



Annual Report | December 31, 2018

Vanguard Variable Insurance Fund

Moderate Allocation 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%

Moderate Allocation Portfolio

For the 12 months ended December 31, 2018, the Moderate Allocation Portfolio returned -4.94%, a bit below the -4.38% return of its composite benchmark index. Please note that the portfolio returns in Vanguard Variable Insurance Fund (VVIF) are different from those in Vanguard Variable Annuity (and other plans that invest in the fund), which take into account insurance-related expenses.

Stocks of all sizes slid

The Moderate Allocation Portfolio, as a “fund of funds,” seeks to capture the returns of its benchmark by investing in a combination of VVIF portfolios and Vanguard index funds.

It targets an asset allocation of approximately 60% stocks and 40% bonds through these holdings: VVIF Equity Index Portfolio (30%), VVIF Total Bond Market Index Portfolio (28%), Vanguard Total International Stock Index Fund (24%), Vanguard Total International Bond Index Fund (12%), and Vanguard Extended Market Index Fund (6%).

In the U.S. equity markets, large-capitalization stocks surpassed their small-cap counterparts, and growth stocks exceeded value. The Equity Index Portfolio, which focuses on large-caps, returned between -4% and -5%; the Extended Market Index Fund, which concentrates on mid- and small-cap stocks, returned about -9%.

Seven of the 11 sectors in the Equity Index Portfolio recorded negative returns for the period. Financial stocks were among those detracting most from the portfolio’s performance; returns for this sector were in the negative double digits. Although interest rates have risen from their rock-bottom lows in recent years, moderated expectations for aggressive hikes have curbed the appeal of banks and other financial companies that depend on interest.

Industrials, energy, and materials also posted double-digit declines. Falling oil prices set back energy firms. The only sectors that managed positive results were health care, information technology, consumer discretionary, and utilities. Utility stocks tend to be seen as a safe haven when the broad market turns more volatile.

Vanguard Total International Stock Index Fund returned about -14% as emerging markets stocks slightly outperformed their counterparts in the Pacific region and Europe. From a currency standpoint, the U.S. dollar strengthened against all of the world’s major currencies aside from the Japanese yen. The dollar’s upturn curbed returns from most international holdings.

Bond markets saw volatility despite solid fundamentals

The Total Bond Market Index Portfolio, which represents the overall U.S. bond market, returned -0.21%. Despite a solid macroeconomic backdrop, the markets experienced patches of volatility. Escalating trade tensions (especially with China), rising interest rates, and the pace of growth at home and abroad all led to investor skittishness at times.

The yield of the benchmark 10-year Treasury note closed December at 2.68%, up from 2.41% a year earlier. Mortgage-backed securities outpaced Treasuries and corporate bonds; corporate bonds fared worst, returning -2.50%.

Vanguard Total International Bond Index Fund returned about 3% as bonds of higher credit quality with longer maturities performed better than other foreign bonds.

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 typical portfolio's expenses are expressed as a percentage of its average net assets. The Moderate Allocation Portfolio has no direct expenses, but bears its proportionate share of the expenses of the underlying funds in which it invests. These indirect expenses make up the acquired fund fees and expenses, also expressed as a percentage of average net assets. 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 costs were calculated using the acquired fund fees and expenses for the Moderate Allocation Portfolio.

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. The portfolio's expense figure 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
Moderate Allocation Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$950.43	\$0.59
Based on Hypothetical 5% Yearly Return	1,000.00	1,024.60	0.61

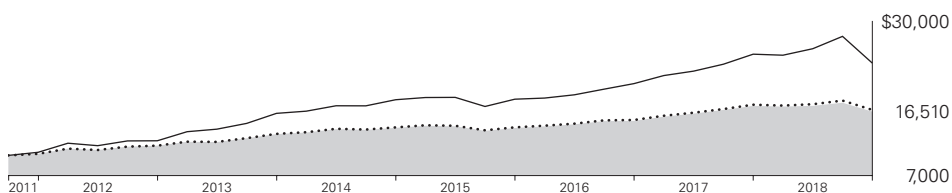
¹ The calculations are based on the Moderate Allocation Portfolio's acquired fund fees and expenses for the most recent six-month period. The Moderate Allocation Portfolio's annualized expense figure for that period is 0.12%. The dollar amounts shown as "Expenses Paid" are equal to the annualized average weighted expense ratio for the underlying funds, 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 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: October 19, 2011–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 Since Inception ¹	7.21%	
— Moderate Allocation Portfolio	-4.94%	4.63%	7.21%	\$16,510
..... Moderate Allocation Composite Index ²	-4.38	4.90	7.44	16,769
— Dow Jones U.S. Total Stock Market Float Adjusted Index	-5.30	7.86	12.75	23,724

¹ October 19, 2011.

² Weighted 42% S&P Total Market Index, 32% Bloomberg Barclays U.S. Aggregate Float Adjusted Index, 18% FTSE Global All Cap ex US Index, and 8% Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged) as of June 3, 2013. Previously, the composite was weighted 42% S&P Total Market Index, 40% Bloomberg Barclays U.S. Aggregate Float Adjusted Index, and 18% MSCI ACWI ex USA IMI Index.

See Financial Highlights for dividend and capital gains information.

Underlying Vanguard Funds

As of December 31, 2018

Vanguard Variable Insurance Fund— Equity Index Portfolio	30.3%
Vanguard Variable Insurance Fund— Total Bond Market Index Fund	27.4
Vanguard Total International Stock Index Fund Admiral Shares	24.3
Vanguard Total International Bond Index Fund Admiral Shares	12.1
Vanguard Extended Market Index Fund Admiral Shares	5.9

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)
Investment Companies (100.0%)		
U.S. Stock Funds (36.2%)		
Vanguard Variable Insurance Fund—Equity Index Portfolio	3,189,082	121,281
Vanguard Extended Market Index Admiral Shares	310,384	23,496
		<u>144,777</u>
International Stock Fund (24.3%)		
Vanguard Total International Stock Index Fund Admiral Shares	3,833,227	97,249
U.S. Bond Fund (27.4%)		
Vanguard Variable Insurance Fund—Total Bond Market Index Portfolio	9,502,612	109,660
International Bond Fund (12.1%)		
Vanguard Total International Bond Index Fund Admiral Shares	2,220,121	48,154
Total Investment Companies (Cost \$404,447)		399,840
Temporary Cash Investment (0.0%)		
Money Market Fund (0.0%)		
¹ Vanguard Market Liquidity Fund, 2.530% (Cost \$69)	690	69
Total Investments (100.0%) (Cost \$404,516)		399,909
Other Assets and Liabilities (0.0%)		
Other Assets		315
Liabilities		(472)
		<u>(157)</u>
Net Assets (100%)		
Applicable to 15,108,827 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)		399,752
Net Asset Value Per Share		\$26.46

	Amount (\$000)
Statement of Assets and Liabilities	
Assets	
Investments in Securities, at Value—Affiliated Funds	399,909
Receivables for Investment Securities Sold	315
Total Assets	400,224
Liabilities	
Payables for Capital Shares Redeemed	472
Total Liabilities	472
Net Assets	399,752

At December 31, 2018, net assets consisted of:

	Amount (\$000)
Paid-in Capital	384,491
Total Distributable Earnings (Loss)	15,261
Net Assets	399,752

• See Note A in Notes to Financial Statements.

¹ Affiliated fund available only to Vanguard funds and certain trusts and accounts managed by Vanguard. Rate shown is the 7-day yield.

Statement of Operations

	Year Ended December 31, 2018
	(\$000)
Investment Income	
Income	
Income Distributions Received from Affiliated Funds	9,377
Net Investment Income—Note B	9,377
Realized Net Gain (Loss)	
Capital Gain Distributions Received from Affiliated Funds	2,190
Affiliated Investment Securities Sold	8,315
Realized Net Gain (Loss)	10,505
Change in Unrealized Appreciation (Depreciation) from Affiliated Funds	(41,100)
Net Increase (Decrease) in Net Assets Resulting from Operations	(21,218)

Statement of Changes in Net Assets

	Year Ended December 31,	
	2018	2017
	(\$000)	(\$000)
Increase (Decrease) in Net Assets		
Operations		
Net Investment Income	9,377	8,087
Realized Net Gain (Loss)	10,505	13,095
Change in Unrealized Appreciation (Depreciation)	(41,100)	25,632
Net Increase (Decrease) in Net Assets Resulting from Operations	(21,218)	46,814
Distributions		
Net Investment Income	(7,930)	(6,291)
Realized Capital Gain ¹	(13,085)	(6,972)
Total Distributions	(21,015)	(13,263)
Capital Share Transactions		
Issued	77,289	90,702
Issued in Lieu of Cash Distributions	21,015	13,262
Redeemed	(50,345)	(37,834)
Net Increase (Decrease) from Capital Share Transactions	47,959	66,130
Total Increase (Decrease)	5,726	99,681
Net Assets		
Beginning of Period	394,026	294,345
End of Period	399,752	394,026

¹ Includes fiscal 2018 and 2017 short-term gain distributions totaling \$223,000 and \$582,000, 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	\$29.35	\$26.67	\$25.80	\$26.63	\$25.72
Investment Operations					
Net Investment Income ¹	.634	.657	.581	.499	.521
Capital Gain Distributions Received	.148	.309	.182	.282	.172
Net Realized and Unrealized Gain (Loss) on Investments	(2.142)	2.863	1.112	(.809)	1.066
Total from Investment Operations	(1.360)	3.829	1.875	(.028)	1.759
Distributions					
Dividends from Net Investment Income	(.577)	(.545)	(.439)	(.417)	(.370)
Distributions from Realized Capital Gains	(.953)	(.604)	(.566)	(.385)	(.479)
Total Distributions	(1.530)	(1.149)	(1.005)	(.802)	(.849)
Net Asset Value, End of Period	\$26.46	\$29.35	\$26.67	\$25.80	\$26.63
Total Return	-4.94%	14.80%	7.55%	-0.16%	7.03%
Ratios/Supplemental Data					
Net Assets, End of Period (Millions)	\$400	\$394	\$294	\$257	\$198
Ratio of Total Expenses to Average Net Assets	—	—	—	—	—
Acquired Fund Fees and Expenses	0.12%	0.14%	0.16%	0.16%	0.19%
Ratio of Net Investment Income to Average Net Assets	2.25%	2.36%	2.25%	1.89%	2.00%
Portfolio Turnover Rate	20%	21%	14%	12%	9%

¹ Calculated based on average shares outstanding.

Notes to Financial Statements

Moderate Allocation 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 follows a balanced investment strategy by investing in selected Vanguard funds and portfolios to achieve its targeted allocation of assets to U.S. and international stocks, and U.S. and international bonds. Financial statements and other information about each underlying fund and portfolio are available on vanguard.com. 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:** Investments are valued at the net asset value of each underlying Vanguard fund determined as of the close of the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date.

2. **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.

3. **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.

4. **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 borne by the funds in which the portfolio invests (see Note B). 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.

5. **Other:** Income and capital gain distributions received are recorded on the ex-dividend date. 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. The FSA provides that expenses otherwise allocable to Vanguard funds-of-funds may be reduced or eliminated to the extent of savings realized by the underlying Vanguard funds by virtue of being part of a fund-of-funds. Accordingly, all expenses for services provided by Vanguard to the portfolio and all other expenses incurred by the portfolio during the period ended December 31, 2018, were borne by the underlying Vanguard funds in which the portfolio invests. The portfolio's trustees and officers are also trustees and officers, respectively, of the underlying Vanguard funds, as well as 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.

At December 31, 2018, 100% of the market value of the portfolio's investments was determined based on Level 1 inputs.

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. 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	9,415
Undistributed Long-term Gains	10,453
Capital Loss Carryforwards (Non-expiring)	—
Net Unrealized Gains (Losses)	(4,607)

As of December 31, 2018, gross unrealized appreciation and depreciation for investments based on cost for U.S. federal income tax purposes were as follows:

	Amount (\$000)
Tax Cost	404,516
Gross Unrealized Appreciation	11,622
Gross Unrealized Depreciation	(16,229)
Net Unrealized Appreciation (Depreciation)	(4,607)

E. Capital shares issued and redeemed were:

	Year Ended December 31,	
	2018 Shares (000)	2017 Shares (000)
Issued	2,733	3,251
Issued in Lieu of Cash Distributions	748	498
Redeemed	(1,799)	(1,359)
Net Increase (Decrease) in Shares Outstanding	1,682	2,390

F. Transactions during the period in affiliated underlying Vanguard funds were as follows:

	Dec. 31, 2017 Market Value (\$000)	Current Period Transactions						Dec. 31, 2018 Market Value (\$000)
		Purchases at Cost (\$000)	Proceeds from Securities Sold (\$000)	Realized Net Gain (Loss) (\$000)	Change in Unrealized App. (Dep.) (\$000)	Income (\$000)	Capital Gain Distributions Received (\$000)	
Vanguard Market Liquidity Fund	—	NA ¹	NA ¹	—	—	2	—	69
Vanguard Extended Market	24,724	2,143	672	200	(2,899)	374	—	23,496
Vanguard Total International Bond Index Fund	47,016	7,695	6,542	483	(498)	1,469	—	48,154
Vanguard Total International Stock Index Fund	93,439	25,531	3,439	446	(18,728)	2,829	—	97,249
Vanguard Variable Insurance Fund— Equity Index Portfolio	117,180	40,173	27,334	7,302	(16,040)	2,017	1,963	121,281
Vanguard Variable Insurance Fund— Total Bond Market Index Portfolio	111,545	45,474	44,308	(116)	(2,935)	2,686	227	109,660
Total	393,904	121,016	82,295	8,315	(41,100)	9,377	2,190	399,909

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

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 Moderate Allocation Portfolio

Opinion on the Financial Statements

We have audited the accompanying statement of net assets and statement of assets and liabilities of Moderate Allocation 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 transfer agent. 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.

Special 2018 tax information (unaudited) for corporate shareholders only for Moderate Allocation 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 \$12,862,000 as capital gain dividends (20% rate gain distributions) to shareholders during the fiscal year.

For corporate shareholders, 22.8% of investment income (dividend income plus short-term gains, if any) qualifies for the dividends-received deduction.

The portfolio designates to shareholders foreign source income of \$4,286,000 and foreign taxes paid of \$230,000. Shareholders will receive more detailed information with their Form 1099-DIV in January 2019 to determine the calendar-year amounts to be included on their 2018 tax returns.

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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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