



IVY

Capital Appreciation Fund [WMEAX]

Q2/10 Portfolio information as of June 30, 2010

PORTFOLIO MANAGEMENT



Barry M. Ogden, CFA, CPA has 16 years of experience in the industry and eight years with the fund.

Barry M. Ogden, CFA, CPA, is a senior vice president of Ivy Investment Management Company. Mr. Ogden graduated from the University of Kansas in 1991 with a B.S. in accounting. He earned the Certified Public Accountant designation in 1991. Prior to joining the Ivy organization, he was affiliated with Arthur Andersen & Company as a senior accountant and business advisor in the Audit and Business Advisory Division. Mr. Ogden joined the Ivy organization in 1994 as an investment analyst. He was named assistant portfolio manager in 1999. He was appointed portfolio manager of the Fund in 2002. Mr. Ogden is a Chartered Financial Analyst.

MARKET SECTOR UPDATE

Second quarter 2010 started strongly, but unfortunately, markets lost all momentum and abruptly turned in late April to finish the quarter down sharply. An attempt by the markets to rally in early June failed and we finished the quarter near the lows. The main culprits for the poor returns were several fold. First, we saw growing scrutiny being placed on the sovereign debt positions for several European countries (Portugal, Italy, Ireland, Greece and Spain) and their ability to repay this debt load. Fearing the worst, investors ran for cover, the euro weakened and the equity markets sold off hard. Second, the Chinese government tapped the brakes as they feared an overheating economy and building inflationary pressures. In the states, investors started to focus on signs that the domestic economy was losing steam and became less willing to look at the economic data with a bias to the upside. Optimism turned to pessimism and investors started questioning the health and sustainability of the recovery.

PORTFOLIO STRATEGY

As the economy started to show signs of softening and European concerns were spreading, we made a strategic decision to raise cash and move to the sidelines temporarily. We gradually increased our cash position, but due to some quarter-end withdraws, we finished with only a 1 percent cash position. By the end of the quarter, we increased our exposure in information technology, industrials, energy and consumer discretionary sectors and reduced our weighting in consumer staples, financials, materials and healthcare. Our investment philosophy and strategy remains focused on owning companies that we believe can grow their business over time, generate high returns, take market share, are not dependent on the capital markets to fund their planned growth, and trade at a reasonable valuation relative to their peers and the market.

OUTLOOK

As we highlighted in our last quarterly commentary, several key data series bear close investor scrutiny as we move thru 2010 and into 2011. The first and arguably most important remains the labor picture, which has improved but remains rather bleak. Jobs are not being created fast enough to dramatically reduce the stubbornly high unemployment rate. The picture is clouded further by the hiring of census workers during the first half of the year, the extension of unemployment benefits and a growing number of individuals that have simply stopped looking for work. Furthermore, housing has been inflated for much of the year as individuals took advantage of the first-time home buyer's credits. Despite record low mortgage rates, as these incentives have expired, the housing market has completely stalled out. The earnings season should provide a good read on the health of the consumer and end markets as we make our way through the back half of 2010. We suspect that managements will be more cautious than they've been in recent quarters as they assess the weakening environments around the globe, especially in Europe and the United States. The economy is likely in a soft patch that has been exacerbated by various austerity measures around the globe. It will take some time for the markets to work through all of this. But with the recent market correction, lack of inflationary pressures, low interest-rate environment, exceptionally strong corporate balance sheets and lack of alternative attractive investment opportunities, we believe the equity markets offer exceptional value at current levels for long-term investors.

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. As with any mutual 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 a bank deposit and 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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