

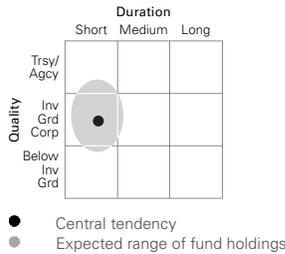
# Vanguard® Short-Term Investment-Grade Portfolio

## Product Summary

Short-term, investment-grade fixed income securities. Seeks current income with limited price volatility. At least 80% invested in short-term and intermediate-term investment-grade fixed income securities, primarily corporate bonds; invests primarily in (investment-grade) corporate bonds. Approach focused on intensive credit analysis and controlled risk. Lower interest-rate volatility than the broad U.S. fixed income market.

## Vanguard Style View: Short-Term Bond

Portfolio of high-quality, short-term corporate bonds.



## Quarterly Commentary

The investment environment grew more challenging as the third quarter of 2021 progressed. Corporate earnings were healthy across much of the globe, with many economies back open, vaccination rates climbing, and labor markets regaining lost ground. Sentiment deteriorated, though, as the COVID-19 Delta variant spread, high inflation readings in some economies (including the U.S.) began to look as if they might persist for a while, and worries surfaced about contagion from debt issues in the Chinese property sector.

For much of the quarter, the yield of the bellwether U.S. 10-year Treasury note was lower than where it started, but it finished up slightly at 1.49% amid concerns about inflation and with the Federal Reserve signaling that it might soon begin to taper its asset purchases. The broad U.S. investment-grade bond market returned 0.05% (as measured by the Bloomberg U.S. Aggregate Float Adjusted Index).

For the quarter, the portfolio performed in line with its benchmark, the Bloomberg U.S. 1–5 Year Credit Index (+0.09%), and outperformed the average return of its peer group (+0.08%). Positive selection in corporate bonds, particularly in A-and-above-rated banks and BBB-rated consumer cyclical firms such as automobile manufacturers, contributed most. The portfolio's positions in commercial mortgage-backed securities and high-yield corporate bonds also helped results. Conversely, an overweight allocation to emerging market sovereign bonds and an underweight allocation to government-related bonds detracted.

For the 12 months ended September 30, the portfolio outperformed its benchmark (+1.08%) and the average return of its peer group (+1.28%). A position in agency mortgages helped performance, as did the portfolio's underweight to government-related bonds. Positive selection in A-and-above-rated banks, energy companies, and communications firms also contributed to results. On the other side of the ledger, the portfolio's allocation to commercial mortgage-backed securities, as well as an overweight allocation to BBB-rated corporate bonds, detracted.

Note: Changes in yields may reflect rounding.

## People and Process

Vanguard® Variable Insurance Fund Short-Term Investment-Grade Portfolio seeks current income with limited price volatility, and aggregate performance consistent with short-term, investment grade corporate bonds. The portfolio invests primarily in short-term corporate bonds, but generally has some exposure to intermediate-term corporate obligations. At least 80% of assets are invested in short-term and intermediate-term corporate fixed income securities and 95% invested in investment-grade securities rated Baa or higher. The portfolio maintains a weighted average maturity of 1–3 years. Vanguard Fixed Income Group, the investment advisor, emphasizes sectors and securities that represent good relative value, while modestly adjusting portfolio duration to reflect the near-term interest rate outlook, shape of the yield curve, and other factors.

## Vanguard Fixed Income Group

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, 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 Short-Term Investment-Grade Portfolio since 1999.

## Investment Manager Biographies

Daniel Shaykevich, Principal. Portfolio manager. Advised the portfolio since 2018. Worked in investment management since 2001. B.S., Carnegie Mellon University.

Samuel C. Martinez, CFA. Portfolio manager. Advised the portfolio since 2018. Worked in investment management since 2010. B.S., Southern Utah University. M.B.A., The Wharton School of the University of Pennsylvania.

Arvind Narayanan, CFA. Portfolio manager. Advised the portfolio since 2019. Worked in investment management since 2002. B.A., Goucher College. M.B.A., New York University Stern School of Business.

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**Total Returns**

	Expense Ratio	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Variable Insurance Fund - Short-Term Investment-Grade Portfolio (2/8/1999)	0.14%	0.09%	0.29%	1.29%	4.06%	2.70%	2.61%
Bloomberg U.S. 1-5 Year Credit Bond Index	—	0.09	0.13	1.08	4.25	2.85	2.79
Variable Insurance Short-Intermediate Inv-Grade Debt Funds Average	—	0.08	0.25	1.28	3.41	2.12	1.79

**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](http://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: Average fund returns are derived from data provided by Lipper, a Thomson Reuters Company.

**Fund Facts**

Fund Number	0274
CUSIP Number	921925863
Assets (millions)	\$2,349
Inception	2/8/1999
Expense Ratio (as of 4/2021)	0.14%

**Distribution by Issuer**

	% of Portfolio
Asset-Backed	4.3%
Commercial Mortgage-Backed	3.6
Finance	30.6
Foreign	4.2
Government Mortgage-Backed	0.0
Industrial	40.8
Treasury/Agency	7.1
Utilities	3.9
Other	5.5
<b>Total</b>	<b>100.0%</b>

**Volatility Measures**

	R-Squared	Beta
Bloomberg US 1-5 Year Credit Index	0.99	0.99
Bloomberg US Aggregate Bond Index	0.41	0.48

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	7.1%
Aaa	6.1
Aa	3.2
A	30.7
Baa	45.3
Less than BBB	2.4
Not Rated	5.2
<b>Total</b>	<b>100.0%</b>

**Distribution by Effective Maturity**

	% of Portfolio
Under 1 Year	12.9%
1 to 2 Years	15.8%
2 to 3 Years	26.1%
3 to 4 Years	21.3%
4 to 5 Years	18.6%
Over 5 Years	5.3%
<b>Total</b>	<b>100.0%</b>



## Important information

*For more information about Vanguard funds or Vanguard ETFs, visit [vanguard.com](http://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.

Investments in bond funds and ETFs are subject to interest rate, credit, and inflation risk.

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.

Vanguard Commodity Strategy Fund could lose all, or substantially all, of its investments in instruments linked to the returns of commodity futures or other commodity investments. Commodity futures trading is volatile, and even a small movement in market prices could cause large losses.

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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