

Semiannual Report | June 30, 2022

Vanguard Variable Insurance Funds

Capital Growth Portfolio

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About Your Portfolio's Expenses

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

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

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

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

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

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

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

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

You can find more information about the portfolio's expenses, including annual expense ratios, in the Financial Statements section of this report. For additional information on operating expenses and other shareholder costs, please refer to your portfolio's current prospectus.

Six Months Ended June 30, 2022

| Capital Growth Portfolio | Beginning Account Value 12/31/2021 | Ending Account Value 6/30/2022 | Expenses Paid During Period |
|--|--|--------------------------------------|-----------------------------------|
| Based on Actual Portfolio Return | \$1,000.00 | \$ 823.40 | \$1.54 |
| Based on Hypothetical 5% Yearly Return | 1,000.00 | 1,023.11 | 1.71 |

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 0.34%. The dollar amounts shown as "Expenses Paid" are equal to the annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (181/365).

Capital Growth Portfolio

Portfolio Allocation

As of June 30, 2022

| | |
|------------------------|------|
| Communication Services | 6.7% |
| Consumer Discretionary | 11.4 |
| Consumer Staples | 0.1 |
| Energy | 2.1 |
| Financials | 7.3 |
| Health Care | 30.6 |
| Industrials | 13.3 |
| Information Technology | 27.2 |
| Materials | 1.3 |

The table reflects the portfolio's investments, except for short-term investments. 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.

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 (unaudited)

Schedule of Investments

As of June 30, 2022

The portfolio files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT. The portfolio's Form N-PORT reports are available on the SEC's website at www.sec.gov.

| | Shares | Market Value* (\$000) | | Shares | Market Value* (\$000) | | Shares | Market Value* (\$000) |
|---------------------------------------|---------|--------------------------|---------------------------------------|--------|--------------------------|---|--------|--------------------------|
| Common Stocks (96.7%) | | | Health Care (29.6%) | | | Intuit Inc. | | |
| Communication Services (6.5%) | | | Eli Lilly & Co. | | | 32,300 | | |
| * Alphabet Inc. Class A | 15,000 | 32,689 | Amgen Inc. | | | 362,350 | | |
| * Baidu Inc. ADR | 125,600 | 18,680 | Biogen Inc. | | | 88,000 | | |
| * Alphabet Inc. Class C | 8,370 | 18,309 | AstraZeneca plc ADR | | | 1,414,200 | | |
| * Walt Disney Co. | 92,300 | 8,713 | Thermo Fisher Scientific Inc. | | | 723,050 | | |
| * Activision Blizzard Inc. | 91,300 | 7,109 | Boston Scientific Corp. | | | 273,050 | | |
| * Charter Communications Inc. Class A | 5,400 | 2,530 | Bristol-Myers Squibb Co. | | | 65,600 | | |
| * Meta Platforms Inc. Class A | 12,500 | 2,016 | Novartis AG ADR | | | 44,100 | | |
| * Live Nation Entertainment Inc. | 12,800 | 1,057 | Roche Holding AG | | | 48,400 | | |
| | | 91,103 | BioMarin Pharmaceutical Inc. | | | 37,800 | | |
| Consumer Discretionary (11.0%) | | | Abbott Laboratories | | | 117,600 | | |
| * Tesla Inc. | 49,800 | 33,536 | Elanco Animal Health Inc. (XNYS) | | | 51,300 | | |
| * Alibaba Group Holding Ltd. ADR | 233,100 | 26,499 | CVS Health Corp. | | | 41,700 | | |
| * Sony Group Corp. ADR | 322,400 | 26,363 | Zimmer Biomet Holdings Inc. | | | 96,250 | | |
| * Mattel Inc. | 615,200 | 13,738 | BeiGene Ltd. ADR | | | 31,800 | | |
| * Ross Stores Inc. | 182,800 | 12,838 | Medtronic plc | | | 31,800 | | |
| * Whirlpool Corp. | 70,900 | 10,980 | Agilent Technologies Inc. | | | 2,149 | | |
| * TJX Cos. Inc. | 192,500 | 10,751 | IQVIA Holdings Inc. | | | 24,000 | | |
| * Amazon.com Inc. | 82,800 | 8,794 | Stryker Corp. | | | 1,676 | | |
| * Bath & Body Works Inc. | 91,100 | 2,452 | | | | 414,026 | | |
| * Dollar Tree Inc. | 14,800 | 2,307 | Industrials (12.8%) | | | Materials (1.3%) | | |
| * Royal Caribbean Cruises Ltd. | 42,600 | 1,487 | FedEx Corp. | | | Albemarle Corp. | | |
| * eBay Inc. | 35,400 | 1,475 | * Southwest Airlines Co. | | | 32,100 | | |
| * Carnival Corp. | 158,300 | 1,369 | Siemens AG (Registered) | | | 702,066 | | |
| * Marriott International Inc. Class A | 8,400 | 1,143 | Union Pacific Corp. | | | 65,500 | | |
| | | 153,732 | * United Airlines Holdings Inc. | | | 6,300 | | |
| Consumer Staples (0.1%) | | | Airbus SE | | | 1,811 | | |
| Sysco Corp. | 22,900 | 1,940 | Caterpillar Inc. | | | 30,700 | | |
| Energy (2.1%) | | | * American Airlines Group Inc. | | | 18,066 | | |
| Hess Corp. | 134,700 | 14,270 | United Parcel Service Inc. Class B | | | 932 | | |
| Pioneer Natural Resources Co. | 48,500 | 10,819 | * Delta Air Lines Inc. | | | 17,837 | | |
| EOG Resources Inc. | 32,700 | 3,612 | Textron Inc. | | | Total Common Stocks (Cost \$919,358) | | |
| | | 28,701 | * Alaska Air Group Inc. | | | 1,353,350 | | |
| Financials (7.0%) | | | * TransDigm Group Inc. | | | Temporary Cash Investments (3.2%) | | |
| Wells Fargo & Co. | 684,100 | 26,796 | Deere & Co. | | | Money Market Fund (3.2%) | | |
| JPMorgan Chase & Co. | 143,200 | 16,126 | Carrier Global Corp. | | | ¹ Vanguard Market Liquidity Fund, 1.417% (Cost \$45,254) | | |
| Marsh & McLennan Cos. Inc. | 95,000 | 14,749 | General Dynamics Corp. | | | 452,560 | | |
| Bank of America Corp. | 380,300 | 11,839 | AMETEK Inc. | | | Total Investments (99.9%) (Cost \$964,612) | | |
| Charles Schwab Corp. | 163,500 | 10,330 | CSX Corp. | | | 1,398,593 | | |
| Raymond James Financial Inc. | 96,350 | 8,614 | Otis Worldwide Corp. | | | Other Assets and Liabilities—Net (0.1%) | | |
| Progressive Corp. | 33,600 | 3,907 | | | | 1,391 | | |
| US Bancorp | 61,500 | 2,830 | Information Technology (26.3%) | | | Net Assets (100%) | | |
| CME Group Inc. | 8,500 | 1,740 | Microsoft Corp. | | | 1,399,984 | | |
| Citigroup Inc. | 31,700 | 1,458 | * Texas Instruments Inc. | | | | | |
| | | 98,389 | Adobe Inc. | | | | | |
| | | | Micron Technology Inc. | | | | | |
| | | | KLA Corp. | | | | | |
| | | | Intel Corp. | | | | | |
| | | | NetApp Inc. | | | | | |
| | | | Oracle Corp. | | | | | |
| | | | | | | | | |

Cost is in \$000.

• See Note A in Notes to Financial Statements.

* Non-income-producing security.

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

ADR—American Depositary Receipt.

Statement of Assets and Liabilities

As of June 30, 2022

| (\$000s, except shares and per-share amounts) | Amount |
|---|------------------|
| Assets | |
| Investments in Securities, at Value | |
| Unaffiliated Issuers (Cost \$919,358) | 1,353,350 |
| Affiliated Issuers (Cost \$45,254) | 45,243 |
| Total Investments in Securities | 1,398,593 |
| Investment in Vanguard | 55 |
| Cash | 58 |
| Receivables for Accrued Income | 1,806 |
| Receivables for Capital Shares Issued | 323 |
| Total Assets | 1,400,835 |
| Liabilities | |
| Payables for Investment Securities Purchased | 43 |
| Payables to Investment Advisor | 567 |
| Payables for Capital Shares Redeemed | 130 |
| Payables to Vanguard | 111 |
| Total Liabilities | 851 |
| Net Assets | 1,399,984 |

At June 30, 2022, net assets consisted of:

| | |
|-------------------------------------|------------------|
| Paid-in Capital | 907,589 |
| Total Distributable Earnings (Loss) | 492,395 |
| Net Assets | 1,399,984 |

| | |
|---|----------------|
| Net Assets | |
| Applicable to 37,026,153 outstanding \$.001 par value shares of beneficial interest (unlimited authorization) | 1,399,984 |
| Net Asset Value Per Share | \$37.81 |

Statement of Operations

| | Six Months Ended June 30, 2022 |
|--|-----------------------------------|
| | (\$000) |
| Investment Income | |
| Income | |
| Dividends ¹ | 11,539 |
| Interest ² | 118 |
| Securities Lending—Net | 5 |
| Total Income | 11,662 |
| Expenses | |
| Investment Advisory Fees—Note B | 1,190 |
| The Vanguard Group—Note C | |
| Management and Administrative | 1,396 |
| Marketing and Distribution | 54 |
| Custodian Fees | 13 |
| Shareholders' Reports | 25 |
| Trustees' Fees and Expenses | — |
| Other Expenses | 4 |
| Total Expenses | 2,682 |
| Net Investment Income | 8,980 |
| Realized Net Gain (Loss) | |
| Investment Securities Sold ² | 50,629 |
| Foreign Currencies | 2 |
| Realized Net Gain (Loss) | 50,631 |
| Change in Unrealized Appreciation (Depreciation) | |
| Investment Securities ² | (365,109) |
| Foreign Currencies | (24) |
| Change in Unrealized Appreciation (Depreciation) | (365,133) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | (305,522) |

¹ Dividends are net of foreign withholding taxes of \$385,000.

² Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the portfolio were \$118,000, (\$4,000), and (\$6,000), respectively. Purchases and sales are for temporary cash investment purposes.

Statement of Changes in Net Assets

| | Six Months Ended June 30, 2022 | Year Ended December 31, 2021 |
|---|--------------------------------------|------------------------------------|
| | (\$000) | (\$000) |
| Increase (Decrease) in Net Assets | | |
| Operations | | |
| Net Investment Income | 8,980 | 13,998 |
| Realized Net Gain (Loss) | 50,631 | 503,946 |
| Change in Unrealized Appreciation (Depreciation) | (365,133) | (120,020) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | (305,522) | 397,924 |
| Distributions | | |
| Total Distributions | (157,677) | (175,523) |
| Capital Share Transactions | | |
| Issued | 82,876 | 196,815 |
| Issued in Lieu of Cash Distributions | 157,677 | 175,523 |
| Redeemed | (152,388) | (912,117) |
| Net Increase (Decrease) from Capital Share Transactions | 88,165 | (539,779) |
| Total Increase (Decrease) | (375,034) | (317,378) |
| Net Assets | | |
| Beginning of Period | 1,775,018 | 2,092,396 |
| End of Period | 1,399,984 | 1,775,018 |

Financial Highlights

| For a Share Outstanding Throughout Each Period | Six Months Ended June 30, | Year Ended December 31, | | | | |
|--|---------------------------------|-------------------------|----------------|----------------|----------------|----------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
| Net Asset Value, Beginning of Period | \$50.69 | \$45.21 | \$40.76 | \$33.49 | \$35.12 | \$28.36 |
| Investment Operations | | | | | | |
| Net Investment Income ¹ | .249 | .356 | .478 | .503 | .429 | .366 |
| Net Realized and Unrealized Gain (Loss) on Investments | (8.525) | 8.959 | 5.768 | 8.182 | (.754) | 7.580 |
| Total from Investment Operations | (8.276) | 9.315 | 6.246 | 8.685 | (.325) | 7.946 |
| Distributions | | | | | | |
| Dividends from Net Investment Income | (.390) | (.480) | (.574) | (.411) | (.315) | (.371) |
| Distributions from Realized Capital Gains | (4.214) | (3.355) | (1.222) | (1.004) | (.990) | (.815) |
| Total Distributions | (4.604) | (3.835) | (1.796) | (1.415) | (1.305) | (1.186) |
| Net Asset Value, End of Period | \$37.81 | \$50.69 | \$45.21 | \$40.76 | \$33.49 | \$35.12 |
| Total Return | -17.66% | 21.54% | 17.47% | 26.50% | -1.18% | 28.83% |
| Ratios/Supplemental Data | | | | | | |
| Net Assets, End of Period (Millions) | \$1,400 | \$1,775 | \$2,092 | \$1,976 | \$1,596 | \$1,416 |
| Ratio of Total Expenses to Average Net Assets | 0.34% | 0.34% | 0.34% | 0.34% | 0.34% | 0.36% |
| Ratio of Net Investment Income to Average Net Assets | 1.14% | 0.73% | 1.25% | 1.37% | 1.18% | 1.16% |
| Portfolio Turnover Rate | 1% | 5% ² | 6% | 5% | 6% | 7% |

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

1 Calculated based on average shares outstanding.

2 Excludes the value of portfolio securities received or delivered as a result of in-kind purchases or redemptions of the portfolio's capital shares.

Notes to Financial Statements

The Capital 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.

Significant market disruptions, such as those caused by pandemics (e.g., COVID-19 pandemic), natural or environmental disasters, war (e.g., Russia's invasion of Ukraine), acts of terrorism, or other events, can adversely affect local and global markets and normal market operations. Any such disruptions could have an adverse impact on the value of the portfolio's investments and portfolio performance.

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.

2. **Foreign Currency:** Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates obtained from an independent third party as of the portfolio's pricing time on the valuation date. Realized gains (losses) and unrealized appreciation (depreciation) on investment securities include the effects of changes in exchange rates since the securities were purchased, combined with the effects of changes in security prices. Fluctuations in the value of other assets and liabilities resulting from changes in exchange rates are recorded as unrealized foreign currency gains (losses) until the assets or liabilities are settled in cash, at which time they are recorded as realized foreign currency gains (losses).

3. **Federal Income Taxes:** The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. The portfolio's tax returns are open to examination by the relevant tax authorities until expiration of the applicable statute of limitations, which is generally three years after the filing of the tax return. Management has analyzed the portfolio's tax positions taken for all open federal and state income tax years, and has concluded that no provision for 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 at the fiscal year-end 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 Assets and Liabilities for the return of the collateral, during the period the securities are on loan. Collateral investments in Vanguard Market Liquidity Fund are subject to market appreciation or depreciation. 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 Facilities and Interfund Lending Program:** The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$4.4 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement and an uncommitted credit facility provided by Vanguard. Both facilities may be renewed annually. Each fund is individually liable for its borrowings, if any, under the credit facilities. Borrowings may be utilized for temporary or emergency purposes and are subject to the portfolio's regulatory and contractual borrowing restrictions. With respect to the committed credit facility, the participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn committed amount of the facility, which 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 either facility bear interest at an agreed-upon spread plus the higher of the federal funds effective rate, the overnight bank funding rate, or the Daily Simple Secured Overnight Financing Rate inclusive of an additional agreed-upon spread. However, borrowings under the uncommitted credit facility may bear interest based upon an alternate rate agreed to by the portfolio and Vanguard.

In accordance with an exemptive order (the "Order") from the SEC, the portfolio may participate in a joint lending and borrowing program that allows registered open-end Vanguard funds to borrow money from and lend money to each other for temporary or emergency purposes (the "Interfund Lending Program"), subject to compliance with the terms and conditions of the Order, and to the extent permitted by the portfolio's investment objective and investment policies. Interfund loans and borrowings normally extend overnight but can have a maximum duration of seven days. Loans may be called on one business day's notice. The interest rate to be charged is governed by the conditions of the Order and internal procedures adopted by the board of trustees. The board of trustees is responsible for overseeing the Interfund Lending Program.

For the six months ended June 30, 2022, the portfolio did not utilize the credit facilities or the Interfund Lending Program.

7. **Other:** Dividend income is recorded on the ex-dividend date. Non-cash dividends included in income, if any, are recorded at the fair value of the securities received. Interest income includes income distributions received from Vanguard Market Liquidity Fund and is accrued daily. 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. PRIMECAP Management Company provides investment advisory services to the portfolio for a fee calculated at an annual percentage rate of average net assets. For the six months ended June 30, 2022, the investment advisory fee represented an effective annual basic rate of 0.15% of the portfolio's average net assets.

C. In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio corporate management, administrative, marketing, 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 and are generally settled twice a month.

Upon the request of Vanguard, the portfolio may invest up to 0.40% of its net assets as capital in Vanguard. At June 30, 2022, the portfolio had contributed to Vanguard capital in the amount of \$55,000, representing less than 0.01% of the portfolio's net assets and 0.02% of Vanguard's capital received pursuant to the FSA. 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 Schedule of Investments.

Capital Growth Portfolio

The following table summarizes the market value of the portfolio's investments as of June 30, 2022, based on the inputs used to value them:

| | Level 1 (\$000) | Level 2 (\$000) | Level 3 (\$000) | Total (\$000) |
|----------------------------|--------------------|--------------------|--------------------|------------------|
| Investments | | | | |
| Assets | | | | |
| Common Stocks | 1,305,657 | 47,693 | — | 1,353,350 |
| Temporary Cash Investments | 45,243 | — | — | 45,243 |
| Total | 1,350,900 | 47,693 | — | 1,398,593 |

E. As of June 30, 2022, gross unrealized appreciation and depreciation for investments based on cost for U.S. federal income tax purposes were as follows:

| | Amount (\$000) |
|--|-------------------|
| Tax Cost | 964,612 |
| Gross Unrealized Appreciation | 534,484 |
| Gross Unrealized Depreciation | (100,503) |
| Net Unrealized Appreciation (Depreciation) | 433,981 |

F. During the six months ended June 30, 2022, the portfolio purchased \$20,050,000 of investment securities and sold \$78,523,000 of investment securities, other than temporary cash investments.

G. Capital shares issued and redeemed were:

| | Six Months Ended June 30, 2022 | Year Ended December 31, 2021 |
|---|---|------------------------------------|
| | Shares (000) | Shares (000) |
| Issued | 1,920 | 4,068 |
| Issued in Lieu of Cash Distributions | 3,557 | 3,846 |
| Redeemed | (3,467) | (19,180) |
| Net Increase (Decrease) in Shares Outstanding | 2,010 | (11,266) |

At June 30, 2022, 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 56% of the portfolio's net assets. If this shareholder were to redeem its investment in the portfolio, the redemption might result in an increase in the portfolio's expense ratio, cause the portfolio to incur higher transaction costs, or lead to the realization of taxable capital gains.

H. Management has determined that no events or transactions occurred subsequent to June 30, 2022, that would require recognition or disclosure in these financial statements.

Trustees Approve Advisory Arrangement

The board of trustees of Vanguard Variable Insurance Funds Capital Growth Portfolio has renewed the portfolio's investment advisory arrangement with PRIMECAP Management Company (PRIMECAP). The board determined that renewing the portfolio's advisory arrangement was in the best interests of the portfolio and its shareholders.

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

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

In addition, the board received periodic reports throughout the year, which included information about the portfolio's performance relative to its peers and benchmark, as applicable, and updates, as needed, on the Portfolio Review Department's ongoing assessment of the advisor.

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

Nature, extent, and quality of services

The board reviewed the quality of the portfolio's investment management services over both the short and long term, and took into account the organizational depth and stability of the advisor. The board considered that PRIMECAP, founded in 1983, is recognized for its long-term approach to equity investing. Five experienced portfolio managers are responsible for separate subportfolios, and each portfolio manager employs a fundamental, research-driven approach in seeking to identify companies with long-term growth potential that the market has yet to appreciate. The multi-counselor approach that the advisor employs is designed to emphasize individual decision-making and enable the portfolio managers to invest only in their highest-conviction ideas. PRIMECAP's fundamental research focuses on developing opinions independent from Wall Street's consensus and maintaining a long-term horizon. The firm has managed the portfolio since its inception in 2002.

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

Investment performance

The board considered the short- and long-term performance of the portfolio, including any periods of outperformance or underperformance compared with a relevant benchmark index and peer group. The board concluded that the performance was such that the advisory arrangement should continue.

Cost

The board concluded that the portfolio's expense ratio was below the average expense ratio charged by funds in its peer group and that the portfolio's advisory fee rate was also below the peer-group average.

The board did not consider the profitability of PRIMECAP in determining whether to approve the advisory fee, because PRIMECAP is independent of Vanguard and the advisory fee is the result of arm's-length negotiations.

The benefit of economies of scale

The board concluded that the portfolio realizes economies of scale that are built into the negotiated advisory fee rate without any need for asset-level breakpoints. The advisory fee rate is very low relative to the average rate paid by funds in the portfolio's peer group.

The board will consider whether to renew the advisory arrangement again after a one-year period.

Liquidity Risk Management

Vanguard funds (except for the money market funds) have adopted and implemented a written liquidity risk management program (the "Program") as required by Rule 22e-4 under the Investment Company Act of 1940. Rule 22e-4 requires that each fund adopt a program that is reasonably designed to assess and manage the fund's liquidity risk, which is the risk that the fund could not meet redemption requests without significant dilution of remaining investors' interests in the fund.

Assessment and management of a fund's liquidity risk under the Program take into consideration certain factors, such as the fund's investment strategy and the liquidity of its portfolio investments during normal and reasonably foreseeable stressed conditions, its short- and long-term cash-flow projections during both normal and reasonably foreseeable stressed conditions, and its cash and cash-equivalent holdings and access to other funding sources. As required by the rule, the Program includes policies and procedures for classification of fund portfolio holdings in four liquidity categories, maintaining certain levels of highly liquid investments, and limiting holdings of illiquid investments.

The board of trustees of Vanguard Variable Insurance Funds approved the appointment of liquidity risk management program administrators responsible for administering the Capital Growth Portfolio's Program and for carrying out the specific responsibilities set forth in the Program, including reporting to the board on at least an annual basis regarding the Program's operation, its adequacy, and the effectiveness of its implementation for the past year (the "Program Administrator Report"). The board has reviewed the Program Administrator Report covering the period from January 1, 2021, through December 31, 2021 (the "Review Period"). The Program Administrator Report stated that during the Review Period the Program operated and was implemented effectively to manage the portfolio's liquidity risk.

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