Market review

Investment grade corporates outperformed all other fixed asset classes for the second quarter, as support from an increasingly dovish US Federal Reserve drove a strong Treasury rally that buoyed total returns in the asset class to the strongest first six months of a year since 1995 (source: Bloomberg). Spreads have been volatile, ending the quarter slightly tighter amid the seesaw effects of rising trade tensions and corresponding dovish reactions from both the Fed and European Central Bank. The Fed's recent meeting marked a major shift in its interest rate projections or “dots,” as market participants had expected. But with odds of a rate cut in July at 100% and three rate cuts fully priced in for 2019, the market seems priced close to perfection and the risk for the Fed to disappoint is also rising. With trade tensions beginning to impact macroeconomic data, sentiment, and corporate earnings, we’re not surprised that investors were focused on the G20 summit between US President Trump and Chinese President Xi Jinping. Although Trump and Xi have agreed to halt further tariffs and restart trade negotiations, a finalized deal is far from complete, and we expect uncertainty and volatility to continue to persist until and unless a deal is reached.

Spread levels on the Bloomberg Barclays US Corporate Investment Grade Index tightened by 4 basis points over the quarter, and the index produced a total return of 4.48%, outperforming duration-matched Treasurys by 104 basis points. With the quarter’s strong Treasury rally (the 10-year Treasury yield was down 40 basis points), sectors with longer duration profiles, such as telecommunications, railroads, and universities, outperformed. Conversely, shorter-dated sectors including homebuilders, construction machinery, and senior bank debt lagged during the quarter. (One basis point equals one hundredth of a percentage point.)

Investment grade supply for the quarter was below expectations at $287 billion, according to Bank of America, and roughly 22% behind last year’s pace despite several expected merger and acquisition deals from IBM and Bristol-Myers Squibb, as rising volatility kept some issuers on the sidelines. Issuance was also highlighted by Saudi Aramco’s highly anticipated $12 billion inaugural US dollar deal. Although the deal garnered more than $100 billion in orders, the issue underperformed in the days after the issuance as initial pricing was too tight relative to sovereign levels and the quality of the order book came into question. New-issue concessions have also begun to rise amid increased volatility after a period of flat to negative concessions earlier in the year. Demand remained robust with more than $26 billion of fund inflows into investment grade during the quarter, driving totals to $45.1 billion year to date (source: Lipper).

Within the Fund

For the second quarter of 2019, Delaware Corporate Bond Fund Institutional Class shares outperformed the Fund’s benchmark, the Bloomberg Barclays US Corporate Investment Grade Index.

Contributors to performance:

• Communications – An overweight to the sector along with solid security selection generated positive performance, as wider-trading, longer-dated sectors outperformed amid the sharp decline in rates during the quarter and the volatile but continued improvement in risk sentiment.

• Banking – Exposure to higher-beta (higher-risk) subordinated and hybrid bank debt benefited Fund performance as these securities’ longer duration profiles outperformed and risk appetite remained strong.

• Insurance – An underweight to the health insurance subsector benefited the Fund’s performance for the quarter as the industry remained under pressure from Medicare-for-all proposals by some Democratic presidential candidates. Additionally, the Fund’s life insurer holdings that are exposed to equity markets via their variable annuity liabilities performed well.

• BBB-rated securities – A roughly six-percentage-point overweight to this rating category resulted in outperformance for the quarter, as returns were inversely correlated with quality. Given our fundamental analysis of macroeconomic and company-specific factors, we continue to view valuations in the BBB-rated category as attractive.

Detractors from performance:

• Basic industry – An underweight to higher-beta issuers in the metals/mining subsector and an underweight to spread duration in the long end of the yield curve were a drag on Fund performance for the quarter.

• Consumer noncyclical – An underweight to this sector detracted from performance as the sector outperformed the overall benchmark for the quarter.
High yield, emerging markets, and bank loans – The Fund’s positioning within these out-of-benchmark sectors detracted from relative performance for the quarter. High yield lagged investment grade debt despite positive technicals, as the asset class’s lower interest rate sensitivity hurt Fund performance amid the material decline in rates during the quarter. Bank loans similarly underperformed given the floating-rate nature of the asset class.

Outlook

We believe fundamentals remain supportive of valuations, including stable leverage and interest coverage trends, though slowing earnings growth bears monitoring. Supply-demand technicals have improved due to supply running below last year’s pace (as expected) and a rebound in foreign demand. Although technicals remain strong, we are closely monitoring supply and flows, which have the potential to turn quickly. Valuations have compressed dramatically in 2019, moving inside historical averages. However, we believe opportunities still exist, and we favor BBB-rated corporate debt over A-rated and BB-rated corporate debt. BBB-rated securities have been mispriced, in our opinion, due to overblown fears of downgrades and the size of the market. Conversely, we believe higher-rated debt may not be the “up in quality” trade that many investors think it is, as A-rated issuers have more dry powder and rating room to remain investment grade – a volatile combination, in our view. Other risks and catalysts that we are focused on include:

- Growing trade disputes – These could adversely impact not only corporate profitability but also investor confidence and ultimately global growth.
- US Treasury curve inversion – This 3-month T-bill / 10-year Treasury relationship is typically a precursor to a recession, but we believe the relationship would need to go deeper and persist longer than current levels to signal an eventual downturn.
- Technicals – Changes in demand driven by monetary or regulatory policy can turn quickly against markets.
- Idiosyncratic risks – Tighter valuations mean a higher cost of being wrong and require greater emphasis on proper credit selection, in our view.
- Management behavior – Many issuers have the ability to deleverage, but do they have the willingness? We believe avoiding those issuers that do not may prove beneficial in the months ahead.
- Geopolitical risks – The risk of a conflict between the United States and Iran has risen amid increasingly provocative actions on both sides.
Delaware Corporate Bond Fund

Average annual total returns (%) as of June 30, 2019

<table>
<thead>
<tr>
<th></th>
<th>2019¹</th>
<th>1 YEAR</th>
<th>3 YEAR</th>
<th>5 YEAR</th>
<th>10 YEAR</th>
<th>LIFETIME</th>
<th>INCEPTION DATE</th>
<th>GROSS</th>
<th>NET¹</th>
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<tr>
<td>Institutional Class</td>
<td>4.69</td>
<td>11.39</td>
<td>4.62</td>
<td>3.59</td>
<td>7.31</td>
<td>6.66</td>
<td>9/15/98</td>
<td>0.67</td>
<td>0.57</td>
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<tr>
<td>Class A (at NAV)</td>
<td>4.62</td>
<td>11.12</td>
<td>4.36</td>
<td>3.33</td>
<td>7.04</td>
<td>6.39</td>
<td>9/15/98</td>
<td>0.92</td>
<td>0.82</td>
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<tr>
<td>Class A (at Offer)²</td>
<td>-0.08</td>
<td>6.16</td>
<td>2.75</td>
<td>2.38</td>
<td>6.54</td>
<td>6.16</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Class R</td>
<td>4.56</td>
<td>10.64</td>
<td>4.04</td>
<td>3.07</td>
<td>6.77</td>
<td>5.58</td>
<td>6/2/03</td>
<td>1.17</td>
<td>1.07</td>
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Bloomberg Barclays US Corporate Investment Grade Index

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<td></td>
<td>4.48</td>
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¹ Returns for less than one year are not annualized. ² 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. 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: Verizon Communications Inc. 4.500 8/1/2033 1.30%; US Bancorp 3.375 2/5/2024 1.27%; KeyBank NA 3.400 5/20/2026 1.24%; Microchip Technology Incorporated 4.333 6/1/2023 1.16%; BHP Billiton Finance (USA) Ltd. 6.250 10/19/2075 1.15%; Suntrust Bank 2.800 5/17/2022 1.15%; Mastercard Inc. 2.950 6/1/2029 1.12%; Continental Resources Inc. 3.800 6/1/2024 1.06%; Marathon Oil Corp. 4.400 7/15/2027 1.06%; Pacificorp 3.500 6/15/2029 1.02%. 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 prepaid payment, the risk that the principal of a fixed income security that is held by the Fund may be prepaid prior to maturity, potentially forcing the Fund to reinvest that money at a lower interest rate. • High yielding, noninvestment grade bonds (junk bonds) involve higher risk than investment grade bonds. • 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.

The Bloomberg Barclays US Corporate Investment Grade Index is composed of US dollar–denominated, investment grade, SEC-registered corporate bonds issued by industrial, utility, and financial companies. All bonds in the index have at least one year to maturity. Institutional Class shares and Class R shares are available only to certain investors. See the prospectus for more information.

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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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