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As recovery takes hold, our focus sharpens on equities, emerging middle class

Below, members of the Ivy Asset Strategy Fund's portfolio management team discuss recent market performance, the Fund's current positioning and their market outlook for the months ahead. This commentary includes remarks made by Portfolio Managers Michael Avery and Ryan Caldwell during a December 8 Ivy Sound Solutions conference call with advisors.

In November, the U.S. economy continued its halting recovery, yet anxiety remained. Mixed economic data fueled investor concern, including continued malaise in the housing market and worsening news on unemployment, which rose to 10.2 percent. During the final week of November, the state-owned Dubai World conglomerate in the Persian Gulf asked creditors for a six-month suspension of interest payments on about \$60 billion of its \$80 billion in debt, which sent the stock market briefly lower. Nonetheless, equities closed the month higher. The S&P 500 index rose 6.0 percent, its biggest November gain since 2001, and closed the month with a 24.07 percent return for the year to date.

Past performance is not a guarantee of future results. The opinions expressed are those of the Fund managers and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through December 8, 2009, and are subject to change due to market conditions or other factors. ● The Fund allocates from 0-100% of its assets primarily among stocks, bonds, and short-term instruments, across domestic and foreign securities. International investing involves additional risks, including currency fluctuations, political or economic conditions affecting the foreign country, and differences in accounting standards and foreign regulations. These risks are magnified in emerging markets. ● With regards to fixed income securities in which the fund may invest, these are subject to interest rate risk and, as such, the net asset value of the fund may fall as interest rates rise. ● Because the Fund may concentrate its investments, the Fund may experience greater volatility than an investment with greater diversification. ● The Fund may use short-selling or derivatives to hedge various instruments, for risk management purposes or to increase investment income or gain in the Fund. These techniques involve additional risk. ● Investing in physical commodities, such as gold, exposes the Fund to other risk considerations such as potentially severe price fluctuations over short periods of time. These and other risks are more fully described in the Fund's prospectus. ● Holdings information is not intended to represent any past or future investment recommendations. Holdings and allocations can and do change frequently. ● S&P 500 is an unmanaged index of common stocks.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. For a prospectus containing this and other information for the Ivy Funds, call your financial advisor or visit us online at www.ivyfund.com. Please read the prospectus carefully before investing.

Ivy Asset Strategy Fund

Thinking Beyond Boundaries

PORTFOLIO PERSPECTIVES | DECEMBER 2009

Equities, gold bullion remain appealing

In several recent conference calls we have talked at length about why we're bullish on equities and gold bullion. As we've indicated, fixed-income products have outperformed equities over the last decade, which is a pattern we do not believe is sustainable. In addition, considering where profits are accruing in the profit cycle, we believe that it is more advantageous to be an equity holder right now. For those reasons, the Fund is currently about 80 percent invested in equities, with another 16 percent of the Fund's assets in gold bullion. The fixed-income position is now less than half of one percent, and our cash position represents the remainder — about three and one half percent of the fund. These positions have not changed dramatically since our October conference call.

We do currently have a small hedge on the portfolio — a long position on the Hang Seng Index (0.6 percent of net assets) as of 11/30/09 — but we'll be eliminating that before year end. However, should we become concerned about the broader equity market, we have developed a strategy that will enable us to effectively put a hedge in place, within a very short period of time, that would cover at least three-quarters of the portfolio.

We don't expect to add meaningfully to portfolio holdings in the near term, unless we see potential for some opportunistic plays in the fixed-income market. As it pertains to gold, this is an asset class that has garnered a lot of attention due to its increased volatility in the wake of developments in Dubai and the United Arab Emirates. Moving forward, however, we do anticipate we'll decrease gold as a percent of the portfolio. We think it continues to work as an asset class as long as policy makers globally are focused on either quantitative easing or other monetary policies that are designed to stimulate real output. Such efforts may, however, have the unintended consequence of devaluing fiat currencies. When that happens, gold as a hard-currency alternative often comes into play. Clearly, the desirability of gold as an asset class is very well known and perhaps a little bit of a tiresome story for some investors. We suspect that now that everybody understands

that story, the cache associated with owning gold may begin to diminish sometime in 2010, perhaps in the second half. That said, we believe gold still has room to move higher. We think we'll see days where gold may go above the more recent high of approximately \$1,220 per ounce, but we also won't be surprised if we see that go down and our exposure to equities moves higher.

An eye to the east

Looking ahead, we do not anticipate making any dramatic shifts in the portfolio. Our world view remains focused on the emerging middle class, primarily in Asia. We're talking most specifically about the people who live in the Tier III cities of China. There, some 300 million people are beginning to enjoy rising prosperity as a result of higher discretionary income. With that in mind, when you look at the construction of the portfolio, you'll see that it's concentrated in those industry sectors in which we've invested in the past — financials, technology, energy, consumer retail, entertainment, property, protein consumption, healthcare and education — which will be positively affected by individuals in that part of the world who have more discretionary income.

Even though we have the ability to buy securities all over the globe — and we do — the companies that we invest in continue to be best-in-class providers of goods or services to the emerging middle class. We likely will continue to have a large concentration of the portfolio in equities, but we may begin to fine tune the focus, placing additional emphasis on infrastructure. Industry sectors where we may make adjustments could include materials, energy, and industrials, given our belief that a large infrastructure build-out will occur in the western provinces of China, such as Hunan Province, Sichuan Province, Shaanxi Province and provinces even further west.

We constantly are reminded that Chinese policymakers are focused on fiscal stimulus projects — monetary stimulus policies that are intended to take pressure off the Tier I cities and bring a higher level of prosperity to the western provinces. We'll focus on that more in 2010. We'll also

sharpen our focus on Chinese companies that are moving up the value chain and producing higher-quality products — particularly in the areas of heavy machinery, industrial equipment, textiles machines — and that have a targeted market of individuals outside of China, as well as other parts of Asia, the Middle East and the African continent.

In the meantime, we continue to like Chinese financial companies. Two of our top-five holdings are Industrial and Commercial Bank of China (4.9 percent of net assets as of 11/30/09) and China Life (4.9 percent of net assets as of 11/30/09). We also still think that the Chinese banks are among the best-capitalized banks in the world. Some members of the press have broadly suggested that the Chinese banks are leveraged, but we think that's far from the truth. On the life insurance side of the industry, it's all about a play on consumption — life insurance is going to be used in the pension scheme in 2010 for Chinese citizens to be able to get tax deductions for investing in life insurance. Therefore, we see life insurance as a good 20- to 25-percent growth industry, and having China Life as one of our top positions largely correlates with what we see as consumption growth for a very long time.

Global recovery and a healing domestic economy

Clearly the global and domestic economies are recovering, although we're certainly seeing some volatility and controversy, even in places we're invested where we have a pretty solid three- to five-year outlook. When it comes to gauging economic recovery, a lot of the government jobs data is murky and it's subject to revision, so what we do is look at the things that are real and tangible. And what's real and tangible is that we are having a global recovery.

Thanks to a lot of stimulus, credit markets are 180 degrees from where they were a year ago. Liquidity issues in capital markets are no longer evident. We are seeing activity, which is a positive. The most positive thing we see, however, is that corporate profit margins are exceptionally good, which can only mean that over the next two years managements will do everything they can to erode those margins. Inventories will be rebuilt, capital investment will

be made and hiring will occur. We think we'll see some gross domestic product growth near perhaps three to four percent for a few quarters and then tapering down a bit. We think unemployment will remain troublesome for some time.

In terms of our strategy, we've moved from trying to figure out whether central banks can engineer recovery to looking at which companies are going to benefit from liquidity trends, competitive advantages and high profit margins — all the things you look for when you're trying to find opportunities. We're much more stock specific and country specific than we've been in the past few years because we think there will be some recovery.

In closing, we like equities with a focus outside the United States, because we believe the growth and the returns there are better. What we worry about is the time frame to achieve those returns getting compressed, because again, it's really a by-product. It's the same move we've been playing for the last 25 years, and it seems like the time horizon and the timelines are increasingly compressing. We think the trick is going to be hedging volatility as credit starts to flex again. And right now, we're not really on the radar screen of seeing credit crack; it's only improving.

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PORTFOLIO PERSPECTIVES | DECEMBER 2009

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Focused: We do our own work, believe in our own research and act on our own ideas. Our steady approach is guided by a belief in fundamentals over fads.

Constant: We say what we mean, and do what we say. What we value most, and remember every day, is the trust that we have earned, and must continue to earn, from our shareholders.

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