

Timely Topics



September 16, 2014

Optimum Market Portfolios

Please see the *Beginners' Guide to OMP* (July 2014) for questions regarding LPL Financial Research's oversight of the OMP portfolios.

Actual performance data for OMP models can be found on page 3.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

We continue to be pleased by the Optimum Market Portfolios' (OMP) long-term track record. However, atypical characteristics of the current investment environment that have created challenges for many portfolio managers have caused some headwinds in 2014, which have led to short-term relative underperformance. In this commentary, we provide insight/transparency on our current positioning as well as the course of action we will be taking based on our market outlook.

As of August 31, 2014, the Advisory Dynamic Growth with Income portfolio has outperformed its benchmark based on its five-year return by 14 basis points (0.14%). Shorter-term underperformance in this model has been primarily due to exposure to international and small cap companies. Equity positioning better suited for a rising rate environment has also contributed to underperformance, as rates have moved lower throughout most of the year. On a positive note, our fixed income positioning has been a solid contributor to performance year to date and we continue to have high conviction in our less interest rate-sensitive fixed income positioning. Last, while we remain confident in our overall positioning, we have identified elements of the OMP portfolios that can be adjusted to better align with our market outlook to try to improve recent short-term underperformance.

Some highlights worth noting include:

- International.** Both international developed and emerging market equities had a difficult and volatile start to 2014. However, emerging market equities, where we see more attractive valuations, have begun to show relative outperformance in recent months [Figure 1], as China's economy responds to a series of stimulus measures from the Chinese government. The two subadvisors that comprise the Optimum International Fund have different biases. EARNEST Partners (one of the subadvisors) has a meaningful position in emerging markets. As a result of the increasing allocation of the fund's assets to EARNEST Partners over the course of 2014, the fund has consequently also been increasing its exposure to emerging markets. This increased exposure to emerging markets is in line with our own thoughts on that asset class's positive market outlook.



1 Emerging Markets Recently Show Improvement



Source: LPL Financial Research, FactSet 09/01/14

Past performance is no guarantee of future results.
Indexes are unmanaged and cannot be invested into directly.

Small cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the small cap market may adversely affect the value of these investments.

Standardized performance data for OMP funds can be found on page 4.

- Small-mid caps.** One of the detractors from OMP model performance this year has been exposure to small caps. This is due both to the diversifying presence of the small-mid cap funds in the models relative to our benchmark, the Russell 3000, which has a large cap emphasis, and the current biases of the funds' subadvisors in favor of small cap stocks. As a result of these biases, the average market cap of the funds are currently closer to the corresponding Russell 2000 style indexes than the funds' small-mid cap benchmarks. As illustrated in the figure below [Figure 2], the broad small cap index has underperformed both the large and mid cap indexes fairly significantly this year, which is atypical in a rising market. While the subadvisors in the funds have lagged the small-mid cap indexes so far this year, they have outperformed the small cap indexes. As always, the LPL Financial Research team has met frequently with these subadvisors, and we remain confident they will continue to adhere to their process and seek to meet their objectives. Our carefully selected combination of subadvisors within the small-mid cap funds continues to be effective.

2 Overweight to Small Cap Has Been a Detractor



Source: LPL Financial Research, Factset 09/01/14

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Actual Performance (%) as of 08/31/14

	YTD (as of 08/31/14)	5-Year
OMP Advisory Dynamic Growth With Income (Gross)	4.39	12.14
OMP Advisory Dynamic Growth With Income (Net)	2.43	9.37
Growth With Income Benchmark	7.27	12.01

Source: LPL Financial Research 08/31/14

Performance data quoted represents past performance, and is not an indicator of future results.

Investment return and principal value will fluctuate; an investor's equity, when redeemed, may be worth more or less than its original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance, contact your financial advisor.

Individual client experiences may have differed dependent upon the timing of cash flows. Gross performance is gross of overlay and advisory fees but net of underlying mutual fund investment management fees and expenses. The impact of overlay fees would decrease performance. Net performance is net of expenses and the maximum advisory fee of 2.5%. The returns shown include reinvestment of income distributed from the underlying mutual funds.

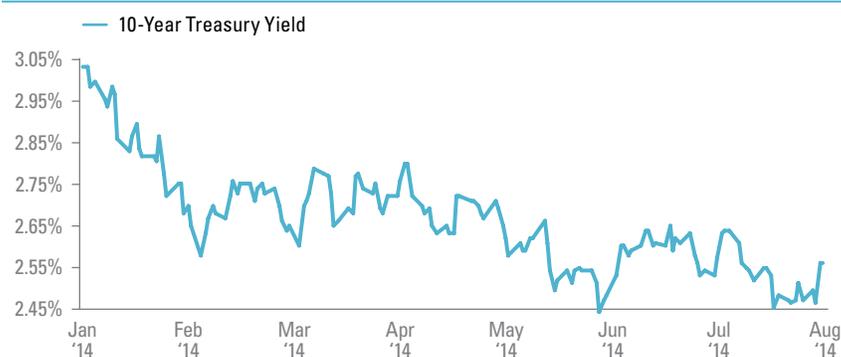
Portfolio performance assumes a quarterly rebalancing frequency. Rebalancing is a taxable event that may result in a taxable gain or loss; thus, rebalancing in non-tax-advantaged accounts may involve higher taxes than tax-advantaged accounts.

The illustrated benchmark is comprised of indexes, which are unmanaged; have no deductions for fees, sales charges, and expenses; and can't be invested into directly. Index performance is not indicative of the performance of any investment. Benchmark volatility is materially different from that of the portfolio. For benchmark composition, see page 5.

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

- Fixed income.** We lowered the sensitivity to rising interest rates early in 2014, but because of weather-related economic weakness early in the year, a flare-up in geopolitical risk, and much weaker-than-expected economic growth in the Eurozone, interest rates have fallen this year [Figure 3]. As a result, more interest rate-sensitive bonds have been rewarded. Nonetheless, our combination of subadvisors in the OMP fixed income fund has been effective. This performance speaks strongly to the ability of the subadvisors we selected to find value in fixed income markets without taking undue interest rate risk. In early 2014, we added less interest rate-sensitive subadvisors to complement our other bond positions in anticipation of a period of longer-term rising rates. *In alignment with our market outlook for rising rates, we believe the OMP fixed income fund continues to be well positioned.*

3 Interest Rates Continue to Decline



Source: LPL Financial Research, FactSet 09/01/14

- Interest rate-sensitive equity sectors.** The unexpected drop in interest rates this year has been a difficult environment for value managers. Most value managers are underweight interest rate-sensitive equity sectors that do well when interest rates fall, e.g., real estate investment trusts (REIT) and utilities. As a result, the OMP large cap value fund and other value managers have had a difficult time outperforming their respective benchmark so far this year. LPL Financial Research has met with the subadvisors and believes the subadvisors are well positioned to take advantage once rates move higher. *In alignment with our market outlook for rising rates, we believe the OMP large cap value fund continues to be well positioned.*

We strive to constantly improve our investment results, and we believe that adding to emerging market equity exposure may be a way to directionally better position the OMP portfolios. While we acknowledge the recent underperformance, we believe we are well positioned for our outlook of a long-term rising rate environment and a prospective opportunity within small caps. ■



4 Optimum Funds I-Shares Returns Relative to Benchmark and Peers

	Ticker	YTD (as of 08/31/14)	Annualized 1-Year	Annualized 5-Year	Annualized 10-Year	Annualized Since Inception	Gross Expense Ratio	30-Day SEC Yield
Optimum Large Cap Growth Fund	OILGX	8.30%	28.80%	18.75%	7.92%	8.47%	1.23	—
+/- Benchmark		-1.18%	2.29%	-0.18%	-0.38%	-0.37%		—
+/- Category Average		0.84%	2.51%	1.42%	0.90%	1.26%		—
% Peer Group Beaten		68%	73%	77%	63%	62%		—
Optimum Large Cap Value Fund	OILVX	6.05%	21.66%	17.07%	7.69%	8.67%	1.19	—
+/- Benchmark		-4.30%	-1.26%	-1.54%	-0.04%	-0.21%		—
+/- Category Average		-2.62%	-0.39%	-0.09%	0.81%	1.18%		—
% Peer Group Beaten		22%	24%	40%	27%	68%		—
Optimum Small-Mid Cap Growth Fund	OISGX	1.91%	22.57%	20.01%	6.62%	9.06%	1.65	—
+/- Benchmark		-2.25%	-4.63%	-2.35%	-3.12%	-2.10%		—
+/- Category Average		2.40%	0.08%	0.83%	-1.13%	1.00%		—
% Peer Group Beaten		79%	50%	47%	14%	22%		—
Optimum Small-Mid Cap Value Fund	OISVX	2.81%	23.13%	20.80%	7.73%	10.01%	1.56	—
+/- Benchmark		-4.41%	0.53%	0.92%	-1.23%	-0.94%		—
+/- Category Average		-0.68%	-0.47%	0.58%	-0.84%	0.49%		—
% Peer Group Beaten		56%	43%	67%	12%	22%		—
Optimum International Fund	OIIEX	-0.26%	16.66%	10.08%	5.83%	7.48%	1.36	—
+/- Benchmark		-4.55%	-2.25%	-1.79%	-1.44%	-1.59%		—
+/- Category Average		-2.21%	-4.23%	-1.04%	-0.66%	0.23%		—
% Peer Group Beaten		28%	7%	22%	20%	21%		—
Optimum Fixed Income Fund	OIFIX	4.73%	4.54%	7.65%	5.80%	5.75%	1.02	2.51%
+/- Benchmark		-0.08%	-0.95%	4.36%	0.90%	0.90%		—
+/- Category Average		-0.53%	-3.61%	-1.24%	-0.22%	-0.14%		—
% Peer Group Beaten		41%	41%	91%	94%	94%		—

Source: LPL Financial Research, Morningstar, Delaware Optimum Funds

Returns since inception (08/01/03) through 06/30/14.

Benchmarks and categories used: OILGX: Russell 1000 Growth Index and Morningstar Large Cap Growth Category; OILVX: Russell 1000 Value Index and Morningstar Large Cap Value Category; OISGX: Russell 2500 Growth Index and Morningstar Small Cap Growth Category; OISVX: Russell 2500 Value Index and Morningstar Small Cap Value Category; OIIEX: MSCI EAFE Index and Morningstar Large Foreign Blend Category; OIFIX: Barclays Aggregate Bond Index and Morningstar Intermediate-Term Bond Category.

The World Allocation Peer Group contains 483 funds. Number of investments reporting for the following time periods: 1 year: 431; 3 years: 315; 5 years: 235; 7 years: 207; 10 years: 164; Since inception: 155.

The I-share is the institutional share class of an investment. Institutional shares are named as such because they typically are used for purchases by larger institutions based upon a higher minimum investment requirement. For OMP, the I-share is the only share class available in the advisory accounts. Relative to the other share classes available in brokerage (A, B, and C), the I-share does not have a commission paid.

The performance data quoted represent past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain current month-end performance information, please refer to the manager's website: www.delawareinvestments.com/co/delaware/optimum-funds/.

The performance quoted reflects the reinvestment of dividend and capital gains, is net of expenses and the maximum sales charge of 2.5%.

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

The gross expense ratio is the fund's total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements. This figure can be found in the prospectus.

The fund's 30-day yield is based on yield to maturity of a fund's investments over a 30-day period and not on the dividends paid by the fund, which may differ.



IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be specific investment advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted, and there can be no guarantee that strategies promoted will be successful.

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.

An asset class is a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed income (bonds), and cash equivalents (money market instruments).

This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

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 contain this and other important information about the investment company. You can obtain a prospectus and summary prospectus from your financial representative. Read carefully before investing.

Growth with Income: Investors in this portfolio should have a long time horizon and an understanding of the volatile history of equity investments. The primary investment objective of this portfolio is growth of principal. Fixed income assets are included to generate income and reduce overall volatility.

Mid capitalization companies are subject to higher volatility than those of larger capitalized companies.

Stock investing involves risk including loss of principal.

MORNINGSTAR CATEGORY DEFINITIONS

Morningstar World Allocation: World-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the United States, Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

Morningstar Foreign Large Blend: These funds seek capital appreciation by investing in a variety of large international stocks. Large Cap foreign stocks have market capitalizations greater than \$5 billion. The blend style is assigned to funds where neither growth nor value characteristics predominate. These funds typically will have less than 20% of assets invested in U.S. stocks; # of Funds: 783.

Morningstar Intermediate-Term Bond: A fund that focuses on corporate, government, foreign, or other issues with an average duration of greater than or equal to 3.5 years but less than or equal to 6 years, or an average effective maturity of more than 4 years but less than 10 years; # of Funds: 1,163.

Morningstar Large Cap Value: Large Cap Value portfolios invest primarily in large market capitalization U.S. companies that have relatively low prices given higher anticipated valuations or are growing more slowly than other Large Cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow); # of Funds: 1,207.

Morningstar Large Cap Growth: Large Cap Growth portfolios invest primarily in large market capitalization U.S. companies whose earnings are projected to grow faster than other Large Cap companies. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as Large Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries; # of Funds: 1,681.



Morningstar Small Cap Value: Small Cap Value portfolios invest in small market capitalization U.S. companies with valuations and growth rates below other Small Cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow); # of Funds: 357.

Morningstar Small Cap Growth: Small Cap Growth portfolios focus on faster-growing companies whose shares are at the lower end of the market capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as Small Cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields); # of Funds: 742.

+/- Index

A benchmark index gives the investor a point of reference for evaluating a fund's performance. The +/- (calendar year) figure indicates the amount by which a fund over- or underperformed its primary index during a given calendar year.

+/- Category

The Morningstar category gives the investor a point of reference for evaluating a fund's performance. The +/- (calendar year) figure indicates the amount by which a fund over- or underperformed its category during a given calendar year.

% Rank in Category

This is the fund's total-return percentile rank for the specified calendar year relative to all funds that have the same Morningstar category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Percentile ranks within categories are most useful in those categories that have a large number of funds.

Morningstar 2014®

INDEX DESCRIPTIONS

The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

Barclays Aggregate Bond Index is comprised of the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million.

The Optimum Market Portfolios are comprised of the Optimum Funds, which are managed and distributed by Delaware Investments. Delaware Investments, a member of Macquarie Group, refers to Delaware Management Holdings, Inc. and its subsidiaries, including the funds' distributor, Delaware Distributors, L.P. Macquarie Group refers to Macquarie Group Limited and its subsidiaries and affiliates worldwide. LPL Financial receives a consulting fee and subservice agent fee based on invested assets. Investments in the Optimum Market Funds are not and will not be deposits with or liabilities of Macquarie Bank Limited ABN 46 008 583 542 and its holding companies, including subsidiaries or related companies (the "Macquarie Group"), and are subject to investment risk, including possible delays in repayment and loss of income and capital invested. No Macquarie Group company guarantees or will guarantee the performance of the funds, the repayment of capital from the funds, or any particular rate of return.

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