

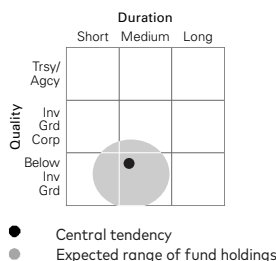
Vanguard® High Yield Bond Portfolio

Investment Approach

High-yield corporate fixed income portfolio.
 Seeks high and sustainable current income.
 Fundamental credit selection process.
 Higher credit quality and lower return volatility relative to competitors.
 Broadly diversified by issuer and industry sector.

Vanguard Style View: High Yield Bond

Portfolio of corporate bonds rated below investment-grade.



Quarterly Commentary

Major stock markets continued to advance in the first quarter of 2024, with a number of indexes reaching record highs. In the U.S., inflation readings came in higher than expected, but the labor market stayed on a solid footing, consumer spending remained strong, and the economy showed continued vigor. Given this backdrop, the Federal Reserve left interest rates unchanged.

With rate cuts looking less imminent, bond yields generally rose and prices declined. The broad U.S. investment-grade bond market returned -0.72% (as measured by the Bloomberg U.S. Aggregate Float Adjusted Index).

The portfolio's strategy favors issues of higher credit quality than the broader high-yield market in the belief that lower-quality bonds do not adequately compensate investors over the long term for the increased risk. The portfolio's primary benchmark reflects this higher-quality tilt, containing only BB- and B-rated high-yield bonds and a small allocation to Treasury securities for liquidity.

For the quarter ended March 31, Vanguard Variable Insurance Funds High Yield Bond Portfolio underperformed its primary benchmark, the High-Yield Corporate Composite Index (+1.19%), and the average return of its peers (+1.64%). Security selection within energy, packaging, and health care detracted most from performance. Security selection within leisure, technology, and food and beverage sectors helped offset some of the underperformance.

For the 12 months ended March 31, the portfolio underperformed its benchmark (+9.79%) and its peer-group average (+10.13%). Allocation and selection effects within retailers and packaging detracted most from performance, while selection within energy, technology, and gaming also detracted. Selection within leisure, wireline, and transportation sectors helped offset a portion of the underperformance. An underweight allocation to utilities also helped offset some of the underperformance.

Note: Changes in yields may reflect rounding.

People and Process

Vanguard Variable Insurance Fund High Yield Bond Portfolio seeks a high and sustainable level of current income by investing primarily in below-investment-grade corporate securities offering attractive yields. The portfolio emphasizes higher credit quality and lower risk than are typical of other high-yield funds. Using a long-term, fundamental process, the advisors apply intensive credit analysis to identify high-yielding companies with stable or improving prospects. The portfolio maintains broad diversification in its below-investment-grade holdings. It also can hold investment-grade issues suffering from near-term weakness, bank loans, and U.S. Treasury bonds. The advisors' strategy seeks to reduce default risk and limit capital depreciation potential. The resulting portfolio generally has a lower yield-to-maturity, higher average credit quality, and lower volatility than the Bloomberg U.S. Corporate High Yield Bond Index. The portfolio purchases securities paying cash coupons and avoids zero-coupon or pay-in-kind bonds.

Wellington Management Company LLP

The firm seeks to generate a high level of income and excess returns over a market cycle through a higher quality investment approach characterized by lower volatility and drawdowns relative to the broad high yield market. Wellington attempts to add value through a combination of bottom-up fundamental research capabilities and top-down perspectives while emphasizing downside risk protection, focusing on a longer-term time horizon, and mitigating transaction costs.

Firm Description

Founded in 1928, Wellington Management Company LLP, Boston, Massachusetts, is among the nation's oldest and most respected institutional investment managers. The firm has advised Vanguard Variable Insurance Fund High Yield Bond Portfolio since 1996.

Investment Manager Biographies

Elizabeth H. Shortsleeve, Senior Managing Director. Portfolio manager. Advised the portfolio since 2022. Worked in investment management since 1998. B.A., Georgetown University. M.B.A., Tuck School of Business, Dartmouth College.

Vanguard Fixed Income Group

The firm seeks to generate a high level of income and excess returns over a market cycle through a disciplined risk-taking approach that combines a strategic defensive orientation, reflected by an up-in quality bias and focus on diversification, with a willingness to opportunistically add risk when valuations and conditions warrant. Vanguard attempts to add value primarily through an investment process focused on fundamental security selection to minimize default and credit loss exposure.

Firm Description

Launched in 1975, The Vanguard Group, Malvern, Pennsylvania, is among the world's largest equity and fixed income managers. As chief investment officer, Gregory Davis, CFA, oversees Vanguard's Equity Index, Investment Strategy, Quantitative Equity, and Fixed Income Groups. Sara Devereux, principal and global head of Fixed Income Group, has direct oversight responsibility for all money market, bond, and stable value portfolios managed by the Fixed Income Group. The Fixed Income Group offers actively managed investments in U.S. Treasury, corporate, and tax-exempt securities, as well as passively managed index portfolios. Since 1981, it has refined techniques in total-return management, credit research, and index sampling to seek to deliver consistent performance with transparency and risk control.

The group has advised Vanguard Variable Insurance Fund High Yield Bond Portfolio since 2022.

Investment Manager Biographies

Michael Chang, CFA. Portfolio manager. Advised the portfolio since 2022. Worked in investment management since 2002. B. Com., University of British Columbia.

Investment Advisors

	Fund Assets Managed	
	%	\$ Million
Wellington Management Company LLP	65	470
Vanguard Fixed Income Group	32	233
Cash investments	3	23
Total	100	726

Total Returns

	Expense Ratio	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Variable Insurance Fund - High Yield Bond Portfolio (6/3/1996)	0.25%	0.85%	0.85%	9.13%	2.06%	3.83%	4.15%
High-Yield Corporate Composite Index	—	1.19	1.19	9.79	1.92	4.13	4.30
Variable Insurance High Current Yield Funds Average	—	1.64	1.64	10.13	2.20	3.72	3.66

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. 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. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

Note: High-Yield Corporate Composite Index: Consists of 95% Bloomberg U.S. High-Yield Ba/B 2% Issuer Capped Index and 5% Bloomberg U.S. 1–5 Year Treasury Bond Index. Average fund returns are derived from data provided by Lipper, a Thomson Reuters Company.

Fund Facts

Fund Number	0260
CUSIP Number	921925806
Assets (millions)	\$726
Inception	6/3/1996
Expense Ratio (as of 4/2023)	0.25%

Distribution by Issuer

	% of Portfolio
Finance	8.1%
Foreign	0.1
Industrial	79.4
Treasury / Agency	3.6
Utilities	1.6
Other	7.2
Total	100.0%

Volatility Measures

	R-Squared	Beta
High-Yield Corporate Composite Idx	0.99	1.02
Bloomberg US Corp High Yield Index	0.98	0.97

R-squared and beta are calculated from trailing 36-month fund returns relative to the associated benchmark.

Distribution by Credit Quality

	% of Portfolio
U.S. Government	3.6%
Aa	1.5
A	0.1
Baa	4.8
Ba	48.1
B	35.0
CCC or Lower	4.6
Not Rated	2.3
Total	100.0%

Credit-quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). "NR" is used to classify securities for which a rating is not available. NR securities may include a fund's investment in Vanguard Market Liquidity Fund or Vanguard Municipal Cash Management Fund, each of which invests in high-quality money market instruments and may serve as a cash management vehicle for the Vanguard funds, trusts, and accounts. U.S. Treasury, U.S. Agency, and U.S. Agency mortgage-backed securities appear under "U.S. Government." Credit-quality ratings for each issue are obtained from Bloomberg using ratings derived from Moody's Investors Service (Moody's), Fitch Ratings (Fitch), and Standard & Poor's (S&P). When ratings from all three agencies are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Distribution by Effective Maturity

	% of Portfolio
Under 1 Year	6.8%
1 to 5 Years	49.3%
5 to 10 Years	42.2%
10 - 15 Years	0.4%
15 - 20 Years	0.3%
20 - 25 Years	0.8%
Over 25 Years	0.2%
Total	100.0%

Important information

For more information about Vanguard funds or Vanguard ETFs, visit [vanguard.com](https://www.vanguard.com) or call 800-523-1036 to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information are contained in the prospectus; read and consider it carefully before investing.

Vanguard ETF Shares are not redeemable with the issuing Fund other than in very large aggregations worth millions of dollars. Instead, investors must buy or sell Vanguard ETF Shares in the secondary market and hold those shares in a brokerage account. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling.

All investing is subject to risk, including the possible loss of the money you invest.

Please remember that all investments involve some risk. Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss. Funds that concentrate on a relatively narrow market sector face the risk of higher share-price volatility.

Investments in bond funds and ETFs are subject to interest rate, credit, and inflation risk. Although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings.

The Factor Funds are subject to investment style risk, which is the chance that returns from the types of stocks in which a Factor Fund invests will trail returns from U.S. stock markets. The Factor Funds are also subject to manager risk, which is the chance that poor security selection will cause a Factor Fund to underperform its relevant benchmark or other funds with a similar investment objective, and sector risk, which is the chance that significant problems will affect a particular sector in which a Factor Fund invests, or that returns from that sector will trail returns from the overall stock market.

Investments in derivatives may involve risks different from, and possibly greater than, those of investments in the underlying securities or assets.

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