

# Delaware Extended Duration Bond Fund

## Fact sheet and commentary

### Fund objective

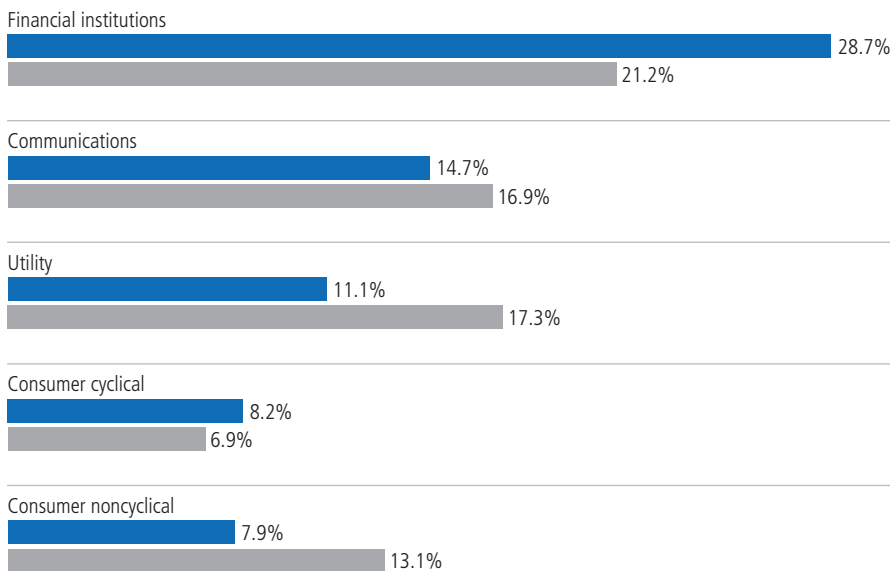
The Fund seeks to provide investors with total return

### Our strategy

- We invest primarily in corporate bonds. Our focus is on corporate bonds that have investment grade credit ratings from a nationally recognized statistical ratings organization.
- The bonds selected for the portfolio are typically rated BBB and above by Standard & Poor's, or Baa and above by Moody's Investors Service, Inc.\*
- We may also invest in unrated bonds, if we believe their credit quality is comparable to those that have investment grade ratings.
- We will generally keep the Fund's duration between eight and 11 years.

### Top 5 sectors

■ Delaware Extended Duration Bond Fund      ■ Barclays Capital Long U.S. Corporate Index



\* Bonds rated BBB/Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

<sup>1</sup> Source: S&P. Average credit quality is an average of each bond's credit rating, adjusted for its relative weighting in the fund.

<sup>2</sup> Average effective maturity is the average time remaining until scheduled principal repayment by issuers of portfolio securities, accounting for potential cash-flow changes.

<sup>3</sup> Average effective duration measures a bond's sensitivity to interest rates, by indicating the approximate percentage of change in a bond or bond fund's price given a 1% change in interest rates.

<sup>4</sup> Standard deviation measures historical volatility of returns.

<sup>5</sup> SEC yield is a standard yield calculation developed by the Securities and Exchange Commission (SEC) that allows for fairer comparisons among bond funds. It is based on the most recent 30-day period covered by the Fund's filings with the SEC. The yield figures reflect the dividends and interest earned during the period, after the deduction of the Fund's expenses.

### Investing involves risk, including the possible loss of principal.

The Fund will primarily be affected by changes in bond prices.

Fixed income securities and bond funds can lose value, and investors can lose principal, as interest rates rise.

### Portfolio managers

Manager	Years in industry
Thomas H. Chow	21
Roger A. Early	33
Kevin P. Loome	19

### Portfolio characteristics

Total assets	\$261.7 million
Number of holdings	267
Credit quality (weighted average) <sup>1</sup>	BBB
Effective maturity (weighted average) <sup>2</sup>	17.65 years
Effective duration (weighted average) <sup>3</sup>	10.31 years
Annualized standard deviation, 3 years <sup>4</sup>	13.99
SEC 30-day yield (Class A) <sup>5</sup>	
with expense waiver	5.45%
without expense waiver	5.21%

### Portfolio composition

Corporate bonds	91.6%
Mortgage-backed/asset-backed securities	4.4%
U.S. government securities	4.0%

### Top 10 holdings

List excludes cash and cash equivalents	% of assets
Goldman Sachs 6.750 10/1/2037	2.4%
Telecom Italia Capital SA 7.721 6/4/2038	2.0%
Bank of America 6.100 6/15/2017	1.6%
JP Morgan Chase Capital XXV 6.800 10/1/2037	1.5%
CSX Corp 7.450 4/1/2038	1.5%
Anheuser-Busch InBev Worldwide 8.200 1/15/2039	1.5%
Kinder Morgan 6.950 1/15/2038	1.5%
FHRR R008 Za 6.000 7/15/2036	1.4%
Quest Diagnostics 6.950 7/1/2037	1.4%
Nordstrom 7.000 1/15/2038	1.3%
<b>Total for top 10 holdings</b>	<b>16.1%</b>

Holdings are not recommendations to buy, sell, or hold any security. Holdings are as of the date indicated and subject to change.

They also may be affected by economic conditions that hinder an issuer's ability to make interest and principal payments on its debt.

# Delaware Extended Duration Bond Fund

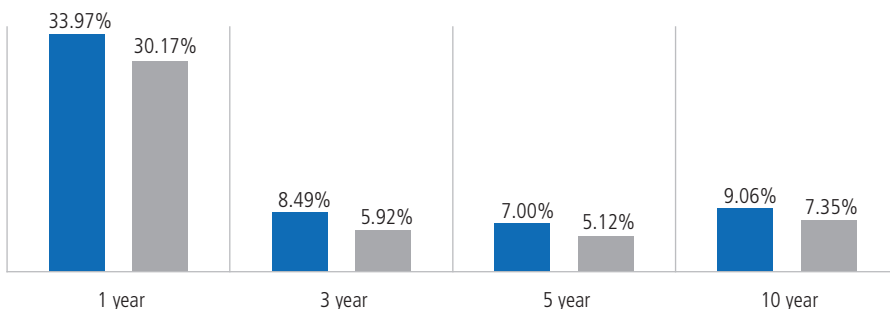
## % Average annual total returns as of September 30, 2009

All distributions reinvested

	Cumulative 3Q09	1 year	3 year	5 year	10 year	Lifetime	Inception date
Class A (at NAV)	14.70	33.35	8.14	6.72	8.77	7.68	9/15/98
Class A (at Offer)*	—	27.23	6.47	5.75	8.27	7.23	
Barclays Capital Long U.S. Corporate Index	12.54	30.17	5.92	5.12	7.35	—	
Lipper Corporate Debt BBB-Rated Funds Average	8.98	17.43	4.33	4.01	5.92	—	
Class I	14.98	33.97	8.49	7.00	9.06	7.96	9/15/98
Class R	14.82	33.24	7.93	—	—	6.53	10/3/05

\*includes maximum 4.50% sales charge

■ Delaware Extended Duration Bond Fund (Class I)    ■ Barclays Capital Long U.S. Corporate Index



## Calendar year total returns — Class I

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
-5.34%	6.66%	14.68%	13.32%	15.36%	10.14%	3.11%	5.78%	3.10%	-2.61%

## Expense ratio

	Gross	Net	Nasdaq
Class A	1.23%	0.90%	DEEAX
Class I	0.93%	0.65%	DEEIX
Class R	1.53%	1.15%	DEERX

Net expense ratio reflects (i) a contractual waiver of certain fees and/or expense reimbursements from Dec. 1, 2008 to Nov. 30, 2009 and (ii) a contractual waiver of distribution fees for Class A and Class R shares from Dec. 1, 2008 to Nov. 30, 2009. Please see the fee table in the Fund's prospectus for more information.

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

The Barclays Capital Long U.S. Corporate Index is composed of U.S. dollar-denominated, investment grade, SEC-registered corporate bonds issued by industrial, utility, and financial companies. All bonds have at least 10 years to maturity.

The Lipper Corporate Debt BBB-Rated Funds Average compares funds invested primarily in corporate and government debt issues rated in the top four grades.

## 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 800 266-3816 or visiting [www.delawareinvestments.com/performance](http://www.delawareinvestments.com/performance).

Total returns reflect waivers by the manager and/or distributor for some or all periods shown. Performance would have been lower without such waivers.

**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, which may be obtained by visiting [www.delawareinvestments.com](http://www.delawareinvestments.com) or calling 800 266-3816. Investors should read the prospectus carefully before investing.**

Class I and R shares are only available to certain investors. See the applicable prospectus for more information.

On August 19, 2009, Lincoln National Corporation entered into an agreement to sell ownership of Delaware Management Holdings, Inc. and its subsidiaries (also known by the marketing name of Delaware Investments) to Macquarie Group. Please see the supplement to your fund's prospectus for more complete information.



As of September 30, 2009, Delaware Investments assigned the Fund to a specific style box based on its portfolio. For purposes of the style box, low quality is defined as bonds rated BB or lower; medium as bonds rated BBB through A; and high as AA or better. Maturity is based on the following duration ranges: short up to 3.5 years; intermediate 3.5 to 6 years; and long more than 6 years.

## Commentary

### Overview

- Many economic indicators turned more positive during the third quarter, and for those indicators still in decline, the rate of decline slowed. (Source: Bloomberg.)
- The signs of improvement in U.S. economic growth have been well supported by economic growth globally (source: Bloomberg). In our view, emerging market and certain developed market economies are taking the lead in the current recovery, and their growth should probably help to pull along the U.S. economy.
- Within this environment, in a repeat of the second quarter of 2009, fixed income investors continued to embark on a significant “risk rally” during the third quarter of 2009.
- The broad Barclays Capital U.S. Aggregate Index recorded a solid return for the third quarter of 2009. The range of returns across sectors varied widely, with the strongest performers, mostly higher-risk sectors, driven by further spread tightening.

### Within the Fund

For the quarter, Delaware Extended Duration Bond Fund (A shares at net asset value) outpaced its benchmark, the Barclays Capital Long U.S. Corporate Index, by 2.16 percentage points.

The investment grade corporate bond market sustained its yearlong rally during the third quarter. During these historically lazy months, credits spreads — often viewed as a way to determine a security’s perceived level of risk — on the Barclays Capital U.S. Corporate Investment Grade Index (representative of the broad corporate bond market) declined by more than one full percentage point. Though not as dramatic a compression as occurred during the prior quarter (2.38 percentage points), the corporate bond sector nonetheless experienced a sustained, broad, and productive rally. As of quarter end, the Barclays Capital U.S. Corporate Investment Grade Index generated excess returns over comparable Treasury securities of almost six percentage points; year-to-date, the figure is approximately 20 percentage points. In our opinion, these are likely once-in-a-career type of results, as greater than 8% returns for the index during one quarter should not be taken lightly or underemphasized for being extraordinary.

Meanwhile, inflows from retail and institutional accounts have been massive and expanding as a growing number of investors have utilized corporate risk in both fixed income and equity strategies.

As we shared last quarter, we believe that much of the low-hanging fruit within the corporate bond markets has been picked at this point. At current valuations, several sectors, including food and beverage, technology, transportation, pharmaceuticals, and highly rated diversified industrials, are at or within striking distance of their long-term trading levels. Financials, the sector in which credit spreads compressed the most versus the rest of the market during the quarter, continue to trade anywhere from 0.75 to 1.00 percentage point behind comparably rated industrial and utility bonds (source: Barclays Capital). Given the substantial systemic risks still associated with this sector, we believe it could be several more quarters before financials trade on par or tighter than their nonfinancial counterparts.

At present, we believe that credits related to utilities, telecommunications, master limited partnerships (MLPs) of pipeline and infrastructure-oriented companies, commodity companies, and cyclical companies in general selectively continue to offer potential.

Fundamentals within nonfinancial sectors have been interesting to us in that sales and revenues remain depressed and in many cases are underperforming forecasts. Investment grade issuers, though, have undertaken ambitious and effective cost cutting, debt reduction, liquidity enhancement tactics, and delayed capital expenditure plans. We believe these efforts have resulted in productivity improvements and stabilized earnings and cash flow deterioration. However, we believe that if the macro picture with respect to general consumption or capital access begins to fade (despite the heavily subsidized rally), it is likely that companies will be challenged to generate additional meaningful savings beyond what they’ve accomplished to date, and balance sheet and cash flow deterioration could materially commence.

### Outlook

In our view, the recovery hasn’t arrived yet but the market is anticipating its appearance, and for now, stable is considered the new “up.” We expect that as credit spreads continue to contract, returns in investment grade corporate bonds for the balance of the year could become increasingly correlated to interest rate direction, volatility, and curve shape. We believe the intense and one-sided nature of this current “V”-shaped corporate market recovery is heavily influenced by technical (supply and demand) factors, rather than built on a foundation of fundamental improvements.

(continued on back)

The Barclays Capital U.S. Aggregate Index is a broad composite of more than 8,500 securities that tracks the investment grade domestic bond market.

The Barclays Capital U.S. Corporate Investment Grade Index is composed of U.S. dollar-denominated, investment grade, SEC-registered corporate bonds issued by industrial, utility, and financial companies. All bonds have at least one year to maturity.

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 Sept. 30, 2009, 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.

★★★★ Overall Morningstar Rating™ for Class I Shares

Category: Long-Term Bond Funds	3 year	5 year	10 year
Delaware Extended Duration Bond Fund	★★★★	★★★★	★★★★
Total number of funds	38	27	15

Past performance is no guarantee of future results.

Morningstar proprietary ratings reflect the historical risk-adjusted performance as of Sept. 30, 2009. The Overall Morningstar Rating is based on the same number of funds in the category as the three-year rating.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fee(s), placing more emphasis on downward variations and rewarding consistent performance.

The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star (Each share class is counted as a fraction of one fund within this scale and ranked separately, which may cause slight variations in the distribution percentages). The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and 10-year (if applicable) Morningstar Rating metrics. Morningstar Rating is for the I-share class only; other classes may have different performance characteristics.

## Commentary, continued

As a result, we remain cautious that the recent enthusiasm for risk is constructive and may even allow for some retracement in spreads from nonsystemic issues. Depending upon the circumstances, if spreads were to significantly widen from current levels, we would view this as a buying opportunity to increase credit risk among our fixed income strategies. In the meantime, and possibly the foreseeable future, we believe that the primary means of attempting to generate excess performance will be avoiding errors of opinion with regard to valuation or credit, as well as maximizing credit and capitalization curve opportunities, and managing issuer concentration levels. ■

Delaware Investments • 2005 Market Street • Philadelphia, Pennsylvania 19103

Delaware Investments is the marketing name for Delaware Management Holdings, Inc. (DMHI) and its subsidiaries. DMHI is a Lincoln Financial Group® company. Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates. The Fund is distributed by **Delaware Distributors, L.P.**, an affiliate of DMHI.

**Not FDIC Insured • No Bank Guarantee • May Lose Value**