US high yield bonds, as measured by the ICE BofAML US Cash Pay High Yield Index, returned +2.57% for the second quarter of 2019, while European and global high yield bonds returned +2.33% and +2.75%, respectively, as measured by the ICE BofAML Euro High Yield Index and ICE BofAML US Dollar Global High Yield Index.

The US high yield market, as measured by the ICE BofAML US Cash Pay High Yield Index, returned +1.40% in April as a stronger equity market, solid first-quarter earnings, an improving global growth outlook, and a continued outlook for US Federal Reserve dovishness drove positive returns for risk assets. Risk assets rallied in April, led by CCC-rated bonds returning +2.34%, followed by B-rated bonds returning +1.51%, and BB-rated bonds returning +1.08%. The market quickly reversed course in May as elevated trade tensions and softening growth data triggered a selloff in equities and oil prices, leading to a -1.28% monthly return for the high yield market. The negative sentiment in the market triggered a higher-quality bias, with BB-rated bonds outperforming in May with a -0.73% return, followed by B-rated bonds (-1.42%), and CCC-rated bonds (-3.03%). The quarter ended on a more positive note, with the high yield market returning +2.46% in June as a slowing growth outlook triggered optimism about potential rate cuts heading into the Fed’s June meeting. This, combined with positive developments in US-China trade relations later in the month, allowed high yield markets to generate positive returns. Despite the improved outlook for risk assets and the positive returns in June, the high yield market maintained its high-quality bias resulting in BB-rated bonds returning +2.80% in June, followed by B-rated bonds (+2.34%) and CCC-rated bonds (+1.41%).

Despite volatility in the second quarter, the appetite for risks assets remained supportive as an accommodative Fed provided the catalyst for credit markets to continue on a positive path. However, investors continued to be cautious as forward-looking growth data remain uncertain. As such, higher quality outperformed for the quarter, with BB-rated bonds returning +3.15%, followed by B-rated bonds (+2.42%) and CCC-rated bonds (+0.64%). The strongest-performing sectors for the quarter were food and drug retail (+5.18%), insurance (+4.85%), and environmental (+4.80%). The underperforming sectors were energy (-1.13%), steel (+0.84%), and aerospace (+1.28%).

Year-to-date new issuance totaled $141 billion, up 17% from a year earlier. Refinancing and general corporate purposes (GCP) represented 81% of issuance, while 18% was slated for leveraged buyout (LBO) and merger and acquisition activity. The expected US high yield default rate for 2019 is 2%.

Sources: Bloomberg and J.P. Morgan.

The Fund’s largest sector contributors were insurance brokers, banking, and health services. Insurance brokers outperformed relative to the benchmark due to strong credit selection and an overweight to the sector. Outperformance in the banking sector came from strong credit selection and an overweight to the sector. The Fund’s strong credit selection within the health services sector also resulted in outperformance for the quarter.

The Fund’s largest sector detractors for the quarter were cable and satellite TV, consumer lease financing, and satellite telecommunications. The Fund underperformed in the cable and satellite TV sector due to poor credit selection versus the benchmark. In both consumer lease financing and satellite telecommunications, the Fund underperformed due to an underweight to the sector.

Despite growing expectations for slowing global growth, we believe the Fed’s recent pause on rate hikes and its more dovish outlook on rates provide a supportive backdrop for high yield valuations. We believe the fundamental backdrop also remains supportive, but the market’s appetite for risk assets will be governed by the outlook for global growth, trade war sentiment as well as the recent yield curve inversion (3-month T-bill / 10-year Treasurys), and its potential ramifications on market sentiment.

We believe the current credit cycle will likely continue in the second half of 2019. Recent headwinds related to Fed and other central bank policies seem to have diminished over the short term. In addition, the technical backdrop in high yield remains supportive, in our view, as refinancing constitutes the lion’s share of new-issue proceeds, and the default rate remains low. As such, we believe the outlook for high yield returns in 2019 is positive.

As we navigate the late stage of the credit cycle and global growth slows, we believe that operational execution at the issuer level will become paramount and proper credit selection will be critical in maximizing returns. We believe our bottom-up (bond by bond) approach to constructing portfolios is well suited for this environment.
This method of calculating Class A 12b-1 fees may be discontinued at the sole discretion of the Fund’s Board of Trustees. Please see the fee table in the Fund’s prospectus for more information. Additionally, the Fund’s Class A shares are subject to a blended 12b-1 fee of 0.10% on all shares acquired prior to June 1, 1992 and 0.25% on all shares acquired on or after June 1, 1992. All Class A shares currently bear 12b-1 fees at the same rate, the blended rate based on the formula described above. This method of calculating Class A 12b-1 fees may be discontinued at the sole discretion of the Board of Trustees. 3. Includes maximum 4.50% front-end sales charge.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 800 523-1918 or visiting delawarefunds.com/performance.

Total returns may reflect waivers and/or expense reimbursements by the manager and/or distributor for some or all of the periods shown. Performance would have been lower without such waivers and reimbursements.

Performance at NAV assumes that no front-end sales charge applied. Performance at offer assumes that a front-end sales charge applied to the extent applicable.

Carefully consider the Fund’s investment objectives, risk factors, charges, and expenses before investing. This and other information can be found in the Fund’s prospectus and its summary prospectus, which may be obtained by visiting delawarefunds.com/literature or calling 800 523-1918. Investors should read the prospectus and the summary prospectus carefully before investing.

The views expressed represent the investment team’s assessment of the Fund and market environment as of the date indicated, and should not be considered a recommendation to buy, hold, or sell any security, and should not be relied on as research or investment advice.

As of June 30, 2019, the weightings of the top 10 holdings indicated as a percentage of the Fund’s net assets were: Charles River Laboratories Interna 5.500 4/1/2026 1.24%; Applied Systems Inc. 8.320 9/15/2025 1.11%; Hub International Ltd. 7.000 5/1/2026 1.16%; Tenet HealthCare Corporation 8.125 4/1/2022 1.13%; Vistra Operations Company Llc 5.500 4/1/2026 1.07%; Bausch Health Companies Inc. 5.500 11/1/2025 1.07%; Level 3 Financing Inc. 5.375 5/1/2025 1.02%; Steel Dynamics Inc. 5.000 12/15/2026 1.02%; Standard Industries Inc. (delaware) 6.000 10/15/2025 1.01%; Popular Inc. 6.125 9/14/2023 1.00%. Holdings are as of the date indicated and subject to change. List may exclude cash and cash equivalents. Please see the Fund’s complete list of holdings on our website for more information.

Investing involves risk, including the possible loss of principal.

Fixed income securities and bond funds can lose value, and investors can lose principal, as interest rates rise. They may also be affected by economic conditions that hinder an issuer’s ability to make interest and principal payments on its debt. The Fund may also be subject to prepayment risk, the risk that the principal of a fixed income security that is held by the Fund may be prepaid prior to maturity, at the time when interest rates are lower than the bond was paying. A portfolio may then have to reinvest that money at a lower interest rate. • High yielding, non-investment-grade bonds (junk bonds) involve higher risk than investment grade bonds. • The high yield secondary market is particularly susceptible to liquidity problems when certain large institutional investors, such as mutual funds and certain other financial institutions, temporarily stop buying bonds for regulatory, financial, or other reasons. In addition, a less liquid secondary market makes it more difficult for the Fund to obtain precise valuations of the high yield securities in its portfolio. • The Fund may invest in derivatives, which may involve additional expenses and are subject to risk, including the risk that an underlying security or securities index moves in the opposite direction from what the portfolio manager anticipated. A derivatives transaction depends upon the counterparties’ ability to fulfill their contractual obligations. • International investments entail risks not ordinarily associated with US investments including fluctuation in currency values, differences in accounting principles, or economic or political instability in other nations. Investing in emerging markets can be riskier than investing in established foreign markets due to increased volatility and lower trading volume. • This document may mention bond ratings published by nationally recognized statistical rating organizations (NRSROs) Standard & Poor’s, Moody’s Investors Service, and Fitch, Inc. For securities rated by an NRSRO other than S&P, the rating is converted to the equivalent S&P credit rating. Bonds rated AAA are rated as having the highest quality and are generally considered to have the lowest degree of investment risk. Bonds rated AA are considered to be of high quality, but with a slightly higher degree of risk than bonds rated AAA. Bonds rated A are considered to have many favorable investment qualities, though they are somewhat more susceptible to adverse economic conditions. Bonds rated BBB are believed to be of medium-grade quality and generally riskier over the long term. Bonds rated BB, B, and CCC are regarded as having significant speculative characteristics, with BB indicating the least degree of speculation of the three.

Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index.


Institutional Class shares and Class R shares are available only to certain investors. See the prospectus for more information.

All third-party marks cited are the property of their respective owners.

The Fund’s investment manager, Delaware Management Company (Manager), may seek investment advice and recommendations from its affiliates: Macquarie Investment Management Europe Limited, Macquarie Investment Management Austria Kapitalanlage AG, and Macquarie Investment Management Global Limited together, “the Affiliated Sub-Advisors”). The Manager may also permit these Affiliated Sub-Advisors to execute Fund security trades on behalf of the Manager and exercise investment discretion for securities in certain markets where BMC believes it will be beneficial to utilize an Affiliated Sub-Advisor’s specialized market knowledge.

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