

Summary of
INDEPENDENT FEE CONSULTANT'S EVALUATION OF
THE PROPOSED MANAGEMENT FEES FOR
IVY FUNDS AND IVY FUNDS, INC.

August 26, 2009

Prepared Pursuant to the
Assurance of Discontinuance
Between the Office of Attorney General of New York State and
Waddell & Reed, Inc.

During August of 2009, and as part of their regularly scheduled meetings, the Disinterested Trustees of Ivy Funds and the Disinterested Directors of Ivy Funds, Inc. (collectively, the “Ivy Funds” and any separate series thereof an “Ivy Fund”) reviewed significant information in connection with considering the continuation of existing investment management agreements currently in effect between Ivy Investment Management Company (“IICO”) and the Ivy Funds. Pursuant to the Assurance of Discontinuance between Waddell & Reed, Inc., Waddell & Reed Services Company (“WRSCO”), and Waddell & Reed Investment Management Company (collectively, “Waddell”) and the Office of the New York Attorney General dated July 10, 2006 (“Assurance of Discontinuance”), the Disinterested Trustees/Directors of the Ivy Funds engaged an independent fee consultant to assist them in evaluating the reasonableness of the management fees charged by IICO, an affiliate of Waddell, to the Ivy Funds. The independent fee consultant’s review addressed the following fee-related factors:

1. The nature and quality of IICO’s services to the Ivy Funds, including performance
2. Management fees (including any components thereof) charged by other mutual fund companies for like services
3. Management fees (including any components thereof) charged to institutional and other clients of IICO for like services
4. Costs to IICO and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit
5. Profit margins of IICO and its affiliates from supplying such services
6. Possible economies of scale as a fund grows larger

The following summarizes the findings of the independent fee consultant retained by the Disinterested Trustees/Directors.¹

Summary Findings

The report stated that IICO delivered strong levels of performance and service to the Ivy Funds in relation to its management fees and relative to investment advisers of comparable mutual funds. For the 36 months ended March 31, 2009, when compared to their respective peer groups established by Lipper, Inc. (“Lipper”), approximately 40% of the Ivy Funds were in the top quintile of performance and 72% of the Ivy Funds were in the top two quintiles. The independent fee consultant noted that the Ivy Funds’ performance appeared to be grounded in a number of institutional competitive advantages at IICO, including stock selection ability, ability to attract top talent, strategic vision, performance-focused culture, ability to manage smaller AUM funds, ability to serve small account sizes and an effective trading infrastructure.

The report stated that for the 12 months ended March 31, 2009, the total expenses of the Ivy Funds

¹ The independent fee consultant’s evaluation was based on information provided by IICO, Lipper, Inc., other information providers and other independent analyses. The term “management fees” refers to the actual annual advisory and administrative fees, net of any fee waivers, paid by an Ivy Fund, as a percentage of such fund’s average net assets. The term “total expenses” refers to the total annual expenses, net of any fee waivers, paid by an Ivy Fund, as a percentage of such fund’s average net assets. Where these terms are used in reference to groups of Ivy Funds, numbers expressed are usually on an asset-weighted basis. Fee and performance data used in screening methodologies are usually for the period ending March 31, 2009.

on average were 4% above the mean total expenses of their respective Lipper Expense Group peers and 5% below the mean total expenses for their Lipper Expense Universes. The management fees for the Ivy Funds on average were 0.9% above the mean management fees for their Lipper Expense Groups and 6.9% below the mean for their Lipper Expense Universes. The independent fee consultant noted that the Ivy Funds' small average account size and small fund AUM introduces certain biases in the Lipper analyses that work against Ivy Funds in Lipper expense comparisons and, as a result, the Lipper findings may be considered conservative in that regard. The independent fee consultant found that within the larger Lipper averages the management fees and total expenses of individual Ivy Funds and share classes are reasonable relative to their performance.

The report stated that the management fees IICO charges to the Ivy Funds also are reasonable in relation to the management fees it charges to its other institutional accounts. The report noted that these institutional accounts have different service and infrastructure needs and in addition that, based on industry data, the average spread between management fees charged to the Ivy Funds and those charged to institutional accounts is below the average fee spreads observed at other investment advisers.

The independent fee consultant found that the level of profit earned by IICO from managing the Ivy Funds does not appear to be unreasonable. The report noted that Waddell's overall profitability from managing the Ivy Funds and its other operations is below the mean profitability of other publicly traded peers, but appears adequate to enable IICO to continue to provide quality support to the Ivy Funds and their shareholders.

The report stated that an economy of pricing analysis was undertaken by the independent fee consultant that showed that Ivy Funds incur lower fees and expenses with increasing fund AUM and with increasing average account size which the independent fee consultant believes should benefit Ivy Fund investors as the Ivy Funds mature.

Conclusions

The independent fee consultant concluded that the services provided by IICO and its affiliates and expenses incurred by the Ivy Funds over the year ending August 31, 2009 are reasonable and provide adequate justification for renewal of the Ivy Funds' existing advisory agreements.