Vanguard

Semiannual Report | June 30, 2022

Vanguard Variable Insurance Funds

Diversified Value Portfolio

Contents

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

Diversified Value 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	$ 840.90	$1.32
Based on Hypothetical 5% Yearly Return	1,000.00	1,023.36	1.45

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 0.29%. 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).

Diversified Value Portfolio

Portfolio Allocation
As of June 30, 2022

Communication Services	8.3%
Consumer Discretionary	10.2
Consumer Staples	5.2
Energy	6.9
Financials	18.4
Health Care	16.5
Industrials	10.5
Information Technology	20.4
Materials	1.1
Real Estate	1.4
Utilities	1.1

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

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)
	Common Stocks (94.2%)		
	Communication Services (7.8%)		
*	Alphabet Inc. Class A	21,278	46,370
	Comcast Corp. Class A	189,338	7,430
*	Warner Bros Discovery Inc.	541,179	7,263
*	Walt Disney Co.	62,711	5,920
	Vodafone Group plc ADR	368,149	5,736
	News Corp. Class A	258,744	4,031
	Paramount Global Inc. Class B	89,100	2,199
	Omnicom Group Inc.	29,391	1,869
			80,818
	Consumer Discretionary (9.6%)		
*	Amazon.com Inc.	227,440	24,156
	McDonald's Corp.	57,753	14,258
*	General Motors Co.	343,983	10,925
	Magna International Inc.	142,575	7,827
	Home Depot Inc.	26,725	7,330
	Dollar General Corp.	29,082	7,138
*	Aptiv plc	75,250	6,703
	Lowe's Cos. Inc.	37,788	6,600
	NIKE Inc. Class B	47,090	4,813
	Starbucks Corp.	55,980	4,276
*	Booking Holdings Inc.	1,800	3,148
*	Adient plc	41,837	1,240
*	Goodyear Tire & Rubber Co.	109,808	1,176
			99,590
	Consumer Staples (4.9%)		
	Coca-Cola Co.	216,386	13,613
	Procter & Gamble Co.	92,970	13,368
	Sysco Corp.	113,270	9,595
	Unilever plc ADR	165,293	7,576
	Mondelez International Inc. Class A	58,482	3,631
	Estee Lauder Cos. Inc. Class A	11,867	3,022
			50,805
	Energy (6.5%)		
	ConocoPhillips	189,278	16,999
	Marathon Oil Corp.	385,487	8,666
	APA Corp.	231,253	8,071
	Shell plc ADR	141,036	7,375
	NOV Inc.	379,315	6,414
	Halliburton Co.	175,779	5,513
	Hess Corp.	44,312	4,694
	Murphy Oil Corp.	105,040	3,171
	Cenovus Energy Inc.	143,100	2,720
	Baker Hughes Co. Class A	67,300	1,943
	Schlumberger NV	50,500	1,806
			67,372
	Financials (17.4%)		
	Wells Fargo & Co.	548,764	21,495
	Citigroup Inc.	433,853	19,953
	Bank of America Corp.	633,529	19,722
	Intercontinental Exchange Inc.	190,339	17,899
	American International Group Inc.	298,802	15,278
	American Express Co.	108,349	15,019
	Marsh & McLennan Cos. Inc.	74,233	11,525
	PNC Financial Services Group Inc.	69,607	10,982
	Goldman Sachs Group Inc.	30,690	9,115
	Bank of New York Mellon Corp.	211,734	8,831
	Hartford Financial Services Group Inc.	106,400	6,962
	Commerce Bancshares Inc.	79,493	5,219
	First Citizens BancShares Inc. Class A	7,772	5,081
	Citizens Financial Group Inc.	118,961	4,246
	Travelers Cos. Inc.	19,182	3,244
	Credit Suisse Group AG ADR	484,400	2,747
	Equitable Holdings Inc.	65,264	1,701
	State Street Corp.	23,210	1,431
			180,450
	Health Care (15.5%)		
	Johnson & Johnson	159,289	28,275
	Medtronic plc	217,233	19,497
	Thermo Fisher Scientific Inc.	26,488	14,390
	Humana Inc.	29,935	14,012
	Danaher Corp.	50,439	12,787
	Elevance Health Inc.	23,381	11,283
*	Boston Scientific Corp.	225,613	8,409
	UnitedHealth Group Inc.	15,574	7,999
	Zoetis Inc.	42,834	7,363
*	IQVIA Holdings Inc.	31,163	6,762
*	Centene Corp.	79,060	6,689
	CVS Health Corp.	63,300	5,865
*	Vertex Pharmaceuticals Inc.	15,633	4,405
	Sanofi ADR	75,064	3,756
	HCA Healthcare Inc.	22,200	3,731
	GlaxoSmithKline plc ADR	75,916	3,305
	Zimmer Biomet Holdings Inc.	24,011	2,523
			161,051
	Industrials (9.9%)		
	General Electric Co.	311,452	19,830
	Honeywell International Inc.	92,746	16,120
	Norfolk Southern Corp.	47,719	10,846
	FedEx Corp.	46,673	10,581
	Waste Management Inc.	57,355	8,774
	Cummins Inc.	28,551	5,526
	CNH Industrial NV	432,434	5,012
	Raytheon Technologies Corp.	49,900	4,796
*	Boeing Co.	34,600	4,731
	Caterpillar Inc.	23,738	4,243
	PACCAR Inc.	50,520	4,160
	HEICO Corp.	29,671	3,891
*	Southwest Airlines Co.	73,932	2,670
*	Fluor Corp.	64,750	1,576
*	Iveco Group NV	94,306	499
			103,255
	Information Technology (19.2%)		
	Microsoft Corp.	217,403	55,836
	Visa Inc. Class A	90,735	17,865
	Cisco Systems Inc.	282,345	12,039
	Oracle Corp.	165,364	11,554
	Analog Devices Inc.	78,128	11,414
*	F5 Inc.	62,700	9,595
*	Salesforce Inc.	55,793	9,208
*	Workday Inc. Class A	61,700	8,612
	Texas Instruments Inc.	55,202	8,482
	Amphenol Corp. Class A	111,329	7,167
	Accenture plc Class A	25,319	7,030
*	Adobe Inc.	17,211	6,300
	Applied Materials Inc.	58,961	5,364
	Corning Inc.	163,030	5,137
	Telefonaktiebolaget LM Ericsson ADR	629,315	4,657
	Micron Technology Inc.	73,600	4,069
	TE Connectivity Ltd.	35,960	4,069
*	Palo Alto Networks Inc.	6,330	3,127
	Cognizant Technology Solutions Corp. Class A	33,200	2,241
*	Fiserv Inc.	24,000	2,135
*	PayPal Holdings Inc.	29,876	2,086
	Cognex Corp.	38,764	1,648
			199,635
	Materials (1.1%)		
	Avery Dennison Corp.	34,674	5,612
	Olin Corp.	85,000	3,934
	International Paper Co.	37,197	1,556
			11,102
	Real Estate (1.3%)		
	Prologis Inc.	119,403	14,048
	Utilities (1.0%)		
	PPL Corp.	397,555	10,786
	Total Common Stocks (Cost $950,410)		978,912
	Temporary Cash Investments (5.8%)		
	Money Market Fund (5.8%)		
1	Vanguard Market Liquidity Fund, 1.417% (Cost $59,758)	597,614	59,744
	Total Investments (100.0%) (Cost $1,010,168)		1,038,656
	Other Assets and Liabilities—Net (0.0%)		430
	Net Assets (100%)		1,039,086

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.

Derivative Financial Instruments Outstanding as of Period End

Futures Contracts

				($000)
	Expiration	Number of Long (Short) Contracts	Notional Amount	Value and Unrealized Appreciation (Depreciation)
Long Futures Contracts				
E-mini S&P 500 Index	September 2022	158	29,937	(862)

See accompanying Notes, which are an integral part of the Financial Statements.

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 $950,410)	978,912
Affiliated Issuers (Cost $59,758)	59,744
Total Investments in Securities	1,038,656
Investment in Vanguard	42
Cash Collateral Pledged—Futures Contracts	1,661
Receivables for Accrued Income	1,328
Receivables for Capital Shares Issued	222
Total Assets	**1,041,909**
Liabilities	
Due to Custodian	238
Payables for Investment Securities Purchased	1,357
Payables to Investment Advisor	354
Payables for Capital Shares Redeemed	554
Payables to Vanguard	69
Variation Margin Payable—Futures Contracts	251
Total Liabilities	**2,823**
Net Assets	**1,039,086**

At June 30, 2022, net assets consisted of:

Paid-in Capital	969,173
Total Distributable Earnings (Loss)	69,913
Net Assets	**1,039,086**

Net Assets	
Applicable to 78,072,080 outstanding $.001 par value shares of beneficial interest (unlimited authorization)	1,039,086
Net Asset Value Per Share	**$13.31**

See accompanying Notes, which are an integral part of the Financial Statements.

Statement of Operations

	Six Months Ended June 30, 2022
	($000)
Investment Income	
Income	
Dividends[1]	8,854
Interest[2]	158
Securities Lending—Net	3
Total Income	9,015
Expenses	
Investment Advisory Fees—Note B	
Basic Fee	680
Performance Adjustment	46
The Vanguard Group—Note C	
Management and Administrative	867
Marketing and Distribution	41
Custodian Fees	6
Shareholders' Reports	10
Trustees' Fees and Expenses	—
Other Expenses	4
Total Expenses	1,654
Net Investment Income	**7,361**
Realized Net Gain (Loss)	
Investment Securities Sold[2]	43,717
Futures Contracts	(7,566)
Realized Net Gain (Loss)	**36,151**
Change in Unrealized Appreciation (Depreciation)	
Investment Securities[2]	(240,385)
Futures Contracts	(1,475)
Change in Unrealized Appreciation (Depreciation)	**(241,860)**
Net Increase (Decrease) in Net Assets Resulting from Operations	**(198,348)**

1 Dividends are net of foreign withholding taxes of $57,000.

2 Interest income, realized net gain (loss), and change in unrealized appreciation (depreciation) from an affiliated company of the portfolio were $156,000, ($5,000), and ($8,000), 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	7,361	12,799
Realized Net Gain (Loss)	36,151	101,666
Change in Unrealized Appreciation (Depreciation)	(241,860)	169,248
Net Increase (Decrease) in Net Assets Resulting from Operations	(198,348)	283,713
Distributions		
Total Distributions	(114,358)	(28,403)
Capital Share Transactions		
Issued	98,338	192,120
Issued in Lieu of Cash Distributions	114,358	28,402
Redeemed	(89,638)	(198,338)
Net Increase (Decrease) from Capital Share Transactions	123,058	22,184
Total Increase (Decrease)	(189,648)	277,494
Net Assets		
Beginning of Period	**1,228,734**	**951,240**
End of Period	**1,039,086**	**1,228,734**

See accompanying Notes, which are an integral part of the Financial Statements.

Financial Highlights

For a Share Outstanding Throughout Each Period	Six Months Ended June 30, 2022	Year Ended December 31, 2021	2020	2019	2018	2017
Net Asset Value, Beginning of Period	**$17.45**	**$13.74**	**$16.45**	**$14.33**	**$17.04**	**$17.11**
Investment Operations						
Net Investment Income[1]	.098	.183	.209	.364	.412	.401
Net Realized and Unrealized Gain (Loss) on Investments	(2.628)	3.940	.133	3.135	(1.872)	1.658
Total from Investment Operations	(2.530)	4.123	.342	3.499	(1.460)	2.059
Distributions						
Dividends from Net Investment Income	(.181)	(.174)	(.409)	(.462)	(.423)	(.491)
Distributions from Realized Capital Gains	(1.429)	(.239)	(2.643)	(.917)	(.827)	(1.638)
Total Distributions	(1.610)	(.413)	(3.052)	(1.379)	(1.250)	(2.129)
Net Asset Value, End of Period	**$13.31**	**$17.45**	**$13.74**	**$16.45**	**$14.33**	**$17.04**
Total Return	**-15.91%**	**30.47%**	**11.78%**	**25.70%**	**-9.12%**	**13.16%**
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	$1,039	$1,229	$951	$974	$887	$1,137
Ratio of Total Expenses to Average Net Assets[2]	0.29%	0.28%	0.28%	0.24%	0.25%	0.27%
Ratio of Net Investment Income to Average Net Assets	1.26%	1.14%	1.70%	2.39%	2.58%	2.45%
Portfolio Turnover Rate	14%	25%	34%	117%	18%	18%

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

1 Calculated based on average shares outstanding.

2 Includes performance-based investment advisory fee increases (decreases) of 0.01%, 0.01%, 0.00%, (0.03%), (0.03%), and (0.03%).

See accompanying Notes, which are an integral part of the Financial Statements.

Notes to Financial Statements

The Diversified Value 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 materially affected by events occurring before the portfolio's pricing time but after the close of the securities' primary markets, are valued by methods deemed by the board of trustees to represent fair value. Investments in Vanguard Market Liquidity Fund are valued at that fund's net asset value.

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 securities pledged as initial margin for open contracts are noted in the Schedule of Investments.

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

During the six months ended June 30, 2022, 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 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 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. The investment advisory firms Lazard Asset Management LLC and Hotchkis and Wiley Capital Management, LLC, each provide investment advisory services to a portion of the portfolio for a fee calculated at an annual percentage rate of average net assets managed by the advisor. The basic fees of Lazard Asset Management LLC and Hotchkis and Wiley Capital Management, LLC, are subject to quarterly adjustments based on performance relative to the S&P 500 Index and the Russell 1000 Value Index, respectively, since December 31, 2019.

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

For the six months ended June 30, 2022, the aggregate investment advisory fee paid to all advisors represented an effective annual basic rate of 0.12% of the portfolio's average net assets, before a net increase of $46,000 (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 corporate management, administrative, marketing, distribution and cash management services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees 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 $42,000, 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 and derivatives. 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 and derivatives valued with significant unobservable inputs are noted on the Schedule of Investments.

The following table summarizes the market value of the portfolio's investments and derivatives 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	978,413	499	—	978,912
Temporary Cash Investments	59,744	—	—	59,744
Total	1,038,157	499	—	1,038,656
Derivative Financial Instruments				
Liabilities				
Futures Contracts[1]	862	—	—	862

1 Includes cumulative appreciation (depreciation) on futures contracts and centrally cleared swaps, if any, as reported in the Schedule of Investments. Only current day's variation margin is reported within the Statement of Assets and Liabilities.

E. As of June 30, 2022, 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	1,010,981
Gross Unrealized Appreciation	133,149
Gross Unrealized Depreciation	(106,336)
Net Unrealized Appreciation (Depreciation)	26,813

F. During the six months ended June 30, 2022, the portfolio purchased $168,730,000 of investment securities and sold $155,410,000 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	6,111	12,190
Issued in Lieu of Cash Distributions	7,279	1,880
Redeemed	(5,723)	(12,901)
Net Increase (Decrease) in Shares Outstanding	7,667	1,169

At June 30, 2022, two shareholders (insurance company separate accounts whose holdings in the portfolio represent the indirect investment of Vanguard Variable Annuity contract holders) were each a record or beneficial owner of at least 25% or more of the portfolio's net assets, with a combined ownership of 79%. If any of these shareholders were to redeem their 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 Arrangements

The board of trustees of Vanguard Variable Insurance Funds Diversified Value Portfolio has renewed the portfolio's investment advisory arrangement with Hotchkis and Wiley Capital Management, LLC (Hotchkis and Wiley), and Lazard Asset Management LLC (Lazard). The board determined that renewing the portfolio's advisory arrangements was in the best interests of the portfolio and its shareholders.

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

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

In addition, the board received 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 arrangements. Rather, it was the totality of the circumstances that drove the board's decisions.

Nature, extent, and quality of services

The board considered the quality of the investment management services to be provided by Hotchkis and Wiley and Lazard and took into account the organizational depth and stability of each advisor. The board considered the following:

Hotchkis and Wiley. Founded in 1980, Hotchkis and Wiley is a value-oriented firm that manages various large-, mid-, and small-cap portfolios. Hotchkis and Wiley invests in companies where it believes that the present value of future cash flows exceeds the market price. The firm believes that the market frequently undervalues companies because of the extrapolation of current trends, while capital flows normally cause a company's returns and profitability to normalize over the long term. Hotchkis and Wiley seeks to identify these companies with a disciplined, bottom-up research process. The portfolio managers leverage the support of a broad analyst team, which is organized into sector teams in an effort to better understand the impact that industry dynamics and macroeconomic risk factors might have on individual companies. Hotchkis and Wiley has managed a portion of the portfolio since December 2019.

Lazard. Lazard, a subsidiary of the investment bank Lazard Ltd., provides investment management services for clients around the world in a variety of investment mandates, including international equities, domestic equities, and fixed income securities.

The investment team at Lazard employs a relative value, bottom-up stock selection process to identify stocks with sustainable financial productivity and attractive valuations. Utilizing scenario analysis, the team seeks to understand the durability and future direction of financial productivity and valuation. Lazard has managed a portion of the portfolio since December 2019.

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

Investment performance

The board considered the performance of each advisor, including any periods of outperformance or underperformance compared with a relevant benchmark index and peer group. The board concluded that the performance was such that the advisory arrangements should continue.

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 Hotchkis and Wiley and Lazard in determining whether to approve the advisory fees, because the firms are independent of Vanguard and the advisory fees are the result of arm's-length negotiations.

The benefit of economies of scale

The board concluded that the portfolio will realize economies of scale that are built into the advisory fee rates negotiated with Hotchkis and Wiley and Lazard without any need for asset-level breakpoints. The advisory fee rates are very low relative to the average rate paid by funds in the portfolio's peer group.

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

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 Diversified Value 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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You can review information about your fund 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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