



**Semiannual Report** | June 30, 2018

# Vanguard Variable Insurance Fund

Conservative Allocation Portfolio

## Vanguard's Principles for Investing Success

We want to give you the best chance of investment success. These principles, grounded in Vanguard's research and experience, can put you on the right path.

**Goals.** Create clear, appropriate investment goals.

**Balance.** Develop a suitable asset allocation using broadly diversified funds.

**Cost.** Minimize cost.

**Discipline.** Maintain perspective and long-term discipline.

A single theme unites these principles: Focus on the things you can control. We believe there is no wiser course for any investor.

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Please note: The opinions expressed in this report are just that—informed opinions. They should not be considered promises or advice. Also, please keep in mind that the information and opinions cover the period through the date on the front of this report. Of course, the risks of investing in your fund are spelled out in the prospectus.

See the Glossary for definitions of investment terms used in this report.

About the cover: Nautical images have been part of Vanguard's rich heritage since its start in 1975. For an incoming ship, a lighthouse offers a beacon and safe path to shore. You can similarly depend on Vanguard to put you first—and light the way—as you strive to meet your financial goals. Our client focus and low costs, stemming from our unique ownership structure, assure that your interests are paramount.

## CEO's Perspective



**Tim Buckley**  
President and Chief Executive Officer

Dear Planholder,

I feel extremely fortunate to have the chance to lead a company filled with people who come to work every day passionate about Vanguard's core purpose: to take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

When I joined Vanguard in 1991, I found a mission-driven team focused on improving lives—helping people retire more comfortably, put their children through college, and achieve financial security. I also found a company with purpose in an industry ripe for improvement.

It was clear, even early in my career, that the cards were stacked against most investors. Hidden fees, performance-chasing, and poor advice were relentlessly eroding investors' dreams.

We knew Vanguard could be different and, as a result, could make a real difference. We have lowered the costs of investing for our shareholders significantly. And we're proud of the performance of our funds.

Vanguard is built for Vanguard investors—we focus solely on you, our fund shareholders. Everything we do is designed to give our clients the best chance for investment success. In my role as CEO,

I'll keep this priority front and center. We're proud of what we've achieved, but we're even more excited about what's to come.

### **Steady, time-tested guidance**

Our guidance for investors, as always, is to stay the course, tune out the hyperbolic headlines, and focus on your goals and what you can control, such as costs and how much you save. This time-tested advice has served our clients well over the decades.

Regardless of how the markets perform in the short term, I'm incredibly optimistic about the future for our investors. We have a dedicated team serving you, and we will never stop striving to make Vanguard the best place for you to invest through our high-quality funds and services, advice and guidance to help you meet your financial goals, and an experience that makes you feel good about entrusting us with your hard-earned savings.

Thank you for your continued loyalty.

Sincerely,

A handwritten signature in black ink, appearing to read "Mortimer J. Buckley".

Mortimer J. Buckley  
President and Chief Executive Officer  
July 13, 2018

## Market Perspective

### U.S. stocks continued to climb, even with periods of volatility

U.S. stocks advanced over the six months ended June 30, 2018, although their path forward was marked by significant bouts of volatility. Corporate earnings remained strong and the U.S. economy continued to indicate growth. Investors worried, however, about high stock valuations, the possibility of inflation, and continued tightening of monetary policy by the Federal Reserve.

The Fed's June increase in the federal funds target rate by a quarter percentage point, to 1.75%–2%, was its second in 2018. In announcing it, Fed Chair Jerome Powell offered a positive assessment of the U.S. economy. The Fed has also continued to shrink the \$4.5 trillion balance sheet it had amassed since it began providing monetary stimulus in the wake of the 2007–2009 recession.

For the six months, the broad U.S. stock market returned 3.22%. U.S. large- and mid-capitalization stocks trailed small-caps, while growth stocks exceeded value. Among sectors, information technology, consumer discretionary, and energy posted the strongest returns. Consumer staples, communication services, and industrials fared the worst.

For U.S. investors, a stronger dollar hurt international stocks, which returned –3.83%. Developed European and Pacific markets declined, as did emerging markets.

### Bond returns were down as inflation concerns heightened

Bond yields rose and prices fell over the six months as inflation expectations rose, the labor market improved, and the Fed suggested that more rate hikes were in store for 2018. (Bond prices and yields move in opposite directions.)

The yield of the benchmark 10-year Treasury note closed the period at 2.86%, up from 2.41% at the end of December 2017. The broad U.S. bond market returned –1.62% for the period. U.S. Treasuries and mortgage-backed securities generally outpaced investment-grade corporate bonds.

International bonds returned –1.31%, as measured by the Barclays Global Aggregate Index ex USD. U.S. investors were hampered by the dollar's strengthening against many currencies. Without this currency impact, international bonds were up more than 1%.

### Market Barometer

	Total Returns Periods Ended June 30, 2018		
	Six Months	One Year	Five Years <sup>1</sup>
<b>Stocks</b>			
Russell 1000 Index (Large-caps)	2.85%	14.54%	13.37%
Russell 2000 Index (Small-caps)	7.66	17.57	12.46
Russell 3000 Index (Broad U.S. market)	3.22	14.78	13.29
FTSE All-World ex US Index (International)	–3.83	7.28	6.35
<b>Bonds</b>			
Bloomberg Barclays U.S. Aggregate Bond Index (Broad taxable market)	–1.62%	–0.40%	2.27%
Bloomberg Barclays Municipal Bond Index (Broad tax-exempt market)	–0.25	1.56	3.53
FTSE Three-Month U.S. Treasury Bill Index	0.78	1.33	0.38
<b>CPI</b>			
Consumer Price Index	2.22%	2.87%	1.54%

<sup>1</sup> Annualized.

## Conservative Allocation Portfolio

For the six months ended June 30, 2018, the Conservative Allocation Portfolio returned -0.20%. Its composite index returned -0.03% and the average return of its peers was -0.64%.

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

### U.S. bond prices declined as inflation concerns grew

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

It targets an asset allocation of approximately 60% bonds and 40% stocks through these holdings: VVIF Total Bond Market Index Portfolio (42%), VVIF Equity Index Portfolio (20%), Vanguard Total International Bond Index Fund (18%), Vanguard Total International Stock Index Fund (16%), and Vanguard Extended Market Index Fund (4%).

The VVIF Total Bond Market Index Portfolio, which includes most of the U.S. bond market, returned -1.77%. U.S. bond prices generally declined and yields rose as inflation expectations increased, and the Federal Reserve leaned toward more aggressively raising interest rates.

The yield of the benchmark 10-year U.S. Treasury note climbed to 2.86% from 2.41% six months earlier. Treasuries and mortgage-backed securities mostly surpassed investment-grade corporate bonds.

The Total International Bond Index Fund returned 1.31% for the portfolio. Bonds from Europe and the Pacific region produced generally similar returns. Higher-quality international bonds outpaced those of lower quality, and longer-dated bonds mostly surpassed their shorter-dated counterparts.

### U.S. small-cap stocks were top performers

In the U.S. equity markets, small-capitalization stocks surpassed their large- and mid-cap counterparts and growth outpaced value. The Extended

Market Index Fund, which concentrates on mid- and small-cap stocks, returned about 6%, and the Equity Index Portfolio, which focuses on large-caps, returned more than 2%.

Six of the 11 industry sectors posted positive results for the period. Information technology, consumer discretionary, and energy were the market leaders. Consumer staples, telecommunication services, and industrials recorded the poorest returns.

The Total International Stock Index Fund returned almost -4% as the stronger dollar lowered international stock results. Without the currency impact, returns would have been higher. Emerging markets stocks returned about -7%, and stocks from the developed markets of Europe and the Pacific region both returned about -3%.

### Total Returns

	Six Months Ended June 30, 2018
Conservative Allocation Portfolio	-0.20%
Conservative Allocation Composite Index <sup>1</sup>	-0.03
Variable Insurance Mixed-Asset Target Allocation Conservative Funds Average <sup>2</sup>	-0.64

### Expense Ratios

Your Portfolio Compared With Its Peer Group

	Acquired Fund Fees and Expenses <sup>3</sup>	Variable Insurance Mixed-Asset Target Allocation Conservative Funds Average <sup>4</sup>
Conservative Allocation Portfolio	0.14%	0.45%

<sup>1</sup> Weighted 48% Bloomberg Barclays U.S. Aggregate Float Adjusted Index, 28% S&P Total Market Index, 12% Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged), and 12% FTSE Global All Cap ex-US Index as of June 3, 2013. Previously, the composite was weighted 60% Bloomberg Barclays U.S. Aggregate Float Adjusted Index, 28% S&P Total Market Index, and 12% MSCI ACWI ex USA IMI Index.

<sup>2</sup> Derived from data provided by Lipper, a Thomson Reuters Company.

<sup>3</sup> This figure—drawn from the prospectus dated April 26, 2018—represents an estimate of the weighted average of the expense ratios and any transaction fees charged by the underlying mutual funds (the “acquired” funds) in which the Conservative Allocation Portfolio invests. The Conservative Allocation Portfolio does not charge any expenses or fees of its own. For the six months ended June 30, 2018, the annualized acquired fund fees and expenses were 0.13%.

<sup>4</sup> The peer-group expense ratio is derived from data provided by Lipper, a Thomson Reuters Company, and captures information through year-end 2017.

## Portfolio Profile

As of June 30, 2018

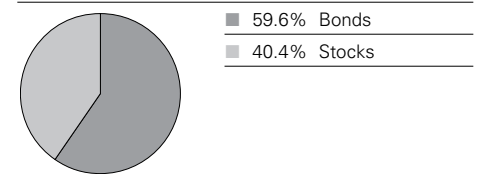
### Total Portfolio Characteristics

Yield <sup>1</sup>	2.04%
Acquired Fund Fees and Expenses <sup>2</sup>	0.14%

### Allocation to Underlying Funds

Vanguard Variable Insurance Fund Total Bond Market Index Portfolio	41.6%
Vanguard Variable Insurance Fund Equity Index Portfolio	20.4
Vanguard Total International Bond Index Fund Admiral Shares	18.0
Vanguard Total International Stock Index Fund Admiral Shares	15.8
Vanguard Extended Market Index Fund Admiral Shares	4.2

### Portfolio Asset Allocation



**30-Day SEC Yield.** A portfolio's 30-day SEC yield is derived using a formula specified by the U.S. Securities and Exchange Commission. Under the formula, data related to the portfolio's security holdings in the previous 30 days are used to calculate the portfolio's hypothetical net income for that period, which is then annualized and divided by the portfolio's estimated average net assets over the calculation period. For the purposes of this calculation, a security's income is based on its current market yield to maturity (for bonds), its actual income (for asset-backed securities), or its projected dividend yield (for stocks). Because the SEC yield represents hypothetical annualized income, it will differ—at times significantly—from the portfolio's actual experience. As a result, the portfolio's income distributions may be higher or lower than implied by the SEC yield.

**Acquired Fund Fees and Expenses.** Portfolios that invest in other Vanguard funds incur no direct expenses, but they do bear proportionate shares of the operating, administrative, and advisory expenses of the underlying funds, and they must pay any fees charged by those funds. The figure for acquired fund fees and expenses represents a weighted average of these underlying costs. *Acquired* is a term that the Securities and Exchange Commission applies to any mutual fund whose shares are owned by another fund.

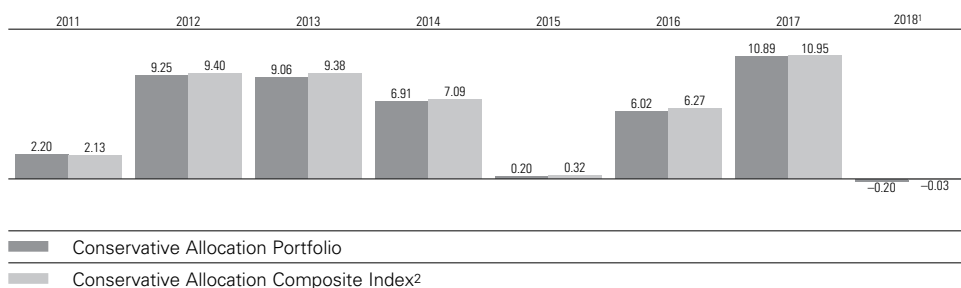
<sup>1</sup> 30-day SEC yield.

<sup>2</sup> This figure—drawn from the prospectus dated April 26, 2018—represents an estimate of the weighted average of the expense ratios and any transaction fees charged by the underlying mutual funds (the "acquired" funds) in which the Conservative Allocation Portfolio invests. The Conservative Allocation Portfolio does not charge any expenses or fees of its own. For the six months ended June 30, 2018, the annualized acquired fund fees and expenses were 0.13%.

## Performance Summary

All of the returns in this report represent past performance, which is not a guarantee of future results that may be achieved by the portfolio. (Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).) Note, too, that both investment returns and principal value can fluctuate widely, so an investor's shares, when sold, could be worth more or less than their original cost. The returns shown do not reflect taxes that a shareholder would pay on portfolio distributions or on the sale of portfolio shares. Nor do the returns reflect fees and expenses associated with the annuity or life insurance program through which a shareholder invests. If these fees and expenses were included, the portfolio's returns would be lower.

### Fiscal-Year Total Returns (%): October 19, 2011–June 30, 2018



### Average Annual Total Returns: Periods Ended June 30, 2018

	Inception Date	One Year	Five Years	Since Inception
Conservative Allocation Portfolio	10/19/2011	4.96%	6.04%	6.56%

<sup>1</sup> Six months ended June 30, 2018.

<sup>2</sup> Weighted 48% Bloomberg Barclays U.S. Aggregate Float Adjusted Index, 28% S&P Total Market Index, 12% Bloomberg Barclays Global Aggregate ex-USD Float Adjusted RIC Capped Index (USD Hedged), and 12% FTSE Global All Cap ex US Index as of June 3, 2013. Previously, the composite was weighted 60% Bloomberg Barclays U.S. Aggregate Float Adjusted Index, 28% S&P Total Market Index, and 12% MSCI ACWI ex USA IMI Index.

See Financial Highlights for dividend and capital gains information.

## Financial Statements (unaudited)

### Statement of Net Assets

As of June 30, 2018

The portfolio reports a complete list of its holdings in regulatory filings four times in each fiscal year, at the quarter-ends. For the second and fourth fiscal quarters, the lists appear in the portfolio's semiannual and annual reports to shareholders. For the first and third fiscal quarters, the portfolio files the lists with the Securities and Exchange Commission on Form N-Q. Shareholders can look up the portfolio's Forms N-Q on the SEC's website at sec.gov. Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room (see the back cover of this report for further information).

	Shares	Market Value* (\$000)
<b>Investment Companies (100.0%)</b>		
<b>U.S. Stock Funds (24.6%)</b>		
Vanguard Variable Insurance Fund—Equity Index Portfolio	1,581,034	64,585
Vanguard Extended Market Index Fund Admiral Shares	149,906	13,405
		<b>77,990</b>
<b>International Stock Fund (15.8%)</b>		
Vanguard Total International Stock Market Index Fund Admiral Shares	1,727,540	50,133
<b>U.S. Bond Fund (41.6%)</b>		
Vanguard Variable Insurance Fund—Total Bond Market Index Portfolio	11,625,178	132,062
<b>International Bond Fund (18.0%)</b>		
Vanguard Total International Bond Index Fund Admiral Shares	2,610,950	57,102
<b>Total Investment Companies (Cost \$311,232)</b>		<b>317,287</b>
<b>Temporary Cash Investment (0.1%)</b>		
<b>Money Market Fund (0.1%)</b>		
<sup>1</sup> Vanguard Market Liquidity Fund, 2.122% (Cost \$230)	2,300	230
<b>Total Investments (100.1%) (Cost \$311,462)</b>		<b>317,517</b>
<b>Other Assets and Liabilities (-0.1%)</b>		
Other Assets		50
Liabilities		(283)
		<b>(233)</b>
<b>Net Assets (100%)</b>		
Applicable to 12,839,920 outstanding \$.001 par value shares of beneficial interest (unlimited authorization)		<b>317,284</b>
<b>Net Asset Value Per Share</b>		<b>\$24.71</b>

	Amount (\$000)
<b>Statement of Assets and Liabilities</b>	
<b>Assets</b>	
Investments in Securities, at Value—Affiliated Funds	317,517
Receivables for Accrued Income	50
<b>Total Assets</b>	<b>317,567</b>
<b>Liabilities</b>	
Payables for Investment Securities Purchased	268
Payables for Capital Shares Redeemed	15
<b>Total Liabilities</b>	<b>283</b>
<b>Net Assets</b>	<b>317,284</b>

At June 30, 2018, net assets consisted of:

	Amount (\$000)
Paid-in Capital	300,964
Undistributed Net Investment Income	5,078
Accumulated Net Realized Gains	5,187
Unrealized Appreciation (Depreciation)	6,055
<b>Net Assets</b>	<b>317,284</b>

• See Note A in Notes to Financial Statements.

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

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



## Statement of Operations

	Six Months Ended June 30, 2018
	(\$000)
<b>Investment Income</b>	
<b>Income</b>	
Income Distributions Received from Affiliated Funds	5,095
<b>Net Investment Income—Note B</b>	<b>5,095</b>
<b>Realized Net Gain (Loss)</b>	
Capital Gain Distributions Received from Affiliated Funds	1,274
Affiliated Funds Sold	3,925
<b>Realized Net Gain (Loss)</b>	<b>5,199</b>
<b>Change in Unrealized Appreciation (Depreciation) From Affiliated Funds</b>	<b>(10,843)</b>
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(549)</b>

## Statement of Changes in Net Assets

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
	(\$000)	(\$000)
<b>Increase (Decrease) in Net Assets</b>		
<b>Operations</b>		
Net Investment Income	5,095	6,406
Realized Net Gain (Loss)	5,199	6,808
Change in Unrealized Appreciation (Depreciation)	(10,843)	14,279
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>(549)</b>	<b>27,493</b>
<b>Distributions</b>		
Net Investment Income	(6,271)	(4,999)
Realized Capital Gain <sup>1</sup>	(6,817)	(4,437)
<b>Total Distributions</b>	<b>(13,088)</b>	<b>(9,436)</b>
<b>Capital Share Transactions</b>		
Issued	36,444	73,598
Issued in Lieu of Cash Distributions	13,088	9,437
Redeemed	(24,800)	(27,654)
<b>Net Increase (Decrease) from Capital Share Transactions</b>	<b>24,732</b>	<b>55,381</b>
<b>Total Increase (Decrease)</b>	<b>11,095</b>	<b>73,438</b>
<b>Net Assets</b>		
<b>Beginning of Period</b>	<b>306,189</b>	<b>232,751</b>
<b>End of Period<sup>2</sup></b>	<b>317,284</b>	<b>306,189</b>

<sup>1</sup> Includes fiscal 2018 and 2017 short-term gain distributions totaling \$284,000 and \$719,000, respectively. Short-term gain distributions are treated as ordinary income dividends for tax purposes.

<sup>2</sup> Net Assets—End of Period includes undistributed (overdistributed) net investment income of \$5,078,000 and \$6,254,000.

## Financial Highlights

For a Share Outstanding Throughout Each Period	Six Months Ended June 30, 2018	Year Ended December 31,				
		2017	2016	2015	2014	2013
<b>Net Asset Value, Beginning of Period</b>	<b>\$25.84</b>	<b>\$24.22</b>	<b>\$23.72</b>	<b>\$24.44</b>	<b>\$23.86</b>	<b>\$22.27</b>
<b>Investment Operations</b>						
Net Investment Income <sup>1</sup>	.411	.592	.527	.470	.495	.514
Capital Gain Distributions Received <sup>1</sup>	.103	.203	.128	.201	.130	.252
Net Realized and Unrealized Gain (Loss) on Investments	(.560)	1.769	.728	(.611)	.971	1.229
<b>Total from Investment Operations</b>	<b>(.046)</b>	<b>2.564</b>	<b>1.383</b>	<b>.060</b>	<b>1.596</b>	<b>1.995</b>
<b>Distributions</b>						
Dividends from Net Investment Income	(.519)	(.500)	(.407)	(.387)	(.386)	(.215)
Distributions from Realized Capital Gains	(.565)	(.444)	(.476)	(.393)	(.630)	(.190)
<b>Total Distributions</b>	<b>(1.084)</b>	<b>(.944)</b>	<b>(.883)</b>	<b>(.780)</b>	<b>(1.016)</b>	<b>(.405)</b>
<b>Net Asset Value, End of Period</b>	<b>\$24.71</b>	<b>\$25.84</b>	<b>\$24.22</b>	<b>\$23.72</b>	<b>\$24.44</b>	<b>\$23.86</b>
<b>Total Return</b>	<b>-0.20%</b>	<b>10.89%</b>	<b>6.02%</b>	<b>0.20%</b>	<b>6.91%</b>	<b>9.06%</b>
<b>Ratios/Supplemental Data</b>						
Net Assets, End of Period (Millions)	\$317	\$306	\$233	\$199	\$160	\$102
Ratio of Total Expenses to Average Net Assets	—	—	—	—	—	—
Acquired Fund Fees and Expenses	0.13%	0.14%	0.16%	0.16%	0.19%	0.19%
Ratio of Net Investment Income to Average Net Assets	1.97%	2.38%	2.20%	1.95%	2.07%	2.23%
Portfolio Turnover Rate	17%	19%	14%	15%	13%	37%

The expense ratio, acquired fund fees and expenses, net investment income ratio, and turnover rate for the current period have been annualized.

<sup>1</sup> Calculated based on average shares outstanding.

## Notes to Financial Statements

Conservative Allocation Portfolio, a portfolio of Vanguard Variable Insurance Funds, is registered under the Investment Company Act of 1940 as an open-end investment company. The portfolio follows a balanced investment strategy by investing in selected Vanguard funds and portfolios to achieve its targeted allocation of assets to U.S. and international stocks, and U.S. and international bonds. Financial statements and other information about each underlying fund and portfolio are available on [vanguard.com](http://vanguard.com). The portfolio's shares are only available for purchase by separate accounts of insurance companies as investments for variable annuity plans, variable life insurance contracts, or other variable benefit insurance contracts.

**A.** The following significant accounting policies conform to generally accepted accounting principles for U.S. investment companies. The portfolio consistently follows such policies in preparing its financial statements.

1. **Security Valuation:** Investments are valued at the net asset value of each underlying Vanguard fund determined as of the close of the New York Stock Exchange (generally 4 p.m., Eastern time) on the valuation date.

2. **Federal Income Taxes:** The portfolio intends to continue to qualify as a regulated investment company and distribute all of its taxable income. Management has analyzed the portfolio's tax positions taken for all open federal income tax years (December 31, 2014–2017), and for the period ended June 30, 2018, and has concluded that no provision for federal income tax is required in the portfolio's financial statements.

3. **Distributions:** Distributions to shareholders are recorded on the ex-dividend date.

4. **Credit Facility:** The portfolio and certain other funds managed by The Vanguard Group ("Vanguard") participate in a \$3.1 billion committed credit facility provided by a syndicate of lenders pursuant to a credit agreement that may be renewed annually; each fund is individually liable for its borrowings, if any, under the credit facility. Borrowings may be utilized for temporary and emergency purposes, and are subject to the portfolio's regulatory and contractual borrowing restrictions. The participating funds are charged administrative fees and an annual commitment fee of 0.10% of the undrawn amount of the facility; these fees are allocated to the funds based on a method approved by the portfolio's board of trustees and borne by the funds in which the portfolio invests (see Note B). Any borrowings under this facility bear interest at a rate based upon the higher of the one-month London Interbank Offered Rate, federal funds effective rate, or overnight bank funding rate plus an agreed-upon spread.

The portfolio had no borrowings outstanding at June 30, 2018, or at any time during the period then ended.

5. **Other:** Income and capital gain distributions received are recorded on the ex-dividend date. Security transactions are accounted for on the date securities are bought or sold. Costs used to determine realized gains (losses) on the sale of investment securities are those of the specific securities sold.

**B.** In accordance with the terms of a Funds' Service Agreement (the "FSA") between Vanguard and the portfolio, Vanguard furnishes to the portfolio investment advisory, corporate management, administrative, marketing, and distribution services at Vanguard's cost of operations (as defined by the FSA). These costs of operations are allocated to the portfolio based on methods and guidelines approved by the board of trustees. The FSA provides that expenses otherwise allocable to Vanguard funds-of-funds may be reduced or eliminated to the extent of savings realized by the underlying Vanguard funds by virtue of being part of a fund-of-funds. Accordingly, all expenses for services provided by Vanguard to the portfolio and all other expenses incurred by the portfolio during the period ended June 30, 2018, were borne by the underlying Vanguard funds in which the portfolio invests. The portfolio's trustees and officers are also trustees and officers, respectively, of the underlying Vanguard funds, as well as directors and employees, respectively, of Vanguard.

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

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

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

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

At June 30, 2018, 100% of the market value of the portfolio's investments was determined based on Level 1 inputs.

Conservative Allocation Portfolio

D. Distributions are determined on a tax basis and may differ from net investment income and realized capital gains for financial reporting purposes. Differences may be permanent or temporary. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain, or loss are recognized in different periods for financial statement and tax purposes. These differences will reverse at some time in the future. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. The portfolio's tax-basis capital gains and losses are determined only at the end of each fiscal year.

At June 30, 2018, the cost of investment securities for tax purposes was \$311,462,000. Net unrealized appreciation of investment securities for tax purposes was \$6,055,000, consisting of unrealized gains of \$14,143,000 on securities that had risen in value since their purchase and \$8,088,000 in unrealized losses on securities that had fallen in value since their purchase.

E. Capital shares issued and redeemed were:

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
	Shares (000)	Shares (000)
Issued	1,452	2,961
Issued in Lieu of Cash Distributions	527	393
Redeemed	(990)	(1,111)
Net Increase (Decrease) in Shares Outstanding	989	2,243

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

	Current Period Transactions							June 30, 2018 Market Value (\$000)
	Dec. 31, 2017 Market Value (\$000)	Purchases at Cost (\$000)	Proceeds from Securities Sold (\$000)	Realized Net Gain (Loss) (\$000)	Change in Unrealized App. (Dep.) (\$000)	Income (\$000)	Capital Gain Distributions Received (\$000)	
Vanguard Market Liquidity Fund	209	NA <sup>1</sup>	NA <sup>1</sup>	—	—	—	—	230
Vanguard Extended Market Index Fund	12,933	390	658	209	531	80	—	13,405
Vanguard Variable Insurance Fund—Equity Index Portfolio	60,375	16,984	12,421	2,883	(3,236)	1,047	1,019	64,585
Vanguard Variable Insurance Fund—Total Bond Market Index Portfolio	129,293	18,501	10,285	16	(5,463)	3,007	255	132,062
Vanguard Total International Bond Index Fund	54,705	2,497	552	46	406	295	—	57,102
Vanguard Total International Stock Index Fund	48,843	6,949	3,349	771	(3,081)	666	—	50,133
Total	306,358	45,321	27,265	3,925	(10,843)	5,095	1,274	317,517

<sup>1</sup> Not applicable—purchases and sales are for temporary cash investment purposes.

G. Management has determined that no events or transactions occurred subsequent to June 30, 2018, that would require recognition or disclosure in these financial statements.

## About Your Portfolio's Expenses

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

A typical portfolio's expenses are expressed as a percentage of its average net assets. The Conservative Allocation Portfolio has no direct expenses, but bears its proportionate share of the expenses of the underlying funds in which it invests. These indirect expenses make up the acquired fund fees and expenses, also expressed as a percentage of average net assets. The following examples are intended to help you understand the ongoing costs (in dollars) of investing in your portfolio and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period. The costs were calculated using the acquired fund fees and expenses for the Conservative Allocation Portfolio.

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

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

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

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

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

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

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

### Six Months Ended June 30, 2018

	Beginning Account Value 12/31/2017	Ending Account Value 6/30/2018	Expenses Paid During Period <sup>1</sup>
Conservative Allocation Portfolio			
Based on Actual Portfolio Return	\$1,000.00	\$998.04	\$0.64
Based on Hypothetical 5% Yearly Return	1,000.00	1,024.15	0.65

<sup>1</sup> The calculations are based on the Conservative Allocation Portfolio's acquired fund fees and expenses for the most recent six-month period. The Conservative Allocation Portfolio's annualized expense figure for that period is 0.13%. The dollar amounts shown as "Expenses Paid" are equal to the annualized average weighted expense ratio for the underlying funds, multiplied by the average account value over the period, multiplied by the number of days in the most recent six-month period, then divided by the number of days in the most recent 12-month period (181/365).

## Trustees Approve Advisory Arrangement

The board of trustees of Vanguard Variable Insurance Fund Conservative Allocation Portfolio has renewed the portfolio's investment advisory arrangement with The Vanguard Group, Inc. (Vanguard), through its Equity Index Group. The board determined that continuing the portfolio's internalized management structure 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 monthly reports, which included a Market and Economic Report, a Fund Dashboard Monthly Summary, and a Fund Performance Report.

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 investment management services provided to the portfolio since its inception in 2011, and took into account the organizational depth and stability of the advisor. The board considered that Vanguard has been managing investments for more than four decades. The Equity Index Group adheres to a sound, disciplined investment management process; the team has considerable experience, stability, and depth.

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

### **Investment performance**

The board considered the performance of the portfolio since its inception, 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. Information about the portfolio's most recent performance can be found in the Performance Summary section of this report.

### **Cost**

The board concluded that the portfolio's acquired fund fees and expenses were well below the average expense ratio charged by funds in its peer group. The portfolio does not incur advisory expenses directly; however, the board noted that each of the underlying funds in which the portfolio invests has advisory expenses well below the underlying fund's peer-group average. Information about the portfolio's acquired fund fees and expenses appears in the About Your Portfolio's Expenses section as well as in the Financial Statements section.

The board does not conduct a profitability analysis of Vanguard because of Vanguard's unique "at-cost" structure. Unlike most other mutual fund management companies, Vanguard is owned by the funds it oversees and produces "profits" only in the form of reduced expenses for fund shareholders.

### **The benefit of economies of scale**

The board concluded that Vanguard's at-cost arrangement with the portfolio and its underlying funds ensures that the portfolio will realize economies of scale as the assets of the underlying funds grow, with the cost to shareholders declining as assets increase.

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

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# The People Who Govern Your Fund

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

A majority of Vanguard's board members are independent, meaning that they have no affiliation with Vanguard or the funds they oversee, apart from the sizable personal investments they have made as private individuals. The independent board members have distinguished backgrounds in business, academia, and public service. Each of the trustees and executive officers oversees 208 Vanguard funds.

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

## Interested Trustees<sup>1</sup>

### F. William McNabb III

Born in 1957. Trustee since July 2009. Principal occupation(s) during the past five years and other experience: chairman of the board (January 2010–present) of Vanguard and of each of the investment companies served by Vanguard, trustee (2009–present) of each of the investment companies served by Vanguard, and director (2008–present) of Vanguard. Chief executive officer and president (2008–2017) of Vanguard and each of the investment companies served by Vanguard, managing director (1995–2008) of Vanguard, and director (1997–2018) of Vanguard Marketing Corporation. Director (2018–present) of UnitedHealth Group.

### Mortimer J. Buckley

Born in 1969. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: chief executive officer (January 2018–present) of Vanguard; chief executive officer, president, and trustee (January 2018–present) of each of the investment companies served by Vanguard; president and director (2017–present) of Vanguard; and president (February 2018–present) of Vanguard Marketing Corporation. Chief investment officer (2013–2017), managing director (2002–2017), head of the Retail Investor Group (2006–2012), and chief information officer (2001–2006) of Vanguard. Chairman of the board (2011–2017) of the Children's Hospital of Philadelphia.

## Independent Trustees

### Emerson U. Fullwood

Born in 1948. Trustee since January 2008. Principal occupation(s) during the past five years and other experience: executive chief staff and marketing officer for North America and corporate vice president (retired 2008) of Xerox Corporation (document management products and services). Former president of the Worldwide Channels Group, Latin America, and Worldwide Customer Service and executive chief staff officer of Developing Markets of Xerox. Executive in residence and 2009–2010 Distinguished Minett Professor at the Rochester Institute of Technology. Lead director of SPX FLOW, Inc. (multi-industry manufacturing). Director of the University of Rochester Medical Center, the Monroe Community College Foundation, the United Way of Rochester, North Carolina A&T University, and Roberts Wesleyan College. Trustee of the University of Rochester.

### Amy Gutmann

Born in 1949. Trustee since June 2006. Principal occupation(s) during the past five years and other experience: president (2004–present) of the University of Pennsylvania. Christopher H. Browne Distinguished Professor of Political Science, School of Arts and Sciences, and professor of communication, Annenberg School for Communication, with secondary faculty appointments in the Department of Philosophy, School of Arts and Sciences, and at the Graduate School of Education, University of Pennsylvania. Trustee of the National Constitution Center.

### JoAnn Heffernan Heisen

Born in 1950. Trustee since July 1998. Principal occupation(s) during the past five years and other experience: corporate vice president of Johnson & Johnson (pharmaceuticals/medical devices/consumer products) and member of its executive committee (1997–2008). Chief global diversity officer (retired 2008), vice president and chief information officer (1997–2006), controller (1995–1997), treasurer (1991–1995), and assistant treasurer (1989–1991) of Johnson & Johnson. Director of Skytop Lodge Corporation (hotels) and the Robert Wood Johnson Foundation. Member of the advisory board of the Institute for Women's Leadership at Rutgers University.

### F. Joseph Loughrey

Born in 1949. Trustee since October 2009. Principal occupation(s) during the past five years and other experience: president and chief operating officer (retired 2009) and vice chairman of the board (2008–2009) of Cummins Inc. (industrial machinery). Chairman of the board of Hillenbrand, Inc. (specialized consumer services), Oxfam America, and the Lumina Foundation for Education. Director of the V Foundation for Cancer Research. Member of the advisory council for the College of Arts and Letters and chair of the advisory board to the Kellogg Institute for International Studies, both at the University of Notre Dame.

### Mark Loughridge

Born in 1953. Trustee since March 2012. Principal occupation(s) during the past five years and other experience: senior vice president and chief financial officer (retired 2013) of IBM (information technology services). Fiduciary member of IBM's Retirement Plan Committee (2004–2013), senior vice president and general manager (2002–2004) of IBM Global Financing, vice president and controller (1998–2002) of IBM, and a variety of other prior management roles at IBM. Member of the Council on Chicago Booth.

### Scott C. Malpass

Born in 1962. Trustee since March 2012. Principal occupation(s) during the past five years and other experience: chief investment officer (1989–present) and vice president (1996–present) of the University of Notre Dame. Assistant professor of finance at the Mendoza College of Business, University of Notre Dame, and member of the Notre Dame 403(b) Investment Committee. Chairman of the board of TIFF Advisory Services, Inc. Member of the board of Catholic Investment Services, Inc. (investment advisors), the board of advisors for Spruceview Capital Partners, and the board of superintendence of the Institute for the Works of Religion.

### Deanna Mulligan

Born in 1963. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: president (2010–present) and chief executive officer (2011–present) of The Guardian Life Insurance Company of America. Chief operating officer (2010–2011) and executive vice president (2008–2010) of Individual Life and Disability of The Guardian Life Insurance Company of America. Member of the board of The Guardian Life Insurance Company of America, the American Council of Life Insurers, the Partnership for New York City (business leadership), and the Committee Encouraging Corporate Philanthropy. Trustee of the Economic Club of New York and the Bruce Museum (arts and science). Member of the Advisory Council for the Stanford Graduate School of Business.

### André F. Perold

Born in 1952. Trustee since December 2004. Principal occupation(s) during the past five years and other experience: George Gund Professor of Finance and Banking, Emeritus at the Harvard Business School (retired 2011). Chief investment officer and co-managing partner of HighVista Strategies LLC (private investment firm). Overseer of the Museum of Fine Arts Boston.

### Sarah Bloom Raskin

Born in 1961. Trustee since January 2018. Principal occupation(s) during the past five years and other experience: deputy secretary (2014–2017) of the United States Department of the Treasury. Governor (2010–2014) of the Federal Reserve Board. Commissioner (2007–2010) of financial regulation for the State of Maryland. Member of the board of directors (2012–2014) of Neighborhood Reinvestment Corporation. Director of i(x) Investments, LLC.

<sup>1</sup> Mr. McNabb and Mr. Buckley are considered "interested persons," as defined in the Investment Company Act of 1940, because they are officers of the Vanguard funds.

**Peter F. Volanakis**

Born in 1955. Trustee since July 2009. Principal occupation(s) during the past five years and other experience: president and chief operating officer (retired 2010) of Corning Incorporated (communications equipment) and director of Corning Incorporated (2000–2010) and Dow Corning (2001–2010). Director (2012) of SPX Corporation (multi-industry manufacturing). Overseer of the Amos Tuck School of Business Administration, Dartmouth College (2001–2013). Chairman of the board of trustees of Colby-Sawyer College. Member of the Board of Hypertherm Inc. (industrial cutting systems, software, and consumables).

**Executive Officers****Glenn Booraem**

Born in 1967. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Investment stewardship officer (2017–present), treasurer (2015–2017), controller (2010–2015), and assistant controller (2001–2010) of each of the investment companies served by Vanguard.

**Christine M. Buchanan**

Born in 1970. Principal occupation(s) during the past five years and other experience: principal of Vanguard and global head of Fund Administration at Vanguard. Treasurer (2017–present) of each of the investment companies served by Vanguard. Partner (2005–2017) at KPMG LLP (audit, tax, and advisory services).

**Brian Dvorak**

Born in 1973. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Chief compliance officer (2017–present) of Vanguard and each of the investment companies served by Vanguard. Assistant vice president (2017–present) of Vanguard Marketing Corporation. Vice president and director of Enterprise Risk Management (2011–2013) at Oppenheimer Funds, Inc.

**Thomas J. Higgins**

Born in 1957. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Chief financial officer (2008–present) and treasurer (1998–2008) of each of the investment companies served by Vanguard.

**Peter Mahoney**

Born in 1974. Principal occupation(s) during the past five years and other experience: principal of Vanguard. Controller (2015–present) of each of the investment companies served by Vanguard. Head of International Fund Services (2008–2014) at Vanguard.

**Anne E. Robinson**

Born in 1970. Principal occupation(s) during the past five years and other experience: general counsel (2016–present) of Vanguard. Secretary (2016–present) of Vanguard and of each of the investment companies served by Vanguard. Managing director (2016–present) of Vanguard. Director and senior vice president (2016–2018) of Vanguard Marketing Corporation. Managing director and general counsel of Global Cards and Consumer Services (2014–2016) at Citigroup. Counsel (2003–2014) at American Express.

**Michael Rollings**

Born in 1963. Principal occupation(s) during the past five years and other experience: finance director (2017–present) and treasurer (2017) of each of the investment companies served by Vanguard. Managing director (2016–present) of Vanguard. Chief financial officer (2016–present) of Vanguard. Director (2016–present) of Vanguard Marketing Corporation. Executive vice president and chief financial officer (2006–2016) of MassMutual Financial Group.

**Vanguard Senior Management Team**

<b>Mortimer J. Buckley</b>	<b>James M. Norris</b>
<b>Gregory Davis</b>	<b>Thomas M. Rampulla</b>
<b>John James</b>	<b>Karin A. Risi</b>
<b>Martha G. King</b>	<b>Anne E. Robinson</b>
<b>John T. Marcante</b>	<b>Michael Rollings</b>
<b>Chris D. McIsaac</b>	

**Chairman Emeritus and Senior Advisor****John J. Brennan**

Chairman, 1996–2009  
Chief Executive Officer and President, 1996–2008

**Founder****John C. Bogle**

Chairman and Chief Executive Officer, 1974–1996



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All comparative mutual fund data are from Lipper, a Thomson Reuters Company, or Morningstar, Inc., unless otherwise noted.

You can review and copy information about your portfolio at the SEC's Public Reference Room in Washington, D.C. To find out more about this public service, call the SEC at 202-551-8090. Information about your portfolio is also available on the SEC's website, and you can receive copies of this information, for a fee, by sending a request in either of two ways: via email addressed to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or via regular mail addressed to the Public Reference Section, Securities and Exchange Commission, Washington, DC 20549-1520.

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