Delaware Diversified Income Fund

Full year 2017 summary

What worked:

- emerging market investments
- high yield investments
- investment grade corporate investments, especially bank and finance paper
- collateralized mortgage obligation (CMO) securitizations.

What did not work:

- US Treasury exposure
- agency mortgage-backed security (MBS) fixed-rate investments
- rate hedging.

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

Delaware Diversified Income Fund Institutional Class shares returned 5.51% and Class A shares at net asset value (NAV) returned 5.26% in 2017 (6.3% before expenses), outperforming its benchmark, the Bloomberg Barclays US Aggregate Index, by 197 and 172 basis points, respectively (276 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 180 basis points for the Fund's Institutional Class shares and by 155 basis points for its Class A shares at NAV. Capital markets have continued a rally that started with significant measures by central banks to provide unprecedented stimulus in early 2016. The Fund's emerging market investments made a significant contribution to above-index returns. Investments in high yield bonds, bank and finance paper, and CMO securities also helped for the year. US Treasury investments, agency MBS fixed-rate investments, and interest rate hedging detracted from performance.

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 5-6 for important disclosures and definitions.

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

Investments in the emerging markets sector were a large contributor to relative returns versus the benchmark for the year (adding 136 basis points before expenses). The weakness of the US dollar against emerging market currencies and the continued rally of emerging market US-dollar-denominated investments resulted in a return of 12.4% for this investment pool (before expenses). Emerging markets bond investments were 12.5% of the Fund at year end, increasing from 8.7% at the start of the year. Yield premiums declined throughout most of 2017 in the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) Broad Diversified and the J.P. Morgan Emerging Markets Bond Index Plus (EMBI+). The local currency sovereign index (the J.P. Morgan Government Bond Index–Emerging Markets (GBI-EM)) was also a strong performer, returning 15.2%. Emerging market assets continued to benefit from constructive macro conditions, including a weak US dollar, contained developed market rates, and benign global inflation. A continued rally in hard commodities and energy have also benefited many of these countries. Emerging market inflows totaled more than $55 billion in 2017, more than double fiscal year 2016 inflows (source: EPFR Global). The Fund's emerging markets subportfolio breaks down as follows: Local currency exposure, 26%; US dollar sovereigns, 19%; and US dollar corporates, 55%. We would expect positive momentum to continue into the first quarter of 2018 as emerging markets' higher yields and steady growth profiles attract seasonal allocations.

Investments in traditional high yield bonds had a return of 8.2% (before expenses). We increased the Fund's exposure from 6.9% at the start of the year to 9.8% at year end. We found favor with high yield investments as both the economy and earnings improved throughout the year. This subsector outperformed the BofA Merrill Lynch US High Yield BB/B Rated Constrained Index, which had a return of 7.0%. Important sector exposures for the high yield investments are basic industries, healthcare, media, leisure, and energy. The Fund's portfolio has an underweight to the financial services area, but we found value in an insurance brokerage company's paper. We also reduced the Fund's exposure to the wireline space in midyear, as disappointing earnings weighed on that sector's performance. Building materials, chemical, bank, and utility company bonds were standout performers.

Bank loan investments of 5.6% at year end returned 3.6%. This result was below that of the Bloomberg Barclays US Aggregate Index. Early in 2017, we became aware of the significant refinancing of outstanding corporate loans due to the high demand. We figured that this convexity aspect would dampen potential returns in the year. We reduced exposure from a starting point of 10.1%. We may increase this exposure in 2018 if we believe that a rising rate environment and solid fundamentals will benefit this sector.

We slowly reduced investment grade corporate exposure in 2017 as risk premiums declined. Exposure went from 39% at the beginning of the year to 34% at year end. The contribution to duration went from 164% to 134%. Investment grade corporates added 94 basis points of performance beyond benchmark levels (before expenses). We had a high conviction to own bank and finance paper, and we kept the Fund's exposure in this sector pretty steady throughout the year. The contribution to duration in this area increased from 194% to 219%. Investment grade bank exposure finished the year at 9.6%. Fully 41% of this exposure was subordinate paper. The majority of bank exposure was domestic. International favorites reside in the United Kingdom, the Netherlands, and Switzerland. The majority of investment grade performance (62 basis points, before expenses) was harvested in the finance sector. We used price and spread gains in the utility sector to reduce exposure. The year-ending exposure of 4.8% was reduced by 2.5 percentage points throughout the year. As economic and competitive challenges presented themselves throughout 2017, we reduced exposure in the retailing (0.50%), food and beverage (0.90%), and pharmaceutical (0.80%) sectors. Thirty-year issues were standout performers as the yield curve flattened. Long bonds from **Bank of New York Mellon** and **Microsoft** were among the strongest performers this year. Bonds from **Broadcom** and **Verizon** were laggards.

The returns in CMO structures helped to offset below-index performance in agency fixed rate pass-through investments during 2017. The total residential MBS subportfolio return of 3.7% (before expenses), was above that of the benchmark index's MBS component return of 2.5%. RMBS investments were 15% of the Fund at year end. This represented a small increase in exposure from the start of the year. The CMO basket earned 5.2% this year, beating both the Bloomberg Barclays US Aggregate Index and the Bloomberg Barclays US Mortgage-Backed Securities (MBS) Index. CMO structures have contributed 44 basis points to index-beating performance (before expenses). The Fund uses a strategy of interest-only (IO) and inverse IO investments, coupled with longer duration sequential and planned amortization class (PAC) tranches. All parts of this strategy have loan characteristics that help dampen some of the negative convexity inherent in MBS investments. The IO investments and longer duration CMOs have performed relatively well as prepayments have slowed and the curve has flattened. The CMO investments also contain the fairly new credit risk transfer (CRT) tranches from Freddie Mac and Fannie Mae. These securities are designed to take risk away from government-sponsored enterprise (GSE) portfolios and transfer it to investors. Yield premiums for the CRT investments have been contracting as investors have generally grown comfortable with the low level of loan losses behind these securities. Additionally, investments in what are called whole loan RMBS 2.0 occupy part of this portfolio. These investments are an evolution in strengthening the reporting and reps and warranties from mortgage originators and servicers. Income from these investments have helped the Fund outperform Bloomberg Barclays US MBS Index levels.

The high coupon agency pass-through securities underperformed the benchmark index in the flattening curve environment. The fixed-rate agency MBS portfolio detracted from index-level performance in 2017 (taking 65 basis points away relative to the benchmark index before expenses). We have increased exposure to both fixed-rate pools and the CMO investments, as corporate exposure has come down. We have added to higher coupon pass-through investments at the expense of 3% conventional issues as the rate environment seems to have bottomed at low end of this recent range.

As we discussed before, the US Treasury yield curve continued to exhibit a flattening of maturity points during 2017. The difference in yield between the US Treasury 30-year maturity and the 2-year maturity compressed by 102 basis points. We have continued to be flexible with the Fund's interest rate sensitivity, but have been biased to keep the portfolio duration shorter than the benchmark index level for most of the year. US Treasury holdings of approximately 2% produced a 76 basis point drag in the fourth quarter (before expenses, Brinson method). US Treasury investments will produce a performance drag in the Fund's portfolio when risk premiums decline in most other sectors. We also engaged in cross-country rate arbitrage during the year. We expected stronger rate moves (up) in both the German and French government bonds and employed futures hedges to capture this move and hedge the Fund's portfolio against US yield curve rate rises. Additionally, we used 30-year interest rate swap instruments to further hedge rate moves and capitalize on the widening of swap spreads. The country hedge and the interest rate swap actions were not effective and resulted in a 25 basis point drag on the Fund's returns in 2017 (before expenses). We reduced both positions during the year.

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 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 5-6 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.

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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 Bloomberg Barclays US Mortgage-Backed Securities (MBS) Index measures the performance of agency mortgage-backed pass-through securities (both fixed-rate and hybrid adjustable-rate mortgage) issued by the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Association (Freddie Mac), and Government National Mortgage Association (Ginnie Mae).

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 J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI) Broad Diversified tracks US dollar-denominated emerging market corporate bonds.

The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+) tracks total returns for actively traded external debt instruments in emerging markets. It includes US dollar-denominated Brady bonds,

The J.P. Morgan Government Bond Index–Emerging Markets (GBI-EM) tracks local currency government bonds issued by emerging markets.

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.

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