	13,893	830						
* Endologix Inc.	1,123,909	805						
* Orthofix Medical Inc.	15,115	793						
* Horizon Pharma plc	40,347	788						
* ArQule Inc.	275,195	762						

Small Company Growth Portfolio

	Shares	Market Value* (\$000)		Shares	Market Value* (\$000)		Face Amount (\$000)	Market Value* (\$000)
* Cadence Design Systems Inc.	210,937	9,172	* Cohu Inc.	31,239	502	United States Treasury Bill, 2.474%–2.479%, 5/9/19	8,500	8,428
Presidio Inc.	700,971	9,148	* PTC Inc.	5,862	486	4 United States Treasury Bill, 2.497%, 5/23/19	10,000	9,905
Booz Allen Hamilton Holding Corp. Class A	194,828	8,781			437,886			19,231
* Five9 Inc.	175,238	7,661	Materials (2.9%)			Total Temporary Cash Investments (Cost \$71,168)		71,166
Sabre Corp.	342,929	7,421	Graphic Packaging Holding Co.	989,079	10,524	Total Investments (101.0%) (Cost \$1,996,019)		1,846,118
* New Relic Inc.	91,171	7,382	Sealed Air Corp.	194,354	6,771		Amount (\$000)	
Belden Inc.	171,446	7,161	Louisiana-Pacific Corp.	243,885	5,419	Other Assets and Liabilities (-1.0%)		
Switch Inc.	1,021,809	7,153	Huntsman Corp.	179,018	3,453	Other Assets		
* Gartner Inc.	53,485	6,837	Chemours Co.	100,510	2,837	Investment in Vanguard		111
* Workiva Inc.	182,652	6,555	Greif Inc. Class A	75,215	2,791	Receivables for Investment Securities Sold		572
Science Applications International Corp.	98,694	6,287	Steel Dynamics Inc.	88,810	2,668	Receivables for Accrued Income		1,295
MAXIMUS Inc.	92,411	6,015	^* Cleveland-Cliffs Inc.	327,746	2,520	Receivables for Capital Shares Issued		1,840
* RealPage Inc.	123,367	5,945	Packaging Corp. of America	29,162	2,434	Variation Margin Receivable—		
* Atlassian Corp. plc Class A	66,157	5,887	Boise Cascade Co.	98,805	2,357	Futures Contracts		273
* Manhattan Associates Inc.	138,886	5,885	WR Grace & Co.	31,602	2,051	Other Assets ⁴		265
* Zendesk Inc.	95,669	5,584	* Verso Corp.	90,469	2,027	Total Other Assets		4,356
* Appfolio Inc.	92,956	5,505	Quaker Chemical Corp.	11,210	1,992	Liabilities		
* FireEye Inc.	311,925	5,056	Myers Industries Inc.	102,261	1,545	Payables for Investment Securities		
* RingCentral Inc. Class A	59,999	4,946	* Ingevity Corp.	11,364	951	Purchased		(6,131)
* Cardtronics plc Class A	189,982	4,940	Avery Dennison Corp.	9,717	873	Collateral for Securities on Loan		(11,350)
Broadridge Financial Solutions Inc.	51,063	4,915	* AdvanSix Inc.	27,190	662	Payables to Investment Advisor		(490)
* Fair Isaac Corp.	23,698	4,432	* Kraton Corp.	24,000	524	Payables for Capital Shares Redeemed		(4,127)
^* 3D Systems Corp.	429,401	4,367	PolyOne Corp.	13,785	394	Payables to Vanguard		(1,358)
* Synaptics Inc.	117,087	4,357			52,793	Total Liabilities		(23,456)
* Box Inc.	243,751	4,114	Other (0.0%)			Net Assets (100%)		
* Descartes Systems Group Inc.	154,562	4,090	^,§ NuPathe Inc. CVR	345,900	—	Applicable to 90,019,355 outstanding \$0.01 par value shares of beneficial interest (unlimited authorization)		1,827,018
* ChannelAdvisor Corp.	357,097	4,053	Real Estate (1.8%)			Net Asset Value Per Share		\$20.30
* Nanometrics Inc.	147,309	4,026	Ryman Hospitality Properties Inc.	92,609	6,176			
^ Ubiquiti Networks Inc.	40,144	3,991	Omega Healthcare Investors Inc.	156,164	5,489	At December 31, 2018, net assets consisted of:		
* Diodes Inc.	118,487	3,822	National Storage Affiliates Trust	179,910	4,761		Amount (\$000)	
* Unisys Corp.	321,172	3,735	Life Storage Inc.	37,362	3,474	Paid-in Capital		1,745,126
EVERTEC Inc.	130,121	3,734	National Health Investors Inc.	41,852	3,162	Total Distributable Earnings (Loss)		81,892
* SMART Global Holdings Inc.	107,646	3,197	EastGroup Properties Inc.	28,865	2,648	Net Assets		1,827,018
* Aspen Technology Inc.	38,634	3,175	* Marcus & Millichap Inc.	58,037	1,992			
Versum Materials Inc.	100,942	2,798	RMR Group Inc. Class A	29,412	1,561			
* Square Inc.	48,084	2,697	Taubman Centers Inc.	31,045	1,412			
* SPS Commerce Inc.	26,304	2,167	Gaming and Leisure Properties Inc.	28,205	911			
* Lattice Semiconductor Corp.	303,743	2,102	Universal Health Realty Income Trust	11,100	681			
* Twilio Inc. Class A	22,042	1,968			32,267			
* Altair Engineering Inc. Class A	69,465	1,916	Utilities (0.2%)					
* Endurance International Group Holdings Inc.	280,425	1,865	NRG Energy Inc.	118,192	4,680			
Cabot Microelectronics Corp.	19,249	1,835	Total Common Stocks (Cost \$1,924,851)		1,774,952			
* Pure Storage Inc. Class A	110,147	1,771	Temporary Cash Investments (3.9%)¹					
* Nutanix Inc.	41,998	1,747	Money Market Fund (2.8%)					
* Immersion Corp.	188,367	1,688	^{2,3} Vanguard Market Liquidity Fund, 2.530%	519,352	51,935			
* eGain Corp.	237,928	1,563						
* Benefitfocus Inc.	33,134	1,515						
TTEC Holdings Inc.	44,006	1,257						
* Teradata Corp.	29,711	1,140						
* Perficient Inc.	47,267	1,052						
* A10 Networks Inc.	168,134	1,049						
* Fitbit Inc. Class A	204,626	1,017						
* Everi Holdings Inc.	179,668	925						
* ePlus Inc.	12,058	858						
* Control4 Corp.	44,904	790						
* Insight Enterprises Inc.	18,422	751						
* Cision Ltd.	55,861	654						
* Avid Technology Inc.	137,266	652						
* Virtusa Corp.	15,286	651						
* Sykes Enterprises Inc.	22,849	565						
* ShotSpotter Inc.	18,082	564						

• See Note A in Notes to Financial Statements.
¹ Includes partial security positions on loan to broker-dealers. The total value of securities on loan is \$10,782,000.
* Non-income-producing security.
[§] Security value determined using significant unobservable inputs.
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 99.5% and 1.5%, respectively, of net assets.
² Affiliated money market fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.
³ Includes \$11,350,000 of collateral received for securities on loan.
⁴ Securities with a value of \$2,576,000 and cash of \$128,000 have been segregated as initial margin for open futures contracts.
ADR—American Depositary Receipt.
CVR—Contingent Value Rights.

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts

				(\$000)
	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation)
<hr/> Long Futures Contracts <hr/>				
E-mini Russell 2000 Index	March 2019	655	44,180	(1,927)

Statement of Operations

	Year Ended December 31, 2018
	(\$000)
Investment Income	
Income	
Dividends	13,818
Interest ¹	2,060
Securities Lending—Net	814
Total Income	16,692
Expenses	
Investment Advisory Fees—Note B	
Basic Fee	2,622
Performance Adjustment	140
The Vanguard Group—Note C	
Management and Administrative	3,228
Marketing and Distribution	307
Custodian Fees	34
Auditing Fees	35
Shareholders' Reports	45
Trustees' Fees and Expenses	3
Total Expenses	6,414
Net Investment Income	10,278
Realized Net Gain (Loss)	
Investment Securities Sold ¹	233,870
Futures Contracts	(8,477)
Realized Net Gain (Loss)	225,393
Change in Unrealized Appreciation (Depreciation)	
Investment Securities ¹	(407,645)
Futures Contracts	(2,119)
Change in Unrealized Appreciation (Depreciation)	(409,764)
Net Increase (Decrease) in Net Assets Resulting from Operations	(174,093)

¹ Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from affiliated companies of the portfolio were \$1,927,000, (\$12,000), and \$1,000, respectively.

Statement of Changes in Net Assets

	Year Ended December 31,	
	2018	2017
	(\$000)	(\$000)
Increase (Decrease) in Net Assets		
Operations		
Net Investment Income	10,278	7,461
Realized Net Gain (Loss)	225,393	196,033
Change in Unrealized Appreciation (Depreciation)	(409,764)	122,310
Net Increase (Decrease) in Net Assets Resulting from Operations	(174,093)	325,804
Distributions		
Net Investment Income	(7,284)	(7,204)
Realized Capital Gain ¹	(197,105)	(99,295)
Total Distributions	(204,389)	(106,499)
Capital Share Transactions		
Issued	616,100	279,625
Issued in Lieu of Cash Distributions	204,389	106,499
Redeemed	(365,139)	(252,694)
Net Increase (Decrease) from Capital Share Transactions	455,350	133,430
Total Increase (Decrease)	76,868	352,735
Net Assets		
Beginning of Period	1,750,150	1,397,415
End of Period	1,827,018	1,750,150

¹ Includes fiscal 2018 and 2017 short-term gain distributions totaling \$49,729,000 and \$33,769,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

Financial Highlights

For a Share Outstanding Throughout Each Period	Year Ended December 31,				
	2018	2017	2016	2015	2014
Net Asset Value, Beginning of Period	\$24.62	\$21.50	\$20.79	\$24.14	\$26.90
Investment Operations					
Net Investment Income	.123 ¹	.109 ¹	.116	.078	.085
Net Realized and Unrealized Gain (Loss) on Investments	(1.563)	4.652	2.547	(.577)	.610
Total from Investment Operations	(1.440)	4.761	2.663	(.499)	.695
Distributions					
Dividends from Net Investment Income	(.103)	(.111)	(.074)	(.087)	(.075)
Distributions from Realized Capital Gains	(2.777)	(1.530)	(1.879)	(2.764)	(3.380)
Total Distributions	(2.880)	(1.641)	(1.953)	(2.851)	(3.455)
Net Asset Value, End of Period	\$20.30	\$24.62	\$21.50	\$20.79	\$24.14
Total Return	-7.22%	23.46%	14.94%	-2.75%	3.38%
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	\$1,827	\$1,750	\$1,397	\$1,256	\$1,329
Ratio of Total Expenses to Average Net Assets ²	0.32%	0.34%	0.36%	0.37%	0.39%
Ratio of Net Investment Income to Average Net Assets	0.52%	0.48%	0.58%	0.33%	0.34%
Portfolio Turnover Rate	66%	93%	91%	57%	43%

¹ Calculated based on average shares outstanding.

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

Notes to Financial Statements

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

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. Futures Contracts: The portfolio uses index futures contracts to a limited extent, with the objective of maintaining full exposure to the stock market while maintaining liquidity. The portfolio may purchase or sell futures contracts to achieve a desired level of investment, whether to accommodate portfolio turnover or cash flows from capital share transactions. The primary risks associated with the use of futures contracts are imperfect correlation between changes in market values of stocks held by the portfolio and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty instead of the clearing broker. To further mitigate counterparty risk, the portfolio trades futures contracts on an exchange, monitors the financial strength of its clearing brokers and clearinghouse, and has entered into clearing agreements with its clearing brokers. The clearinghouse imposes initial margin requirements to secure the portfolio's performance and requires daily settlement of variation margin representing changes in the market value of each contract. Any assets pledged as initial margin for open contracts are noted in the Statement of Net Assets.

Futures contracts are valued at their quoted daily settlement prices. The notional amounts of the contracts are not recorded in the Statement of Net Assets. Fluctuations in the value of the contracts are recorded in the Statement of Net Assets as an asset (liability) and in the Statement of Operations as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as realized futures gains (losses).

During the year ended December 31, 2018, the portfolio's average investments in long and short futures contracts represented 3% and 0% of net assets, respectively, based on the average of the notional amounts at each quarter-end during the period.

3. Federal Income Taxes: The portfolio intends to continue to qualify as a regulated investment company and distribute all of its 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. The investment advisory firm ArrowMark Colorado Holdings, LLC, provides investment advisory services to a portion of the portfolio for a fee calculated at an annual percentage rate of average net assets managed by the advisor. The basic fee of ArrowMark Colorado Holdings, LLC, is subject to quarterly adjustments based on performance relative to the Russell 2500 Growth Index since March 31, 2016.

Vanguard provides investment advisory services to a portion of the portfolio as described below; the portfolio paid Vanguard advisory fees of \$732,000 for the year ended December 31, 2018.

For the year ended December 31, 2018, the aggregate investment advisory fee paid to all advisors represented an effective annual basic rate of 0.13% of the portfolio's average net assets, before an increase of \$140,000 (0.01%) based on performance.

C. In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. 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 \$111,000, 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.

D. Various inputs may be used to determine the value of the portfolio's investments. These inputs are summarized in three broad levels for financial statement purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

Level 1—Quoted prices in active markets for identical securities.

Level 2—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3—Significant unobservable inputs (including the portfolio's own assumptions used to determine the fair value of investments). Any investments valued with significant unobservable inputs are noted on the Statement of Net Assets.

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

Investments	Level 1 (\$000)	Level 2 (\$000)	Level 3 (\$000)
Common Stocks	1,774,952	—	—
Temporary Cash Investments	51,935	19,231	—
Futures Contracts—Assets ¹	273	—	—
Total	1,827,160	19,231	—

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

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

Temporary differences between book-basis and tax-basis components of total distributable earnings (loss) arise when certain items of income, gain, or loss are recognized in different periods for financial statement and tax purposes; these differences will reverse at some time in the future.

The differences are primarily related to the tax deferral of losses on wash sales and the realization of unrealized gains or losses on certain futures contracts. As of period end, the tax-basis components of total distributable earnings (loss) are detailed in the table as follows:

	Amount (\$000)
Undistributed Ordinary Income	52,236
Undistributed Long-Term Gains	180,739
Capital Loss Carryforwards (Non-expiring)	—
Net Unrealized Gains (Losses)	(149,915)

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	1,996,033
Gross Unrealized Appreciation	177,957
Gross Unrealized Depreciation	(327,872)
Net Unrealized Appreciation (Depreciation)	(149,915)

F. During the year ended December 31, 2018, the portfolio purchased \$1,522,435,000 of investment securities and sold \$1,246,453,000 of investment securities, other than temporary cash investments.

G. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2018 Shares (000)	2017 Shares (000)
Issued	25,424	12,208
Issued in Lieu of Cash Distributions	8,894	5,074
Redeemed	(15,398)	(11,169)
Net Increase (Decrease) in Shares Outstanding	18,920	6,113

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 41% of the portfolio's net assets. If the shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio or cause the portfolio to incur higher transaction costs.

H. 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 Small Company Growth Portfolio

Opinion on the Financial Statements

We have audited the accompanying statement of net assets of Small Company Growth 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 custodian and brokers and by agreement to the underlying ownership records of the transfer agent; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

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

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

Special 2018 tax information (unaudited) for corporate shareholders only for Vanguard Small Company Growth 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 \$147,377,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 23.2% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

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The People Who Govern Your Fund

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

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

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

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

Joseph Brennan	Chris D. McIsaac
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

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



P.O. Box 2600
Valley Forge, PA 19482-2600

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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.

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You can review information about your portfolio on the SEC's website, and you can receive copies of this information, for a fee, by sending a request via email addressed to publicinfo@sec.gov.

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