Market review

US stocks ended the second quarter of 2019 on a strong note as the broad market S&P 500® Index hit a new, all-time high in late June. For the quarter, the index gained 4.3%, bringing its year-to-date total return to 18.5%, the strongest start in the first half of a year since 1997 (source: Dow Jones). Equity investors seemed to take their cues from policy makers. Talk of interest rate cuts and other forms of central bank stimulus generally elicited positive stock market responses despite the underlying perception that these measures are needed to combat slowing global economic growth and mounting dislocations from the US-China trade war.

In its June policy statement, the Federal Open Market Committee (FOMC) indicated that it had voted to hold short-term interest rates steady (there was one dissenting vote). The FOMC also announced that there was increasing uncertainty around its economic outlook and that it would closely monitor incoming information and “act as appropriate to sustain the expansion” (source: Federal Reserve Bank). A day before the FOMC statement was released, European Central Bank (ECB) President Mario Draghi signaled that the ECB was open to considering fresh stimulus measures in response to economic developments. While cutting interest rates could be a challenge for the ECB (the Bank’s deposit rate is currently -0.4%), Draghi and company could restart their bond-buying program, which they had terminated six months earlier. Countries that have recently eased monetary conditions include Australia, Chile, India, New Zealand, and Russia (source: Reuters).

US economic growth was relatively strong during the first quarter of 2019. According to the Commerce Department, gross domestic product (GDP) expanded 3.1% at a seasonally adjusted annual rate in the three months ended March 31, 2019. On an absolute basis, capital expenditures were firm, up 4.4%, while personal-consumption expenditures were on the weaker side, up only 0.9%. Payroll growth remained steady during the second quarter of 2019, averaging 171,000 a month, in line with the first-quarter average of 174,000, but below the 223,000 average for all of 2018 (source: Bureau of Labor Statistics). The yield on the benchmark 10-year Treasury note fell to 2.0%, the lowest level since November 2016, likely reflecting bond investors’ expectations for slower economic growth and a Fed rate cut. As recently as October 2018, the yield on the 10-year hit a multi-year high of 3.23% (source: FactSet Research Systems). Inflation held steady and remained below the Fed’s 2.0% target. Most recently, the year-over-year increase in the Core Personal Consumption Expenditures Index (Core PCE) was 1.6%, just above the 1.5% level recorded in March (source: Bureau of Economic Analysis).

Within the Fund

For the second quarter, Delaware Value Fund Institutional Class shares underperformed versus the Fund’s benchmark, the Russell 1000® Value Index. At the portfolio level, stock selection was the main driver of negative attribution. Sector allocation also detracted from relative performance.

Investments in the energy and information technology (IT) sectors caused the largest drags on relative returns. As a group, the portfolio’s four energy stocks were down -16.9% versus -3.7% for the sector in the benchmark. Generally speaking, investor concerns about slowing global growth and the potential for weaker crude oil demand have hit the energy sector. West Texas Intermediate (WTI) crude oil, the domestic benchmark, declined -2.8% during the quarter. In the Fund’s portfolio, Halliburton Co., an energy-services provider, and Occidental Petroleum Corp., an exploration and production company, were down the most, falling -21.8% and -22.8%, respectively. Halliburton sold off in response to several issues beyond those related to global economic growth. One issue was the constraint on takeaway capacity in the Permian Basin, which grabbed headlines during the second half of 2018 and has persisted since then. This is a temporary issue that affects rig counts and should ease in the second half of 2019. Another issue is the negative sentiment around levered energy names. Although overall debt for Halliburton is high relative to past levels, less than 20% is due in the next five years. We believe the company offers an attractive upside-downside ratio over our three- to five-year horizon, barring a collapse in oil demand. Current valuation levels (price-to-earnings (P/E) multiple of 10, price-to-book multiple of 2, price-to-sales multiple of 0.8, and a dividend yield of 3.25%) appear to have priced in the negatives mentioned above.

Occidental Petroleum came under pressure following its decision to acquire Anadarko Petroleum Corp. (APC), which, like Occidental, has a substantial presence in the Permian Basin. We understand the market’s near-term frustration with the price paid, which was pushed higher as Occidental and Chevron bid for Anadarko, and with the terms of the financing, which included $10 billion from Berkshire Hathaway in exchange for shares of a newly issued 8% preferred stock. That said, we think the deal makes sense and creates the potential for an attractive long-term investment. The combination appears to be highly accretive with cash-flow synergies in the $3 billion range. It gives Occidental the ability to grow its production footprint in the highly sought-after Permian Basin (the Permian has the lowest break-even costs because the vast layers of the basin allow for sizable operating leverage and multiple “shots on goal”). Also, there is significant overlap between Occidental and Anadarko within the Permian’s best area, the Delaware Basin, which allows Occidental to expand laterals and drill even more profitably in the area.

In the IT sector, the portfolio’s four holdings declined -1.1%, on average, compared to a gain of 3.2% for the sector in the benchmark. Semiconductor manufacturer Intel Corp. was the laggard in the group, down -10.3%. The company’s shares traded lower following its first-quarter earnings report, in which revenue and earnings per share (EPS) met expectations, but gross margin came up short. The company
expressed a more cautious view and lowered its full-year guidance, citing pricing pressures in memory chips, rising costs associated with its 10-nanometer offering, and a more challenging IT spending environment. At its investor day a few weeks later, Intel provided longer-term guidance with conservative assumptions for revenue and EPS growth and a gross margin range that was lower than its previous projections. Additionally, the company’s shares fell in response to the Trump administration’s ban on technology sales to Huawei, a Chinese communications equipment provider, though semiconductor sales to Huawei comprise less than 1% of Intel’s revenue. Despite current competitive challenges and pricing pressures, the longer-term outlook for Intel remains attractive, in our view, based on a number of attributes including its discounted valuation, diversified business model, improving operational efficiency, balance-sheet strength, and cash-flow generation.

Another notable detractor was global financial services provider Bank of New York Mellon Corp., which declined -12.0%. The shares sold off after the company reported its quarterly results. Revenues were 7% lower from a year earlier due to weakness in both net interest income and fee income. Contributing to lower interest income were declines in both average earning assets and net interest margin. On the fee side, there was pressure on the bank’s foreign exchange, investment management, and issuer services businesses. Additionally, deposit balances fell as more of the company’s clients moved to interest-bearing deposits with higher yields. The bank continues to make progress in reducing expenses – lower by 1% last quarter – and, despite near-term challenges, seems to be positioned well, the result of the increasing trend toward outsourcing, the bank’s substantial investment in technology, and its considerable scale across its businesses. Meanwhile, the company’s shares are trading near five-year lows on multiples of earnings and book value.

The Fund’s investments in the industrials and utilities sectors made the largest contributions to relative performance. The portfolio’s three industrial stocks rose 9.1% versus 6.6% for the sector in the benchmark. Shares of defense contractor Northrop Grumman Corp. led the group higher, gaining 20.4%. The company reported solid results across its major business segments for the first quarter of 2019, although total revenues were below Wall Street expectations. Nonetheless, operating margins were better than expected. Northrop Grumman also modestly increased its full-year guidance for EPS. We continue to believe the company is attractively positioned – its businesses are well aligned with US Department of Defense priorities, including manned and unmanned aircraft and space and satellite systems. The company has a strong and growing backlog and has been focused on operational improvements. Overall, the business tends to be less economically sensitive relative to the broader industrials sector.

In the utilities sector, the portfolio’s single holding in Southern California-based Edison International posted a gain of 8.9% versus 3.4% for the sector in the benchmark. The company’s shares got a boost in late June following media reports and a statement from the California Governor’s office outlining legislation for a wildfire liability recovery fund. The legislation, which could be voted on prior to the California Legislature’s July 12 recess, would include two options for a recovery fund of different sizes: a “liquidity” fund ($10.5 billion) or an “insurance” fund ($21.0 billion). The funding mechanisms and reimbursement requirements would be somewhat different for each. The three main investor-owned utilities would be required to make an up-front investment of $5 billion, cumulatively, in wildfire prevention and safety in order to be given access to the fund, and could not use the fund for claims submitted prior to the passage of the legislation. While much will rest on the final details of the legislation, the initial elements suggest to us a favorable outcome for Edison International in both the near and long term.

Elsewhere in the Fund’s portfolio, multiline insurance company American International Group Inc. (AIG) was a strong contributor with a gain of 24.5%. The stock got a boost after the company reported its quarterly results. AIG’s combined ratio (basically, losses as a percentage of premiums) was better than expected, while the effects of some of the catastrophe losses from 2018 were not as bad as many had anticipated. Investment income for the quarter was also relatively strong, as was expense management. While we believe the company’s turnaround will play out over years, not quarters, the underlying fundamentals of its insurance businesses appear to be on the right trajectory. The company remains focused on profitable growth through better underwriting. If AIG can execute on its turnaround, we think higher return on equity and book value growth should follow.

Another notable contributor to the Fund’s performance was diagnostic testing provider Quest Diagnostics Inc. The company’s shares were up 13.9%, with much of the gain coming on the heels of its earnings report for the first quarter of 2019. The company’s revenue and EPS were above consensus estimates. Testing volume growth was solid and better than Wall Street expectations; however, pricing continued to be an issue for the company owing to ongoing reimbursement pressure. Beginning July 1, 2019, Quest Diagnostics will be a member of United Healthcare’s preferred lab network, which should be supportive of further volume growth.

During the quarter, diversified chemical company DowDuPont Inc., separated into three publicly traded entities. (Dow and DuPont had merged in August 2017 with the intent of eventually pursuing this separation.) On April 1, the company spun off its materials science business to form Dow Inc. Later that month, we voted to sell the position in Dow and use the proceeds to round up the remaining holding, then comprising the specialty products and agricultural businesses. The rationale for selling the Dow piece was based, in large part, on our view that it had relatively high economic sensitivity, a valuation comparable to its peers, and the potential for a significant capital commitment toward its business with Saudi Aramco.

On June 1, the remaining holding in DowDuPont split into DuPont de Nemours Inc. (specialty products) and Corteva Inc. (agriculture). After concluding our review of the two separate companies, we elected to sell the position in Corteva and round up DuPont to a full 3% position. In our view, there were several key attributes that made DuPont an attractive long-term holding. One reason was the company’s broad diversification. DuPont has 32 businesses grouped into five operating segments, with only one business accounting for more than 10% of total revenue. Because of DuPont’s broad exposure to multiple end markets, it also participates in some important global megatrends. For example, in its Transportation & Industrial segment, DuPont benefits from the shift to hybrid and electric vehicles, where its revenue content...
is higher. The Electronics & Imaging unit benefit from the increasing need for semiconductors to support the growth in 5G wireless and artificial intelligence (AI) technologies. In the Safety & Construction segment, the company’s water business is exposed to the growing need for purified water. Additionally, the company’s products in the Nutrition & Biosciences segment are increasingly needed to support the global push towards better health and nutrition, as well as cleaner energy. Other attributes include cost synergies across DuPont’s businesses, estimated to be around $1 billion and expected to be achieved by the third quarter of 2019, and a shareholder-friendly orientation (DuPont plans on returning 30%-40% of net income to shareholders as dividends and has received board approval for a $2 billion share repurchase).

Corteva was formed from the legacy agricultural businesses of both Dow and DuPont. The company is number 2 in global seed sales (number 1 in the United States for corn and soybeans), and number 4 in global pesticide sales. Seeds comprise 57% of revenue; crop protection 43%. Some of the notable decision points for selling Corteva included: 1) the level of existing exposure to agricultural commodities in the portfolio through our ownership of Archer-Daniels-Midland Co., 2) our sense that Corteva’s results could be relatively volatile and that its shares could remain depressed because of where we are in the agricultural cycle, and 3) the company’s higher level of direct exposure to the trade war and tariffs, particularly as they relate to the soybean market.

Outlook

Our view of the economy and stock market remains somewhat cautious. For a while now, we’ve believed that high indebtedness, rising deficits, and aging demographics would curtail longer-term economic growth. The advent of the US-China trade war and higher tariffs is presenting additional challenges to the global economy. The global manufacturing sector, as measured by the J.P. Morgan Global Manufacturing PMI™, is at its lowest level since 2012 and has signaled contraction for the past two months. Evidence of slowing economic activity has led numerous global central banks to conclude that additional stimulus measures are needed.

Meanwhile, stock market fundamentals don’t seem especially strong and valuations look elevated to us. As a result, multiple expansion appears to be the driving force behind stocks. Corporate earnings growth for S&P 500 companies was negative in the first quarter of 2019 on a year-over-year basis, down -0.3%. The consensus estimate for the second quarter of 2019 has been falling and now stands at -2.6% compared to -0.5% on March 31 (source: FactSet). At a multiple of 22, the P/E ratio for the S&P 500 Index, based on trailing 12-month earnings, is well above its long-run average of 16 (source: Ned Davis Research). Against this backdrop, we intend to maintain a generally defensive tilt in the Fund’s portfolio and focus on what we view as higher-quality businesses that offer attractive relative value. Given the potential for ongoing headline risk going into the 2020 US presidential election, we’ll be closely watching developments in Washington, D.C., and assessing their potential impact on the Fund’s holdings, as well as the opportunities they may create.

Performance attribution (quarter ended June 30, 2019)

<table>
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<tr>
<th>LEADING CONTRIBUTORS</th>
<th>SECTOR</th>
<th>TOTAL EFFECT</th>
<th>LEADING DETRACTORS</th>
<th>SECTOR</th>
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Source for contributors and detractors: FactSet. The leading contributors and detractors are calculated based on their “total effect,” or contribution relative to the benchmark index, on Fund performance. They do not represent all of the Fund’s investments and may not be representative of the Fund’s current or future investments. Holdings are provided for informational purposes only, do not represent all of the securities purchased or sold, are subject to change, and should not be deemed as a recommendation to buy or sell the securities shown. A complete list of holdings is available on our website.

<table>
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<tr>
<th>Sector</th>
<th>DELAWARE VALUE FUND</th>
<th>RUSSELL 1000® VALUE INDEX</th>
<th>ATTRIBUTION ANALYSIS</th>
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<td>TOTAL RETURN (%)</td>
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Source: FactSet. The data source is separate from the data source used for other data and marketing materials presented for this Fund on our website. List may exclude cash, cash equivalents, and exchange-traded funds (ETFs) that are used for cash management purposes. Please see the Fund’s complete list of holdings on our website for more information. Past performance is not a guarantee of future results.
Risk is increased in a concentrated portfolio since it holds a principal. Investing involves risk, including the possible loss of complete list of holdings on our website for more information.

For cash management purposes. Please see the Fund’s equivalents, and exchange-traded funds (ETFs) that are used.

3.14%; Merck & Co. Inc. 3.09%. Holdings are as of the date Northrop Grumman Corp. 3.19%; Abbott Laboratories International Group Inc. 3.20%; Oracle Corp. 3.19%; Cos Inc. 3.21%; Quest Diagnostics Inc. 3.21%; American were: Edison International 3.30%; Marsh & McLennan (by issuer) indicated as a percentage of the Fund’s net assets should not be relied on as research or investment advice.

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.

returns for less than one year are not annualized. 2. Includes maximum 5.75% 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 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 (by issue) indicated as a percentage of the Fund’s net assets were: Edison International 3.30%; Marsh & McLennan Cos Inc. 3.21%; Quest Diagnostics Inc. 3.21%; American International Group Inc. 3.20%; Oracle Corp. 3.19%; Northrop Grumman Corp. 3.19%; Abbott Laboratories 3.16%; Allstate Corp. 3.14%; Waste Management Inc. 3.14%; Merck & Co. Inc. 3.09%. Holdings are as of the date indicated and subject to change. List may exclude cash, cash equivalents, and exchange-traded funds (ETFs) that are used for cash management purposes. Please see the Fund’s complete list of holdings on our website for more information.

Investing involves risk, including the possible loss of principal.

Risk is increased in a concentrated portfolio since it holds a limited number of securities with each investment having a greater effect on the overall performance.

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 Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Core Personal Consumption Expenditures Price Index (Core PCE) measures the prices paid by consumers for goods and services excluding food and energy prices, because of the volatility caused by movements in food and energy prices, to reveal underlying inflation trends. The S&P 500 Index measures the performance of 500 mostly large-cap stocks weighted by market value, and is often used to represent performance of the US stock market. The J.P. Morgan Global Manufacturing PMI gives an overview of the global manufacturing sector. It is based on monthly surveys of more than 13,500 purchasing executives from more than 40 countries, including the United States, Japan, Germany, France, and China, which together account for an estimated 98% of global manufacturing output. It reflects changes in global output, employment, new orders, and prices. An index reading above 50.0 indicates an increase since the previous month and below 50.0 a decrease.

Gross domestic product is a measure of all goods and services produced by a nation in a year.

The price-to-earnings ratio (P/E ratio) is a valuation ratio of a company’s current share price compared to its earnings per share. Generally, a high P/E ratio means that investors are anticipating higher growth in the future.

The price-to-book (P/B ratio) compares a stock’s market value to its book value.

The price-to-sales (P/S ratio) compares a company’s stock market value to its revenues.

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