Delaware Floating Rate Fund

Institutional Class: DDFLX  Class A: DDFAX  Class C: DDFCX
Class R: DDFFX
Quarterly commentary • June 30, 2019

Market review

The S&P/LSTA Leveraged Loan Index (the Index) returned 1.7% in the second quarter of 2019 as the asset class had approximately $10 billion of retail outflows and $36 billion of collateralized loan obligation (CLO) issuance. Higher-rated loans outperformed, with BB-rated loans returning 1.8% versus 1.7% for B-rated loans and 1.1% for CCC-rated loans.

Recent fundamental performance for issuers in the loan market continued to be positive, but earnings growth slowed from the robust levels seen in 2018. First-quarter 2019 earnings before interest, taxes, depreciation, and amortization (EBITDA) for Index issuers was up 3%, compared to gains of 10% and 13% in the fourth quarter and third quarter, respectively. The Index default rate was 1.3% for the 12-month period ended June 30, 2019, which is well inside the historical average of 3.1%.

Sources: LCD, an offering of S&P Global Market Intelligence; S&P Structured Finance Group; J.P. Morgan; and Merrill Lynch.

Within the Fund

Delaware Floating Rate Fund Institutional Class shares outperformed the Fund’s benchmark, the S&P/LSTA Leveraged Loan Index, for the second quarter of 2019.

The Fund’s performance for Institutional Class shares placed it in the first decile of the Fund’s Morningstar peer group, the Morningstar Bank Loan Category. The Fund ended the quarter with an SEC 30-day yield of 5.99% (Institutional Class shares).

The Fund’s outperformance during the quarter was driven by the Fund’s overweight to BB-rated loans and underweight to BBB-rated loans. The Fund also benefited from its 7% allocation to high yield bonds, which returned 2.8% for the quarter, and a lack of exposure to many stressed issuers that were among the benchmark’s weakest-performing loans. The Fund’s underweight to the business equipment and services sector and the electronic/electric sector detracted from performance.

Outlook

We believe that the fundamental backdrop and current valuations support an allocation to loans. This view is supported by a high current income compared to many other parts of fixed income, lower historical volatility versus high yield and equities, positive credit fundamentals, and a resilient US economy. By credit quality, we believe B-rated loans offer the best value. We believe this approach to positioning can allow an investor to carry a competitive yield while also somewhat protecting against volatility from economic and political surprises.
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 upon 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: Sprint Communications Inc. 3.250 1/30/2024 1.98%; Applied Systems Inc. 8.320 9/15/2025 1.86%; Nexstar Broadcasting Inc. 2.750 6/20/2026 1.78%; Infor US Inc. 3.750 2/1/2022 1.66%; Ultimate Software Group Inc. (the) 3.750 4/15/2025 1.58%; Stetson Midstream 4.250 7/22/2025 1.45%; PENN National Gaming Inc. 2.250 8/15/2025 1.38%; Athenahealth Inc. 4.500 1/30/2026 1.38%; DATTO 4.250 4/2/2026 1.35%; Tlibco Software Inc. 4.000 6/12/2026 1.34%. 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 also may 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 what 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 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. • Because the Fund may invest in bank loans and other direct indebtedness, it is subject to the risk that the Fund will not receive payment of principal, interest, and other amounts due in connection with these investments, which primarily depend on the financial condition of the borrower and the lending institution. • 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.

The S&P/LSTA Leveraged Loan Index is a broad index designed to reflect the market-weighted performance of US dollar-denominated institutional leveraged loans. The Morningstar Bank Loan Category compares funds that primarily invest in floating-rate bank loans instead of bonds. In exchange for their credit risk, these loans offer high interest payments that typically float above a common short-term benchmark such as the London interbank offered rate, or Libor.

1. Returns for less than one year are not annualized. 2. Benchmark lifetime returns are as of the Fund’s inception date. 3. Net expense ratio reflects a contractual waiver of certain fees and/or expense reimbursements from Nov. 28, 2018 through Nov. 28, 2019. Please see the fee table in the Fund’s prospectus for more information. 4. Includes maximum 2.75% 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 should be called by 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 periods shown. Performance would have been lower without such waivers or 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.

SEC 30-day yield shows the rate of return (dividends and interest, less expenses) on a fund’s offering price over a trailing 30-day period. The Fund’s SEC 30-day yield without waiver for Institutional Class shares was 5.99%.

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 DMC believes it will be beneficial to utilize an Affiliated Sub-Advisor’s specialized market knowledge.

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