Delaware Diversified Income Fund

Fourth quarter 2017 summary

What worked:

- investment grade bank and finance exposure and selection
- collateralized mortgage obligation (CMO) investments and selection
- high yield and bank loan investments.

What did not work:

- investment grade corporate industrial exposure
- rate hedging
- fixed-rate mortgage-backed security (MBS) investments.

The following is a detailed review of Delaware Diversified Income Fund's performance for the fourth quarter of 2017 relative to its benchmark, the Bloomberg Barclays US Aggregate Index.

Delaware Diversified Income Fund Institutional Class shares returned 0.57% and Class A shares at net asset value (NAV) returned 0.50% in the fourth quarter of 2017 (0.8% before expenses), outperforming its benchmark, the Bloomberg Barclays US Aggregate Index, by 18 and 11 basis points, respectively (41 basis points before expenses). (One basis point equals one-hundredth of a percentage point.) The Fund outperformed the average return of the Morningstar Intermediate-Term Bond Category by 28 basis points for the Fund's Institutional Class shares and by 21 basis points for its Class A shares at NAV. The Fund lagged the Lipper Multi-Sector Income Funds Average by 13 basis points for the Fund's Institutional Class shares and by 20 basis points for its Class A shares at NAV. The Fund's investments in bank and finance company bonds made a significant contribution to above-index returns. Investments in CMO structures, high yield bonds, and bank loans also helped for the quarter. Industrial bond investments and fixed-rate MBS exposure detracted from returns.

Market review

The year was marked by strong capital market gains across the investment spectrum as central banks provided significant liquidity. The S&P 500® Index gained 20% in the year. Risk premiums on virtually all fixed income sectors declined. Investors easily absorbed the significant issuance in investment grade corporate bonds during the year. Somewhat weak economic growth in the first quarter was followed by two strong quarters of growth in the United States. The euro zone experienced improving growth in 2017 as well. The year ended with the promise of continued economic growth as President Trump and Congress passed a tax reform bill that will lower the tax burden for corporations and individuals.

Corporations recovered from the earnings and revenue recession in late 2015 and early 2016. Estimated year-on-year earnings growth of nearly 10% for 2017 has been supportive of the high asset valuations. Companies have decreased leverage and slowed merger and acquisition activity. The fundamental backdrop created a good environment to absorb the heavy issuance calendar.

Bond market participants and prognosticators were somewhat surprised by an interest rate environment that included three US Federal Reserve hikes, with a flatter yield curve. As this phenomenon progressed, financiers worried about the implications of the flattening yield curve. Our opinion is that the ample central bank liquidity and easier financial market conditions should offset the yield curve move for now. The yield on the 2-year maturity US Treasury note increased by 70 basis points. The 30-year Treasury bond had a yield decline of 33 basis points in the year.

Another surprise outcome has been the progress on business-friendly legislation and deregulation that the Trump administration and Congress have made in 2017. Companies within the energy, finance, and industrial sectors have and will likely continue to benefit from moves to deregulate their businesses.

The Fed also announced a much-anticipated schedule of the tapering of the reinvestment of US Treasury and agency mortgage-backed securities (MBS) investment income and maturities that reside on its balance sheet. This will eventually shrink the central bank balance sheet. If the balance sheet's final size is $2.5 trillion to $3.0 trillion, as Fed Governor Jerome Powell suggests, the reduction of reinvestments should stop sometime near mid-2020 to early 2021. Of course,

 See pages 4–5 for important disclosures and definitions. COM-189-ATT 17Q4 (373021-1/18)

the Fed noted that should economic conditions change, it can alter the size and composition of the balance sheet as the Fed sees fit. The large US Treasury maturities in 2018 means that the Fed's buying activity will still be significant.

Within the Fund

Investors' demand for bank paper in the fourth quarter helped to add to index-beating returns for the Fund. Continued small earnings improvements and the possibility of some regulatory relief made bank debt more attractive as risk premiums declined. The continued move to a flatter curve influenced gains in long maturity and contingent convertible bank paper from **Credit Suisse**, **Morgan Stanley**, and **Bank of America**. Bank investment added 9 basis points to returns versus the Bloomberg Barclays US Aggregate Index (before expenses). Industrial selections took 3 basis points away from the benchmark index's returns as bonds from **Broadcom** (M&A activity) and **Energy Transfer Partners** had small corrections.

The CMO structure continued to add to relative returns as both income and a favorable prepayment environment yielded good results for these investments. The long end of this structure, which consists of long sequential planned amortization class (PAC) bonds, benefited from the flattening yield curve. Agency CMO investments of 10% and nonagency CMO investments of almost 2% have become a significant part of the Fund. As normal agency pass-through investments have lower yield premiums versus US Treasury investments, we have sought extra yield and income in this space.

High yield investments earned 0.6% during the fourth quarter, thereby beating the BofA Merrill Lynch US High Yield BB/B Rated Constrained Index return of 0.4% (before expenses). Basic industry and energy investment selections added to the Fund's returns. Continued volatility in the telecommunications space, mostly in the wireline sector, took away from the Fund's performance. Bank loan investments returned 1.2% as the refinancing wave diminished a bit and investor demand helped power returns.

Investments in fixed-rate agency pass-through MBS of 4% returned -0.3%, which underperformed the Bloomberg Barclays US Aggregate Index. Our security selection suffered as high coupon investments of 4% and 4.5% lagged as the curve flattened. We have been reducing exposure to this area in favor of CMO structures, which have a yield and income advantage.

Outlook

The Fund has an income advantage over the benchmark index due to its exposure to the corporate, emerging market, and structured product sectors. At year end, this income advantage was 106 basis points (before expenses). Central bank actions to keep rates low and to buy corporate bonds had set a very favorable environment for exposure away from US Treasury investments in 2017. Fundamental factors are also supporting this exposure. We expect to keep this credit exposure and income advantage in the Fund in the near term.

 See pages 4–5 for important disclosures and definitions.

Delaware Diversified Income Fund

Performance

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.

Average annual total return (%)

as of quarter-end (12/31/2017)

	4Q 2017	1 year	3 year	5 year	10 year	Lifetime	Inception date
Institutional Class	0.57	5.51	2.78	2.51	5.37	6.42	10/28/02
Class A (at NAV)	0.50	5.26	2.52	2.24	5.10	6.61	12/29/97
Class A (at offer)	-3.99	0.47	0.97	1.30	4.62	6.36	
Bloomberg Barclays US Aggregate Index	0.39	3.54	2.24	2.10	4.01	—	
Morningstar Intermediate-Term Bond Category	0.29	3.71	2.22	2.05	4.06	—	
Lipper Multi-Sector Income Funds Average	0.70	6.09	3.76	3.32	5.16	—	

Returns for less than one year are not annualized.

Performance at NAV assumes that no front-end sales charge applied. Performance at max offer price assumes that a front-end sales charge applied.

Class A shares have a maximum upfront sales charge of 4.50% and are subject to an annual distribution fee.

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

Expense ratio

	Gross	Net
Institutional Class	0.64%	0.64%
Class A	0.89%	0.89%

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

See pages 4–5 for important disclosures and definitions.

IMPORTANT DISCLOSURES AND DEFINITIONS

Investing involves risk, including the possible loss of principal.

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.

Past performance is no guarantee of future results.

As of Dec. 31, 2017, the weightings of the top 10 holdings indicated as a percentage of Fund net assets were: US Treasury Note Bond 2.750 8/15/2047, 1.48%; FN AL9903, 1.46%; US Treasury Inflation Indexed Bonds 0.125 4/15/2022, 1.03%; Dow Chemical Co. 8.550 5/15/2019, 0.82%; Crown Castle Towers LLC 4.883 8/15/2020, 0.61%; USB Capital IX 3.500 10/29/2049, 0.56%; Anheuser-Busch InBev Finance Inc. 3.650 2/1/2026, 0.56%; KeyBank NA Cleveland OH 6.950 2/1/2028, 0.51%; Mexican Bonos 6.500 6/9/2022, 0.47%; Brazil Notas do Tesouro Nacional Serie F 10.000 1/1/2025, 0.45%. Holdings 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.

Unless otherwise noted, the source for all data cited in this commentary is Bloomberg.

Fixed income securities 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.

Fixed income securities may also be subject to prepayment risk, the risk that the principal of a fixed income security 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.

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.

International fixed income investments are subject to currency risk. Adverse changes in foreign currency exchange rates may reduce or eliminate any gains provided by investments that are denominated in foreign currencies and may increase losses.

If and when the Fund invests in forward foreign currency contracts or uses other investments to hedge against currency risks, the investment portfolio will be subject to special risks, including counterparty risk.

Duration is a measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

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 favourable 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.

Diversification may not protect against market risk.

The Fund may experience portfolio turnover in excess of 100%, which could result in higher transaction costs and tax liability.

Because the Fund may invest in bank loans and other direct indebtedness, it is subject to the risk that it 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.

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 derivative transaction depends upon the counterparties' ability to fulfill their contractual obligations.

The Morningstar Intermediate-Term Bond Category compares funds that invest primarily in corporate and other investment grade US fixed income issues and typically have durations of 3.5 to 6.0 years. These funds are less sensitive to interest rates, and therefore less volatile, than funds that have longer durations.

The Lipper Multi-Sector Income Funds Average compares funds that seek current income by allocating assets among different fixed income securities sectors (with no more than 65% in any one sector except for defensive purposes), including US and foreign governments, with a significant portion rated below investment grade.

The Bloomberg Barclays US Aggregate Index measures the performance of publicly issued investment grade (Baa3/BBB- or better) corporate, US government, mortgage- and asset-backed securities with at least one year to maturity and at least $250 million par amount outstanding.

The BofA Merrill Lynch BB-B US High Yield Constrained Index tracks the performance of US dollar–denominated high yield corporate debt rated BB1 through B3 publicly issued in the US domestic market, but caps individual issuer exposure at 2% of the index.

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.

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 views expressed represent the Manager'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. **Past performance is no guarantee of future results.**

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See pages 4–5 for important disclosures and definitions.

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