



IVY

Small Cap Growth Fund [WRGCX]

Q2/10 Portfolio information as of June 30, 2010

PORTFOLIO MANAGEMENT



Tim Miller, CFA, has 31 years of experience in the industry and three months with the fund.

Timothy J. Miller, CFA, was named portfolio manager of Ivy Small Cap Growth Fund in March 2010. Mr. Miller joined Ivy Investment Management Company in February 2008. Previously, he was the chief investment officer of Invesco Funds Group, Inc. from July 2000 until July 2003, and as the chief investment officer of the Denver Investment Center of Invesco North America from July 2003 until May 2004. Mr. Miller holds a M.B.A. from the University of Missouri-St. Louis and a B.S.B.A. from Saint Louis University. He is a CFA Charterholder.

MARKET SECTOR UPDATE

The small-cap market started the second quarter in an uptrend but succumbed to the pressures from the Greek/European debt crisis and concerns over slowing growth in China. The correction was sharp. Small caps continue to outperform large caps, however, declining less in the second quarter and year to date. The growth component of the small-cap index declined less than value in the quarter, narrowing the gap for the year to date. The weakest sectors for the quarter were energy, consumer discretionary and health care. The most notable shift in performance for the quarter was a transition favoring higher quality growth stocks.

PORTFOLIO STRATEGY

The industrials sector was the largest contributor to the Fund's performance for the quarter, generating an absolute gain for the period led by significant moves in Portfolio Recovery Associates (4.30 percent of assets as of June 30, 2010) and Ladish Co., Inc. (2.09 percent of assets as of June 30, 2010). Technology was the next best sector, aided by the acquisition of Fund holding CyberSource Corp. by Visa (CyberSource is no longer in the portfolio). Also performing well was OSI Systems (1.22 percent of assets as of June 30, 2010). Although the consumer discretionary and energy sectors were among the weakest in the index, the Fund's positions held up much better for the period. We scaled back the energy positions during the early part of the quarter to avoid the subsequent downdraft, and were buoyed by the steady performance of Core Laboratories (2.27 percent of assets as of June 30, 2010). A gain from Under Armour (3.06 percent of assets as of June 30, 2010) and the defensive nature of O'Reilly Automotive (3.09 percent of assets as of June 30, 2010) buffered the weakness in the consumer sector. On the negative side of the ledger, the financials

underperformed due to weakness in Greenhill (2.05 percent of assets as of June 30, 2010) and the commercial banks, but the correction in these stocks more than discounts the near-term risks and undervalue the intermediate-term potential.

OUTLOOK

The high-quality factor should continue to play out over the balance of this year due to the macro and regulatory uncertainties plaguing the markets. We feel the higher quality small caps are the larger companies with strong market positions, debt-free or low-debt balance sheets, and high returns on capital. Overall corporate earnings and cash flow should continue to be healthy but the concern over future revenue growth is justifiable. We think that many of our small cap growth companies have strong enough product cycles to get through any near-term economic stutter, and we will continue to favor those stocks and industries.

The opinions expressed in this commentary are those of the Fund's manager and are current through June 30, 2010. The manager's views are subject to change at any time based on market and other conditions, and no forecasts can be guaranteed. Past performance is no guarantee of future results.

Consider all factors. Investing in small-cap stocks may carry more risk than investing in stocks of larger, more well-established companies. As with any fund, the value of the Fund's shares will change, and you could lose money on your investment. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Not all funds or fund classes may be offered at all broker/dealers. These and other risks are more fully described in the fund's prospectus.

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.



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