



Frederick Jiang
Portfolio Manager, CFA
Ivy Pacific Opportunities Fund



Mike Avery
Co-Portfolio Manager
Ivy Asset Strategy Fund



Ryan Caldwell
Co-Portfolio Manager
Ivy Asset Strategy Fund

China's economy: Stimulus at work

Below, Frederick Jiang, CFA, portfolio manager of Ivy Pacific Opportunities Fund, and Mike Avery and Ryan Caldwell, portfolio managers of Ivy Asset Strategy Fund, discuss China's economic prospects and how their respective funds have been positioned to benefit from what they expect will be a faster revival of growth in China and parts of Asia than in the United States.

In the Chinese calendar, Jan. 26, 2009 to Feb. 10, 2010 is the year of the ox. The animal is regarded as a symbol of endurance, an accumulator of energy and a meticulous planner. We think China's economy is displaying these traits, and in terms of government fiscal policy, we see the country as being in the year of the bulldozer.

A \$2.65 trillion plan

Since last November, the Chinese government has enacted a wide range of economic revitalization actions and reduced interest rates to 2004 levels. Despite a severe downturn in exports, it appears that the Chinese economy is benefiting from its comprehensive, infrastructure-related economic stimulus plan. Last autumn, China's central government announced a 4 trillion RMB (\$586 billion) package of spending through 2010 on public housing, railways, highways, airports, power grids and earthquake-related reconstruction work. This was supplemented by plans for additional spending by provincial governments. If we add all the announced programs together, we come to a total of 18 trillion RMB or close to \$2.65 trillion. Published reports also suggest that a railway between Shanghai and Nanjing, a Xiamen-Zhangzhou cross-sea bridge, and a high-speed rail link between Datong and Yucheng in Shaanxi are among additional projects under consideration.

CONSIDER ALL FACTORS. The opinions expressed are those of the Funds' 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 April 21, 2009, and are subject to change due to market conditions or other factors. • 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. • Fixed income securities are subject to interest rate risk and, as such, the net asset value of the fund may fall as interest rates rise. • Investing in high-income securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. • Holdings information is not intended to represent any past or future investment recommendations. Holdings and allocations can and do change frequently. 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 FUNDS

Market Perspectives

APRIL 2009

China's command and control leadership has provided resources to underwrite a huge backlog of local projects that had been steadily building up over the prior three years. Railway investment has tripled from year-ago levels while agricultural spending has doubled, and coal-mining expenditures have jumped 59.6 percent, according to China's statistics bureau. The number of new government-sponsored projects has climbed 28 percent to 18,533. China has also started at least \$35 billion of energy projects since autumn, using cyclical weakness to boost and diversify its sources of energy supply. By our estimate, China now accounts for half of annual world cement consumption and one-third of steel consumption.

It's not been all public works. Targeted consumer tax relief and spending incentives are part of China's announced China stimulus package and have included:

- A 13% combined rebate on new appliances, electronics and computers
- Reduced sales tax for small and mid-size cars and mini-vans
- Building program to create 10 million affordable homes in rural areas
- Value-added tax rebates

China is already a great consumer. By our estimate, there are about 700 million cell phone handset users in China compared to 250 million in the U.S. China is the largest television market, and the largest market for washing machines, air conditioners and autos.

No borrowing

Unlike most western governments, China does not need to borrow to spend money on programs aimed at rekindling growth, and China appears to be using its ample resources to its advantage. You can also find multiple phases of economic development affecting and benefiting its 1.3 billion people. Many people groups with China are moving from agrarian to export to infrastructure, from rural to urbanization, from poverty to middle class, domestic consumption phases of growth.

If we define the middle class in China as people who can afford a one bedroom apartment and one car, there are probably about 200 million persons who qualify for that category. We estimate every year another 25 million people join the middle class people group.

To capitalize on China's economic shift from export growth to self-financed domestic spending, our equity positioning in both Ivy Pacific Opportunities Fund and Ivy Asset Strategy Fund includes a diverse mix of Chinese companies. Within Ivy Asset Strategy Fund, we also have investment grade corporate fixed-income exposure to U.S. companies likely to benefit from China. We're trying to capture positions in a range of companies that provide a product or service most efficiently and most profitably.

Overall, each Fund's portfolio has reflected consistent China-related investment themes. To varying degrees over the past six months, this has resulted in significant holdings in construction, machinery and power utilities. On the consumption side, each Fund has held significant holdings in China-related financial services and telecom.

"China, with an economy one-third the size of the United States, is allocating over three times as much for infrastructure. Initial results from China's stimulus package look promising."

*Caterpillar Inc. CEO Jim Owens on a April 21 earnings conference call**

*Ivy Asset Strategy Fund owned Caterpillar Inc's investment-grade debt and commercial paper securities totaling 0.6% of net assets at 3.31.09

Ivy Asset Strategy Fund's positioning

Within Ivy Asset Strategy Fund, nearly half of the portfolio's equity exposure is tied to companies that are directly involved in China. As of April 2009, we also had a hedging position in the Heng Seng Index amounting to about 10 percent of net assets. Among the Fund's holdings are non-China domiciled companies that are focused on the strength in the Chinese market. These include three segments of approximately 6 percent each of net assets each as of March 31, 2009:

- Information technology and telecommunications companies that we think are benefiting from the emerging middle class market in China and a build out of so-called third generation (3G) cellular phone networks.
- Non-Chinese energy and materials stocks that we believe are benefiting directly from increased strength in the Chinese economy. These include a copper mining firm and a French oil company that export natural resources to China.
- Agriculture and biotechnology companies that provide fertilizer and seeds to China

Ivy Pacific Opportunity Fund's positioning

As stock prices have rebounded since early March, we have taken profits in some of our China holdings and increased our position in other Asian countries where we thought stocks remain excessively depressed. These markets include South Korea, Taiwan and Singapore, whose economies remain dependent on exports. We believe these countries may see increased export demand to China to offset continued weakness in demand from developed western markets.

The boom revisited

From 2003 to early 2008, the Chinese economy enjoyed very high growth. We saw gross domestic product grow by the double digit amounts for nearly five years. But things turned in the second quarter of 2008, and this is something all of three of us have learned first-hand from meeting with company leaders in China. When we visited China in May 2008, we talked to many executives and officials and learned that growth was slowing substantially. When we visited again in September 2008, we saw an even greater slowdown. So we became very cautious.

The November stimulus plan prompted us to re-align each Fund's portfolio. By January 2009, we began to see positive changes in the Chinese economy as bank lending grew substantially, quite unlike the situation in the U.S. and Europe. For example in January, approximately 1.6 trillion RMB in new credit was extended in China. In February, credit grew by an additional 1.1 trillion RMB. Also, unlike the situation in the U.S., the housing market in China has rebounded sharply. For example, in March, housing transaction volume grew 16 percent compared to a year earlier. Exports from China remain weak, however, especially to Europe.

Outlook

In the coming months, we believe that GDP (gross domestic product) growth in China will be relatively stronger than other parts of the world, and that other Asian countries will benefit. In fact, we believe that if current growth trends continue, within three years the size of China's economy will eclipse that of Japan, which is currently suffering a severe recession. We estimate China's second quarter 2009 GDP growth will be somewhere between 7 percent to 8 percent — probably close to 7 percent. We think GDP growth will accelerate to 9 to 10 percent by the fourth quarter of 2009.

Across Asia, we will closely monitor events to confirm that business profitability and productivity are benefiting from government spending and a shift toward greater domestic consumer consumption. Compared to developed markets, we think Asia will continue to benefit from a rate of high savings and relatively low levels of consumer, corporate and government debt. Many Asian countries other than Japan also enjoy favorable demographic trends that should help fuel continued growth.

For example, we think China has ample internal resources, and will increasingly use its global financial clout to convince trading partners to use the RMB as a currency in trade and foreign exchange reserve. In March 2009, we saw this tactic take shape in the form of currency swap agreements between China and several Asian nations, Belarus and Argentina, which supplies China with soybeans.

IVY FUNDS Market Perspectives

APRIL 2009

Why Ivy Funds?

Ivy Funds is an exceptional combination of investment managers that offers global reach and capabilities to advisors and their clients. Ivy seeks to enable its fund shareholders to remain comfortably committed to their long-term goals. We are:

Proven: We're part of an organization whose roots date to 1937, with an investment style emphasizing participation in positive markets and, especially, seeking to manage risk.

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.

The Ivy Funds are managed by Ivy Investment Management Company and distributed by its subsidiary, Ivy Funds Distributor, Inc.



IVY FUNDS®

PROVEN | FOCUSED | CONSTANT

6300 LAMAR AVENUE | SHAWNEE MISSION KS 66202
WWW.IVYFUNDS.COM

NOT FDIC/NCUA INSURED | MAY LOSE VALUE | NO BANK GUARANTEE
NOT A DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY



Ivy Funds Distributor, Inc.
TMF9113 (04/09)