



IVY

## Small Cap Value Fund [IYSAX]

Q2/10 Portfolio information as of June 30, 2010

### PORTFOLIO MANAGEMENT



**Matthew T. Norris, CFA**, has 18 years experience in the industry and three months with the fund.

Matthew T. Norris, CFA, is director of equity research for Ivy Investment Management Company. Mr. Norris graduated from the University of Kansas in 1986 with a B.S. in cellular biology. He earned a M.B.A. from the University of Nebraska in 1992. Prior to joining the Ivy organization, Mr. Norris was affiliated with Advantus Capital Management, Inc. from 1997 to 2003. Prior to joining Advantus, he was an equity analyst and portfolio manager for Norwest Investment Management, Inc. Mr. Norris joined Ivy in July of 2003 as portfolio manager of the Ivy Value Fund. He has managed Ivy Small Cap Value Fund since April 2010. Mr. Norris is a Chartered Financial Analyst.

### MARKET SECTOR UPDATE

Various macroeconomic fears drove the markets down in the second quarter of 2010. The Russell 2000 Value Index, the most relevant index for small cap value investors, fell 10.6 percent. Performance was driven by a number of stocks that performed poorly during the quarter.

Areas of relative strength were real estate and utilities, both sectors that offer high-dividend yields and help support stocks during weak market periods. The Fund was underrepresented in real estate and this contributed to the lagging performance. The weakest areas of the market were those with economic exposure such as retail, capital markets, and other consumer-facing areas. The Fund's best performers included technology names iGate Technology (1.56 percent of assets as of June 30, 2010) and Tibco Software (1.62 percent of assets on June 30, 2010); and also Liberty Media (0.87 percent of assets on June 30, 2010) in the entertainment space. Some of the Fund's worst performers included mining firm Quadra Mining (0.82 percent of assets on June 30, 2010) and aerospace parts supplier AAR Corporation (1.64 percent of assets as of June 30, 2010).

### PORTFOLIO STRATEGY

In our effort to capitalize on value for our investors, we employ a long-term focus on value investing, searching for companies that are trading 30 percent or more below our estimate of their intrinsic value. Companies are analyzed on the basis of normalized cash generation, among other features.

Gaylord Entertainment (2.1 percent of assets as of June 30, 2010) owns a number of hotels nationwide, including four hotels that are used to host large conventions. One of their hotels is located in Nashville and was flooded in April, 2010. The hotel will be unusable until approximately December 2010. Between the lost revenue from the hotel and the expense to repair it, about nine months of corporate earnings will be eliminated. The stock reacted to the downside, falling from \$35 to \$25 in the week of the flood, down from an all-time high of \$60.

Our analysis shows the hotel repairs should be completed on time, and there should be no permanent loss of business from the event. Accordingly, the cash flows of the business will return to normal in time, and investors also have the support of the value of the hard assets—the land and buildings. We feel the company's intrinsic value is high than our invested price. The only thing required now is patience.

### OUTLOOK

The Fund's approach is to analyze individual companies to find opportunities such as Gaylord. We also employ top-down thinking to reduce portfolio risk. We think this approach will improve performance of the Small Cap Value Fund over time.

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.** The value of a security believed by the Fund's manager to be undervalued may never reach what the manager believes to be its full value, or such security's value may decrease. 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. Investing in small-cap stocks may carry more risk than investing in stocks of larger, more well-established companies. 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](http://www.ivyfund.com). Please read the prospectus carefully before investing.



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