Timely Topics

June 30, 2014

OMP and Rising Rates: The Changes and Early Results

Interest rates have been in a long-term downward trend since the early 1980s, supporting an almost 35-year bull market in bonds and providing a tailwind for fixed income investors. Over the past few years, external factors have aligned to drive interest rates, as defined by the 10-year Treasury yield, to all-time lows of near 1.5%. Although interest rates increased in 2013, yields have fallen in 2014 and remain very low by historical standards. As a result, the risk of losses in fixed income investments has risen, in our opinion.

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Key Changes

LPL Financial Research has been positioning portfolios to better manage the threat of rising interest rates, including changes to the Optimum Market Portfolios (OMP). Although asset allocation is the most visible change that can be made within OMP, this is not the only lever we have at our disposal to reposition the portfolios. We are also able to recommend changes to each fund's subadvisors, as well as the allocation between them. In January 2014, in conjunction with Delaware Management and the Optimum Funds Board, we added two new strategies to the Delaware Optimum Fixed Income Fund:

LPL Financial Research has been positioning portfolios to better manage the threat of rising interest rates.

1. Delaware Management Diversified Floating Rate Investment Strategy; and
2. Pacific Investment Management Company's (PIMCO) Low Duration Investment Strategy.

These strategies allow a portion of each subadvisor's assets to be invested in shorter-term securities, which are less sensitive to rising interest rates.

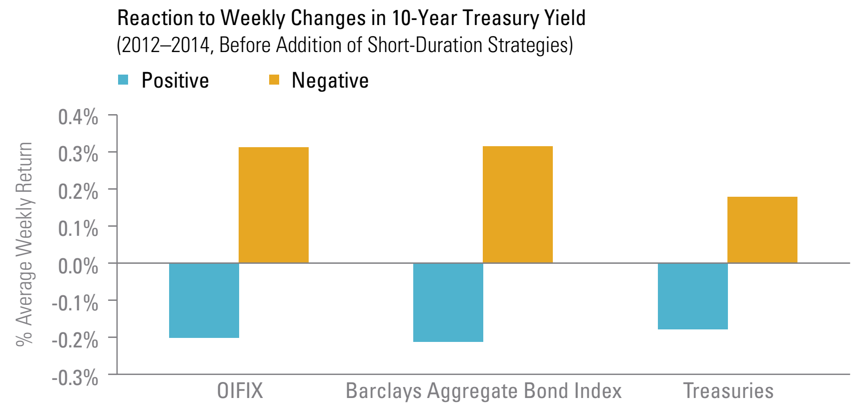
The possibility exists that the fund's duration, a measure of interest rate sensitivity, will deviate more from that of the fund's benchmark compared with prior years because of these changes. However, we believe that in the current environment it has become more important for the fund's investment advisors and subadvisors to have the flexibility to determine the appropriate amount of interest rate risk exposure in the portfolio.

These changes may limit the potentially negative impact of rising interest rates on performance while allowing the fund to seek opportunities in periods of falling rates, potentially allowing for more consistent performance.

Is It Working?

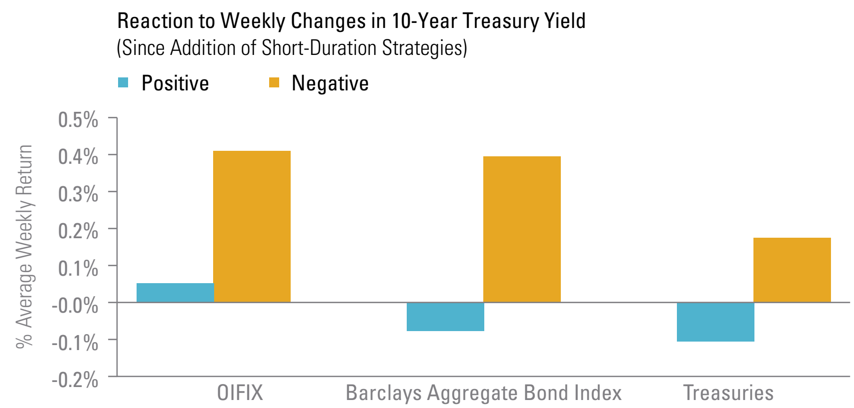
We can already see positive results since these changes were implemented in early 2014, when we examine weeks this year where rates have risen and when they have declined [Figures 1 and 2].

1 OIFIX Performed Roughly in Line With the Benchmark When Rates Rose or Fell Over the Past Two Years



Source: LPL Financial Research, FactSet 06/13/14

2 Since the Addition of Short Duration Strategies This Year, OIFIX Has Demonstrated Outperformance When Rates Rise



Source: LPL Financial Research, FactSet 06/13/14

The Barclays Aggregate Bond Index is unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Past performance is no guarantee of future results.

While seeking some protection from rising interest rates, the fund remains comparable to the benchmark and outperformed Treasuries when rates have fallen this year. More importantly, the fund has outperformed the Barclays Aggregate Bond Index during weeks when rates rose. Before the changes to the investment strategies, the fund performed broadly in line with the Barclays Aggregate when rates both rose and fell. We expect this newly improved performance profile may persist as interest rates begin what will likely be a long journey higher after falling for three decades. ■

The Optimum Fixed Income Fund (OIFIX) seeks a high level of income and may also seek growth of capital. The Fund normally invests at least 80% of net assets in fixed income securities. It focuses on securities issued or guaranteed by the U.S. government or its agencies or instrumentalities, corporate debt securities, taxable and tax-exempt municipal securities, and mortgage backed and asset-backed securities.

3 OIFIX Performance Relative to Benchmark

	1-Year	3-Year	5-Year	10-Year
Optimum Fixed Income Institutional	4.54%	3.88%	7.65%	5.80%
Barclays US Aggregate Bond Index	4.37%	3.66%	4.85%	4.93%

Source: Delaware Optimum Funds, LPL Financial Research 06/14

Inception date is 08/01/2003.

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worht more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end performance, visit the Fund's websit at www.optimummutualfunds.com.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for your clients.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus, and if available, the summary prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read carefully before investing.

Past performance is no guarantee of future results.

An increase in interest rates may cause the price of bond mutual funds to decline.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Investing in mutual funds involve risk, including possible loss of principal. Investments in specialized industry sectors have additional risks, which are outlined in the prospectus.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. It is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

Stock investing involves risk including loss of principal.

There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to effect some of the strategies.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Investing in OIFIX involves risk including loss of principal, credit risk, interest rate risk, high yield (junk bond) risk, mortgage backed and asset backed securities risk, liquidity risk, issuer specific risk, portfolio management risk, derivatives risk, foreign risk and forward foreign currency risk.

INDEX DESCRIPTIONS

The Barclays Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.