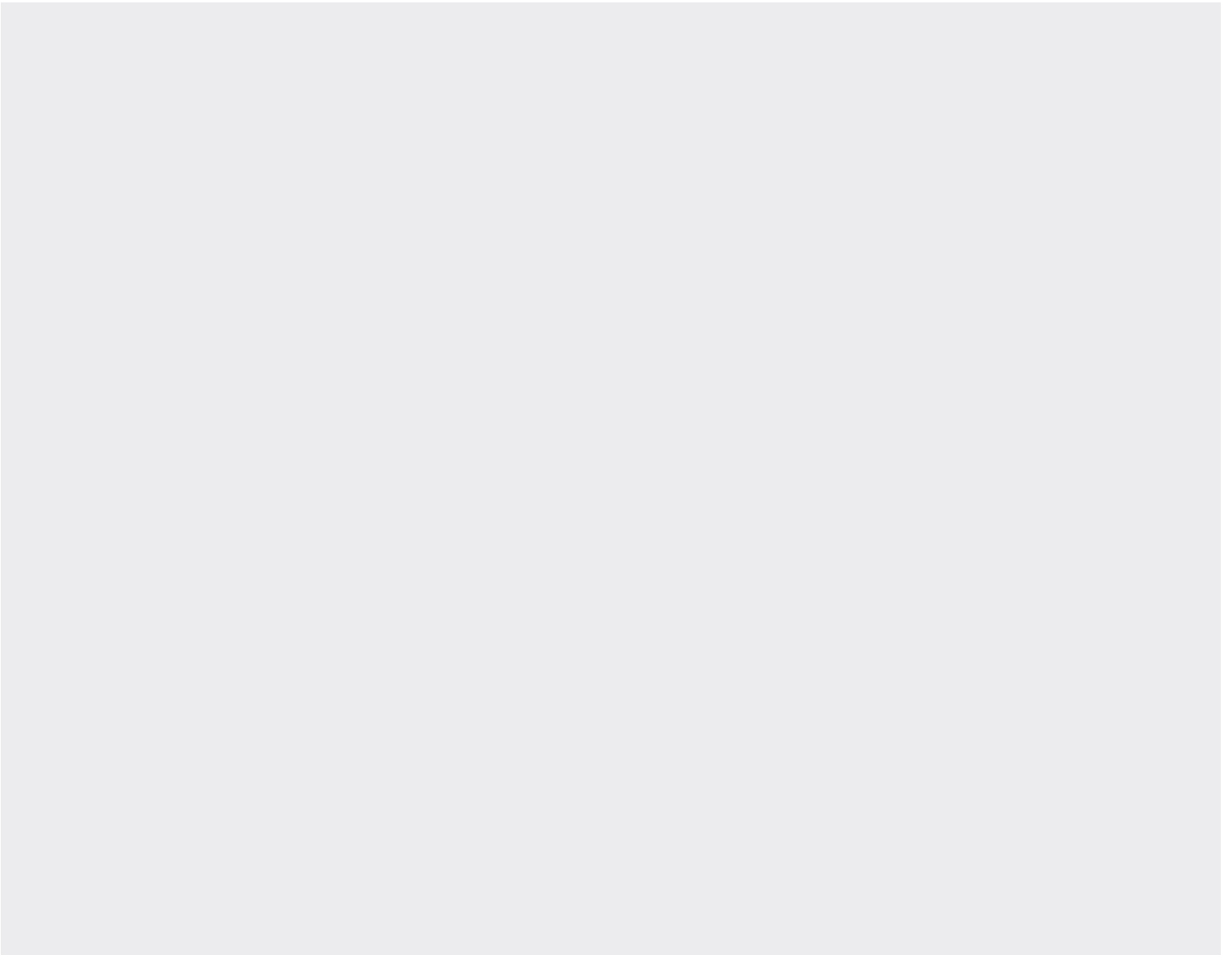
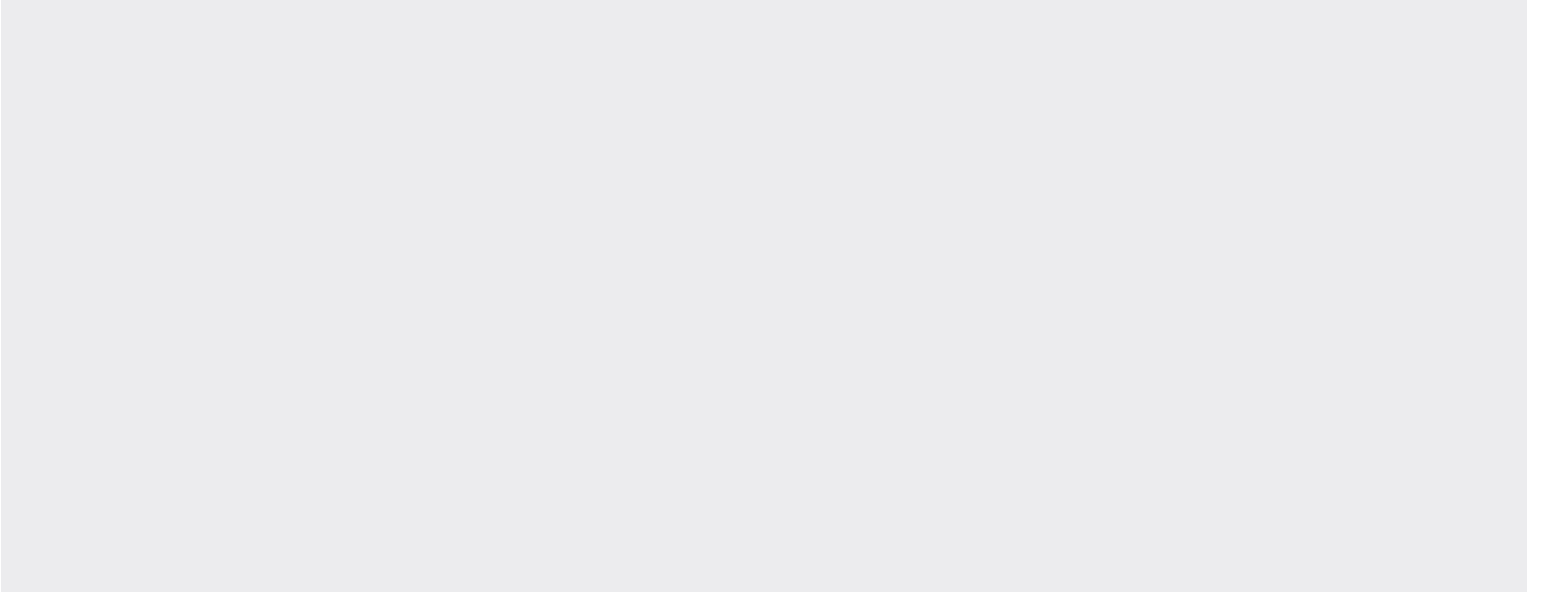


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As a shareholder of the portfolio, you incur ongoing costs, which include costs for portfolio management, administrative services, and shareholder reports (like this one), among others. Operating expenses, which are deducted from a portfolio's gross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

Asset-Backed/Commercial Mortgage-Backed Securities	0.9%
Common Stocks	65.6
Corporate Bonds	22.5
Sovereign Bonds	0.4
Taxable Municipal Bonds	1.8
U.	

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.

	Coupon	Maturity Date	Face Amount (\$000)	Market Value ^e (\$000)
U.S. Government and Agency Obligations (8.7%)				
U.S. Government Securities (7.4%)				
United States Treasury Note/Bond	0.250%	9/30/23	1,100	1,064
United States Treasury Note/Bond	0.125%	1/15/24	1,245	1,192
United States Treasury Note/Bond	1.500%	2/29/24	5,730	5,595
United States Treasury Note/Bond	2.250%	3/31/24	5,275	5,208
United States Treasury Note/Bond	2.500%	4/30/24	1,500	1,487
United States Treasury Note/Bond	0.250%	5/15/24	800	760
United States Treasury Note/Bond	1.750%	6/30/24	9,215	8,993
United States Treasury Note/Bond	0.375%	8/15/24	16,500	15,605
United States Treasury Note/Bond	0.375%	9/15/24	1,200	1,132
1,2 United States Treasury Note/Bond	0.625%	10/15/24	26,675	25,270
United States Treasury Note/Bond	1.500%	10/31/24	3,350	3,236
United States Treasury Note/Bond	0.750%	11/15/24	750	711
United States Treasury Note/Bond	1.000%	12/15/24	5,350	5,094
United States Treasury Note/Bond	1.125%	1/15/25	8,600	8,200
United States Treasury Note/Bond	1.125%	2/28/25	6,395	6,085
United States Treasury Note/Bond	1.750%	3/15/25	9,980	9,646
United States Treasury Note/Bond	2.625%	4/15/25	10,390	10,278
United States Treasury Note/Bond	0.250%	5/31/25	4,850	4,475
United States Treasury Note/Bond	0.250%	7/31/25	5,655	5,190
United States Treasury Note/Bond	0.250%	8/31/25	4,800	4,394
United States Treasury Note/Bond	0.250%	10/31/25	22,365	20,377
United States Treasury Note/Bond	0.375%	12/31/25	890	811
United States Treasury Note/Bond	0.375%	1/31/26	7,630	6,936
United States Treasury Note/Bond	0.500%	2/28/26	2,100	1,914
United States Treasury Note/Bond	0.750%	3/31/26	1,350	1,240
United States Treasury Note/Bond	0.750%	5/31/26	2,625	2,401
United States Treasury Note/Bond	1.500%	1/31/27	600	560
United States Treasury Note/Bond	1.875%	2/28/27	1,310	1,244
United States Treasury Note/Bond	2.500%	3/31/27	16,965	16,552
United States Treasury Note/Bond	2.875%	5/15/32	1,930	1,908
United States Treasury Note/Bond	2.000%	11/15/41	30,380	24,119
United States Treasury Note/Bond	2.375%	2/15/42	5,440	4,612
United States Treasury Note/Bond	3.250%	5/15/42	6,270	6,119
United States Treasury Note/Bond	2.250%	2/15/52	7,285	5,994

	Coupon	Maturity Date	Face Amount (\$000)	Market Value ^e (\$000)
United States Treasury Note/Bond	2.875%	5/15/52	7,155	6,755
				225,157
Conventional Mortgage-Backed Securities (1.1%)				
^{3,4} Fannie Mae Pool	1.770%	1/1/36	548	452
^{3,4} Freddie Mac Gold Pool	4.000%	9/1/41	2	2
³ Ginnie Mae I Pool	7.000%	11/15/31 - 11/15/33	34	37
³ Ginnie Mae I Pool	8.000%	9/15/30	30	31
^{3,4} UMBS Pool	2.500%	4/1/37 - 4/1/38	761	700
^{3,4,5} UMBS Pool	3.000%	7/14/52	22,900	21,318
^{3,4,5} UMBS Pool	3.500%	7/14/52	4,100	3,941
^{3,4,5} UMBS Pool	4.000%	7/14/52	8,700	8,578

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)		Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
⁶ Eastern Gas Transmission & Storage Inc.	4.800%	11/1/43	125	117	Banco Santander SA	1.849%	3/25/26	1,000	900
⁶ Eastern Gas Transmission & Storage Inc.	4.600%	12/15/44	1,603	1,475	Banco Santander SA	2.749%	12/3/30	000	
⁶ EIG Pearl Holdings Sarl	3.545%	8/31/36	1,260	1,076					
⁶ EIG Pearl Holdings Sarl	4.387%	11/30/46	470	374					
Energy Transfer LP	5.250%	4/15/29	1,375	1,362					
Energy Transfer LP	5.350%	5/15/45	90	79					
Energy Transfer LP	5.300%	4/15/47	155	134					
Energy Transfer LP	5.400%	10/1/47	20	18					
Enterprise Products Operating LLC	5.100%	2/15/45	280	263					
Enterprise Products Operating LLC	4.250%	2/15/48	730	615					
Enterprise Products Operating LLC	3.700%	1/31/51	170	133					
Enterprise Products Operating LLC	3.300%	2/15/53	750	547					
Equinor ASA	2.450%	1/17/23	382	382					
Equinor ASA	2.650%	1/15/24	360	356					
Equinor ASA	3.700%	3/1/24	640	643					
Equinor ASA	3.250%	11/10/24	655	652					
Equinor ASA	2.875%	4/6/25	140	137					
Equinor ASA	3.125%	4/6/30	2,350	2,176					
Equinor ASA	2.375%	5/22/30	335	294					
Exxon Mobil Corp.	2.726%	3/1/23	320	320					
Exxon Mobil Corp.	3.043%	3/1/26	225	221					
Exxon Mobil Corp.	2.275%	8/16/26	1,070	1,016					
Exxon Mobil Corp.	2.440%	8/16/29	735	661					
Exxon Mobil Corp.	2.610%	10/15/30	1,055	948					
Exxon Mobil Corp.	4.114%	3/1/46	320	292					
⁶ Galaxy Pipeline Assets Bidco Ltd.	2.160%	3/31/34	1,393	1,184					
⁶ Galaxy Pipeline Assets Bidco Ltd.	2.940%	9/30/40	1,105	903					
⁶ Qatar Energy	2.250%	7/12/31	925	791					
⁶ Qatar Energy	3.125%	7/12/41	675	530					
⁶ Saudi Arabian Oil Co.	3.500%	4/16/29	630	601					
⁶ Schlumberger Holdings Corp.	3.900%	5/17/28	807	763					
Schlumberger Investment SA	3.650%	12/1/23	1,120	1,124					
Shell International Finance BV	4.125%	5/11/35	1,130	1,078					
Shell International Finance BV	5.500%	3/25/40	345	370					
Shell International Finance BV	4.375%	5/11/45	2,500	2,327					
Shell International Finance BV	3.000%	11/26/51	2,255	1,682					
Suncor Energy Inc.	5.950%	12/1/34	500	524					
Total Capital International SA	2.700%	1/25/23	885	883					
Total Capital International SA	3.750%	4/10/24	1,400	1,404					
TransCanada PipeLines Ltd.	4.875%	1/15/26	1,255	1,275					
TransCanada PipeLines Ltd.	4.100%	4/15/30	415	397					
				35,724					
Financials (9.3%)									
AerCap Ireland Capital DAC / AerCap Global Aviation Trust	3.000%	10/29/28	480	404					
AerCap Ireland Capital DAC / AerCap Global Aviation Trust	3.400%	10/29/33	325	256					
⁶ AIA Group Ltd.	3.600%	4/9/29	1,475	1,421					
⁶ AIA Group Ltd.	3.375%	4/7/30	370	347					
American International Group Inc.	6.250%	5/1/36	245	276					
American International Group Inc.	4.800%	7/10/45	220	205					
American International Group Inc.	4.750%	4/1/48	640	599					
American International Group Inc.	4.375%	6/30/50	375	332					
Ameriprise Financial Inc.	4.500%	5/13/32	335	329					
Aon Corp. / Aon Global Holdings plc	2.850%	5/28/27	550	516					
⁶ Athene Global Funding	1.000%	4/16/24	685	644					
⁶ Athene Global Funding	1.985%	8/19/28	10	8					
⁶ Athene Global Funding	2.717%	1/7/29	980	835					
⁶ Australia & New Zealand Banking Group Ltd.	2.570%	11/25/35	685	549					
⁶ Aviation Capital Group LLC	1.950%	9/20/26	415	353					
Banco Santander SA	3.125%	2/23/23	800	798					
Banco Santander SA	3.848%	4/12/23	400	400					

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)	
	Charles Schwab Corp.	2.900%	3/3/32	835	734
	Chubb INA Holdings Inc.	3.350%	5/15/24	555	554
	Chubb INA Holdings Inc.	4.350%	11/3/45	800	754
	Citigroup Inc.	0.981%	5/1/25	1,190	1,115
	Citigroup Inc.	1.462%	6/9/27	1,325	1,171
	Citigroup Inc.	3.070%	2/24/28	1,000	927
	Citigroup Inc.	3.520%	10/27/28	1,975	1,843
	Citigroup Inc.	6.625%	6/15/32	2,000	2,187
	Citigroup Inc.	2.520%	11/3/32	745	604
	Citigroup Inc.	3.878%	1/24/39	1,025	887
	Citigroup Inc.	2.904%	11/3/42	560	408
⁶	CNO Global Funding	1.650%	1/6/25	260	246
⁶	CNO Global Funding	2.650%	1/6/29	370	323
	Comerica Bank	2.500%	7/23/24	790	767
⁶	Commonwealth Bank of Australia	2.688%	3/11/31	2,285	1,863
⁶	Commonwealth Bank of Australia	3.784%	3/14/32	200	176
⁶	Cooperatieve Rabobank UA	1.106%	2/24/27	1,365	1,206
⁶	Corebridge Financial Inc.	3.900%	4/5/32	175	157
⁶	Corebridge Financial Inc.	4.350%	4/5/42	105	90
⁶	Corebridge Financial Inc.	4.400%	4/5/52	315	263
⁶	Credit Agricole SA	3.750%	4/24/23	1,160	1,160
⁶	Credit Agricole SA	3.250%	10		

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
⁶ Metropolitan Life Global Funding I	3.000%	9/19/27		

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)															
Bristol-Myers Squibb Co.	3.400%	7/26/29	274	265															
Bristol-Myers Squibb Co.	2.950%	3/15/32	115	106															
Bristol-Myers Squibb Co.	4.125%	6/15/39	505	483															
Bristol-Myers Squibb Co.	3.550%	3/15/42	1,205	1,057															
Bristol-Myers Squibb Co.	4.550%	2/20/48	169	166															
Bristol-Myers Squibb Co.	4.250%	10/26/49	1,473	1,384															
Bristol-Myers Squibb Co.	2.550%	11/13/50	465	329															
Bristol-Myers Squibb Co.	3.700%	3/15/52	460	397															
Cedars-Sinai Hed[(Squibb	)1858.8(Co.)-5210.10001(3)]		TJ(.550	Tc[3.([	465)-681.60001(	)]	TJ0	Tc0	Tw3.77859	0	Td()	Tj0	0	To					

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Illinois Tool Works Inc.	3.500%	3/1/24	1,295	1,299
John Deere Capital Corp.	3.450%	3/13/25	1,200	1,202
Kansas City Southern	4.950%	8/15/45	480	463
Lockheed Martin Corp.	1.850%	6/15/30	60	51
Lockheed Martin Corp.	4.500%	5/15/36	211	211
Lockheed Martin Corp.	4.700%	5/15/46	376	380
Lockheed Martin Corp.	4.090%	9/15/52		

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
Ameren Illinois Co.	6.125%	12/15/28	1,000	1,044
Ameren Illinois Co.	3.700%	12/1/47	140	120
American Water Capital Corp.	2.950%	9/1/27	540	507
American Water Capital Corp.	4.450%	6/1/32	590	586
American Water Capital Corp.	3.750%	9/1/47	45	38
American Water Capital Corp.	4.200%	9/1/48	845	757
American Water Capital Corp.	4.150%	6/1/49	25	22
American Water Capital Corp.	3.450%	5/1/50	95	76
Arizona Public Service Co.	3.350%	5/15/50	410	301
Baltimore Gas and Electric Co.	2.900%	6/15/50	238	175
Baltimore Gas and Electric Co.	4.550%	6/1/52	75	73
Berkshire Hathawcan				

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
^{3,6} Oglethorpe Power Corp.	6.191%	1/1/31	1,065	1,108
Oglethorpe Power Corp.	5.950%	11/1/39	170	179
Oglethorpe Power Corp.	4.550%	6/1/44	50	44
Oglethorpe Power Corp.	4.250%	4/1/46	537	437
⁶ Oglethorpe Power Corp.	4.500%	4/1/47	115	99
Oglethorpe Power Corp.	5.050%	10/1/48	65	61
Oglethorpe Power Corp.	5.250%	9/1/50	630	597
⁶ Oncor Electric Delivery Co. LLC	4.150%	6/1/32	150	151
Oncor Electric Delivery Co. LLC	4.550%	12/1/41	75	73
Oncor Electric Delivery Co. LLC	2.700%	11/15/51	355	257
⁶ Oncor Electric Delivery Co. LLC	4.600%	6/1/52	670	663
PacifiCorp	6.250%	10/15/37	2,000	2,241
PacifiCorp	4.125%	1/15/49	26	23
PacifiCorp	4.150%	2/15/50	345	309
PacifiCorp	3.300%	3/15/51	169	133
PECO Energy Co.	4.600%	5/15/52	280	281
³ PG&E Energy Recovery Funding LLC	2.280%	1/15/38	109	92
³ PG&E Energy Recovery Funding LLC	2.822%	7/15/48	494	391
Piedmont Natural Gas Co Inc.	5.050%	5/15/52	260	255
Potomac Electric Power Co.	6.500%	11/15/37	750	871
San Diego Gas & Electric Co.	6.000%	6/1/26	600	643
San Diego Gas & Electric Co.	1.700%	10/1/30	145	119
San Diego Gas & Electric Co.	3.750%	6/1/47	160	135
San Diego Gas & Electric Co.	4.150%	5/15/48	545	502
San Diego Gas & Electric Co.	2.950%	8/15/51	21	16
San Diego Gas & Electric Co.	3.700%	3/15/52	790	668
³ SCE Recovery Funding LLC	0.861%	11/15/31	283	248
SCE Recovery Funding LLC	1.942%	5/15/38	110	84
SCE Recovery Funding LLC	2.510%	11/15/43	100	86
Sempra Energy	3.250%	6/15/27	1,095	1,038
Sempra Energy	6.000%	10/15/39	600	632
Sierra Pacific Power Co.	3.375%	8/15/23	850	850
Sierra Pacific Power Co.	2.600%	5/1/26	221	210
Southern California Edison Co.	3.700%	8/1/25	90	89
Southern California Edison Co.	6.000%	1/15/34	1,000	1,066
Southern California Edison Co.	5.550%	1/15/37	2,250	2,255
Southern California Edison Co.	6.050%	3/15/39	55	58
Southern California Edison Co.	4.000%	4/1/47	195	158
Southern California Edison Co.	4.125%	3/1/48	645	532
Southern California Edison Co.	3.650%	2/1/50	155	119
Southern California Gas Co.	2.600%	6/15/26	820	777
Southern Co.	2.950%	7/1/23	1,280	1,265
Southern Co.	4.400%	7/1/46	755	658
Southwest Gas Corp.	2.200%	6/15/30	230	186
Southwestern Electric Power Co.	6.200%	3/15/40	400	432
Southwestern Public Service Co.	3.700%	8/15/47	102	85
Texas Electric Market Stabilization Funding N LLC	4.966%	2/1/44	1,120	1,115
Texas Electric Market Stabilization Funding N LLC	5.057%	8/1/48	535	533
Texas Electric Market Stabilization Funding N LLC	5.167%	2/1/52	500	500
Union Electric Co.	4.000%	4/1/48	423	371
Union Electric Co.	3.900%	4/1/52	245	217
Virginia Electric and Power Co.	2.750%	3/15/23	690	685
Virginia Electric and Power Co.	3.500%	3/15/27	435	425
Wisconsin Electric Power Co.	5.700%	12/1/36	690	749

91,351

Total Corporate Bonds (Cost \$7 45,023) 676,609

Sovereign Bonds (0.4%)

⁵ Emirate of Abu Dhabi	4.951%	7/7/52	390	393
⁶ Government of Bermuda	2.375%	8/20/30	400	335
⁶ Government of Bermuda	3.375%	8/20/50	200	145
International Bank for Reconstruction & Development	4.750%	2/15/35	2,000	2,266

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
⁸ Foothill-Eastern Transportation Corridor Agency Highway Revenue	3.924%	1/15/53	1,170	1,019
Georgia Municipal Electric Authority Electric Power & Light Revenue	6.637%	4/1/57	2,031	2,384
Golden State Tobacco Securitization Corp. Tobacco Settlement Funded Revenue	2.746%	6/1/34	70	60
Golden State Tobacco Securitization Corp. Tobacco Settlement Funded Revenue	3.293%	6/1/42		

	Coupon	Maturity Date	Face Amount (\$000)	Market Value* (\$000)
University of California Regents Medical Center Pooled Health, Hospital, Nursing Home Revenue	3.256%	5/15/60	780	580
University of Michigan College & University Revenue	3.504%	4/1/52	210	186
University of Minnesota College & University Revenue	4.048%	4/1/52	840	825
Utility Debt Securitization Authority Electric Power & Light Revenue	3.435%	12/15/25	108	108

Total

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					
Ultra 10-Year U.S. Treasury Note	September 2022	1	127	—	
5-Year U.S. Treasury Note	September 2022	226	25,369	(169)	
				(169)	
Short Futures Contracts					
10-Year U.S. Treasury Note	September 2022	(46)	(9,661)	58	
				(111)	

Centrally Cleared Credit Default Swaps

Reference Entity	Termination Date	Notional Amount (000)	Periodic Premium Received (Paid) ¹ (%)	Value (\$000)	Unrealized Appreciation (Depreciation) (\$000)
Credit Protection Sold					
CDX-NA-IG-S38-V1	6/21/27	USD 23,640	1.000	(3)	(218)

¹ Periodic premium received/paid quarterly.

USD, U.S. dollar.

The notional amount represents the maximum potential amount the fund could be required to pay as a seller of credit protection if the reference entity was subject to a credit event.

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 \$2,804,547)	3,071,546
Affiliated Issuers (Cost \$11)	12
Total Investments in Securities	3,071,558
Investment in Vanguard	117
Cash	69
Foreign Currency, at Value (Cost \$222)	218
Receivables for Accrued Income	11,487
Receivables for Capital Shares Issued	179
Variation Margin Receivable—Futures Contracts	110
Variation Margin Receivable—Centrally Cleared Swap Contracts	4
Total Assets	3,083,742
Liabilities	
Payables for Investment Securities Purchased	36,405
Payables to Investment Advisor	389
Payables for Capital Shares Redeemed	4,621
Payables to Vanguard	198
Total Liabilities	41,613
Net Assets	3,042,129

At June 30, 2022, net assets consisted of:

Paid-in Capital	2,650,204
Total Distributable Earnings (Loss)	391,925
Net Assets	3,042,129

Net Assets

Applicable to 143,031,374 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)	3,042,129
Net Asset Value Per Share	\$21.27

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,			Year Ended December 31,		
	2022	2021	2020	2019	2018	2017
Net Asset Value, Beginning of Period	\$28.41	\$25.68	\$24.94	\$22.20	\$24.80	\$23.03
Investment Operations						
Net Investment Income ¹	.236	.468	.526	.623	.626	.582
Net Realized and Unrealized Gain (Loss) on Investments	(4.491)	4.137	1.692	4.105	(1.414)	2.648
Total from Investment Operations	(4.255)	4.605	2.218	4.728	(.788)	3.230
Distributions						
Dividends from Net Investment Income	(.480)	(.497)	(.666)	(.660)	(.582)	(.567)
Distributions from Realized Capital Gains	(2.405)	(1.378)	(.812)	(1.328)	(1.230)	(.893)
Total Distributions	(2.885)	(1.875)	(1.478)	(1.988)	(1.812)	(1.460)
Net Asset Value, End of Period	\$21.27	\$28.41	\$25.68	\$24.94	\$22.20	\$24.80
Total Return	-16.08%	19.02%	10.68%	22.48%	-3.41%	14.72%
Ratios/Supplemental Data						
Net Assets, End of Period (Millions)	\$3,042	\$3,787	\$3,346	\$3,267	\$2,708	\$2,942
Ratio of Total Expenses to Average Net Assets ²	0.21% ³	0.20%	0.20%	0.21%	0.21%	0.23%
Ratio of Net Investment Income to Average Net Assets	1.90%	1.76%	2.24%	2.68%	2.67%	2.49%
Portfolio Turnover Rate ⁴	18%	33%	49%	29%	36%	28%

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%), (0.01%), (0.00%), (0.00%), and (

3 The ratio of expenses to average net assets for the period net of reduction from broker commission abatement arrangements was

4 Includes 2%, 1%, 3%, 8%, 2%, and 0%, respectively, attributable to mortgage-related activity.

The Balanced 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. Certain of the portfolio's investments are in corporate debt instruments; the issuers' abilities to meet their obligations may be affected by economic developments in their respective industries. Significant market disruptions, such as those caused by pandemics (e.g., COVID-19

4. Mortgage Dollar Rolls: The portfolio enters into mortgage-dollar-roll transactions, in which the portfolio sells mortgage-backed securities to a dealer and simultaneously agrees to purchase similar securities in the future at a predetermined price. The proceeds of the securities sold in mortgage-dollar-roll transactions are typically invested in high-quality short-term fixed income securities. The portfolio forgoes principal and interest paid on the securities sold, and is compensated by interest earned on the proceeds of the sale and by a lower price on the securities to be repurchased. The portfolio also enters into mortgage-dollar-roll transactions in which the portfolio buys mortgage-backed securities from a dealer pursuant to a TBA transaction and simultaneously agrees to sell similar securities in the future at a predetermined price. The securities bought in mortgage-dollar-roll transactions are used to cover an open TBA sell position. The portfolio continues to earn interest on mortgage-backed security pools already held and receives a lower price on the securities to be sold in the future. The portfolio accounts for mortgage-dollar-roll transactions as purchases and sales; as such, these transactions may increase the portfolio's portf

net assets decline below a certain level, triggering a payment by the portfolio if the portfolio is in a net liability position at the time of the termination. The payment amount would be reduced by any collateral the portfolio has pledged. Any securities pledged as collateral for open contracts are noted in the Schedule of Investments. The value of collateral received or pledged is compared daily to the value of the forward currency contracts exposure with each counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

Forward currency contracts are valued at their quoted daily prices obtained from an independent third party, adjusted for currency risk based on the expiration date of each contract. The notional

counterparty, and any difference, if in excess of a specified minimum transfer amount, is adjusted and settled within two business days.

The notional amounts of swap contracts are not recorded in the Statement of Assets and Liabilities. Swaps are valued daily based on market quotations received from independent pricing services or recognized dealers and the change in value is recorded in the Statement of Assets and Liabilities as

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.

13. 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. Premiums and discounts on debt securities are amortized and accreted, respectively, to interest income over the lives of the respective securities, except for premiums on certain callable debt securities that are amortized to the earliest call 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.

Taxes on foreign dividends and capital gains have been provided for in accordance with the portfolio's understanding of the applicable countries' tax rules and rates. Deferred foreign capital gains tax, if any, is accrued daily based upon net unrealized gains. The portfolio has filed tax reclaims for previously withheld taxes on dividends earned in certain European Union countries. These filings are subject to various administrative and judicial proceedings within these countries. Such tax reclaims received and related professional fees incurred during the year, if any, are included in dividend income and other expenses, respectively. No other amounts for additional tax reclaims are reflected in the financial statements due to the uncertainty as to the ultimate resolution of proceedings, the likelihood of receipt of these reclaims, and the potential timing of payment.

B. Wellington Management Company LLP provides investment advisory services to the portfolio for a fee calculated at an annual percentage rate of average net assets. The basic fee is subject to quarterly adjustments based on the portfolio's performance relative to the combined index comprising the S&P 500 Index and the Bloomberg Barclays U.S. Credit A or Better Bond Index for the preceding three years. For the six months ended June 30, 2022, the investment advisory fee represented an effective annual basic rate of 0.05% of the portfolio's average net assets, before a net decrease of \$102,000 (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, 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 \$117,000, representing less than 0.01% of the portfolio's net assets and 0.05% of Vanguard's capital received pursuant to the FSA. The portfolio's trustees and officers are also directors and employees, respectively, of Vanguard.

D. The portfolio has asked its investment advisors to direct certain security trades, subject to obtaining the best price and execution, to brokers who have agreed to rebate to the portfolio part of the commissions generated. Such rebates are used solely to reduce the portfolio's management and administrative expenses. For the period ended June 30, 2022, these arrangements reduced the portfolio's expenses by \$1,000 (an annual rate of less than 0.01% of average net assets).

E. 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 va

G. 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	2,806,225
Gross Unrealized Appreciation	499,710
Gross Unrealized Depreciation	(234,706)
Net Unrealized Appreciation (Depreciation)	265,004

H. During the six months ended June 30, 2022, the portfolio purchased \$324,694,000 of investment securities and sold \$401,742,000 of investment securities, other than U.S. government securities and temporary cash investments. Purchases and sales of U.S. government securities were \$289,442,000 and \$299,218,000, respectively.

I. Capital shares issued and redeemed were:

	Six Months Ended June 30, 2022	Year Ended December 31, 2021
	Shares (000)	Shares (000)
Issued	4,471	9,605
Issued in Lieu of Cash Distributions	15,732	9,716
Redeemed	(10,463)	(16,345)
Net Increase (Decrease) in Shares Outstanding	9,740	2,976

J. 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 68% 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.

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

The board of trustees of Vanguard Variable Insurance Funds Balanced Portfolio has renewed the portfolio's investment advisory arrangement with Wellington Management Company LLP (Wellington Management). 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 staf

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 Balanced 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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