

During August of 2011, and as part of their regularly scheduled meetings, the Disinterested Trustees of Ivy Funds (collectively, the “Ivy Funds” and any separate series thereof an “Ivy Fund”) reviewed a substantial amount of information in connection with considering the continuation of existing investment management agreements currently in effect between Ivy Investment Management Company (“IICO”) and the Ivy Funds. Pursuant to the Assurance of Discontinuance between Waddell & Reed, Inc., Waddell & Reed Services Company (“WRSCO”), and Waddell & Reed Investment Management Company (collectively, “Waddell”) and the Office of the New York Attorney General dated July 10, 2006 (“Assurance of Discontinuance”), the Disinterested Trustees of the Ivy Funds engaged an independent fee consultant to assist them in evaluating the reasonableness of the management fees charged by IICO, an affiliate of Waddell, to the Ivy Funds. The independent fee consultant’s review addressed the following fee-related factors:

1. The nature, extent and quality of IICO’s services to the Ivy Funds, including performance
2. Management fees (including any components thereof) charged by other mutual fund companies for like services
3. Management fees (including any components thereof) charged to institutional and other clients of IICO for like services
4. Costs to IICO and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit
5. Profit margins of IICO and its affiliates from supplying such services
6. Possible economies of scale as an Ivy Fund grows larger

The following summarizes the findings of the independent fee consultant retained by the Disinterested Trustees.<sup>1</sup>

### **Summary Findings**

The report stated that IICO delivered strong levels of performance and service to the Ivy Funds in relation to its management fees and relative to investment advisers of comparable mutual funds. For the 36 months ended March 31, 2011, when compared to their respective peer groups established by Lipper, Inc. (“Lipper”), approximately 46% of the Ivy Funds were in the top quintile of performance and 50% of the Ivy Funds were in the top two quintiles of performance. For the one- and five-year periods ended March 31, 2011, the report stated that 63% and 61% of the Ivy Funds were in the top two quintiles of performance, respectively. The independent fee consultant noted that the Ivy Funds’ performance appeared to be grounded in a number of institutional competitive advantages at IICO, including stock selection ability, ability to attract top talent, strategic vision, performance-focused culture, ability to manage smaller AUM funds,

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<sup>1</sup> The independent fee consultant’s evaluation was based on information provided by IICO, Lipper, Inc., other information providers and other independent analyses. The term “management fees” refers to the actual annual advisory and administrative fees, net of any fee waivers, paid by an Ivy Fund, as a percentage of average net assets. The term “total expenses” refers to the total annual expenses, net of any fee waivers, paid by an Ivy Fund, as a percentage of average net assets. Where these terms are used in reference to groups of Ivy Funds, numbers expressed are usually on an asset-weighted basis. Fee and performance data used in screening methodologies are usually for the period ending March 31, 2011. Lipper report data reflects Class A shares.

ability to serve small account sizes and an effective trading infrastructure.

The report stated that for the 12 months ended March 31, 2011, the asset-weighted average expense ratios of the Ivy Funds were 8% below the mean expense ratios of comparable Lipper Expense Group peers and 19% below asset-weighted average expense ratios of funds in the Lipper Expense Universe. The management fees for the Ivy Funds on average were approximately 15% below the mean management fees for their Lipper Expense Groups and approximately 18% below the mean for their Lipper Expense Universe. The independent fee consultant noted that the Ivy Funds' small average account size introduces certain biases in the Lipper analyses that works against Ivy Funds in Lipper expense comparisons and, as a result, the Lipper findings may be considered conservative in that regard. The independent fee consultant found that within the larger Lipper averages, the management fees and total expenses of individual Ivy Funds and share classes are reasonable relative to their performance.

The report also stated that the management fees IICO charges to the Ivy Funds are reasonable in relation to the management fees it charges to its institutional account clients. The report noted that these institutional account clients have different service and infrastructure needs and in addition, based on industry data, the average spread between management fees charged to the Ivy Funds and those it charges to institutional account clients is below the average fee spreads observed at other investment advisers in industry surveys.

The independent fee consultant found that the level of profit earned by IICO from managing the Ivy Funds does not appear to be unreasonable. The report noted that Waddell's overall profitability from managing the Ivy Funds and its other operations is below the profitability of other similarly-sized, publicly traded mutual fund managers, but appears sufficient to enable IICO to continue to provide quality support to the Ivy Funds and their shareholders.

The independent fee consultant undertook an economy of scales analysis that indicated that Ivy Funds incur lower fees and expenses with increasing Ivy Funds' AUM, which the independent fee consultant believes should benefit Ivy Fund investors as the Ivy Funds mature.

## **Conclusions**

The independent fee consultant concluded that the services provided by IICO and its affiliates and expenses incurred by the Ivy Funds in the previous twelve months are reasonable and provide adequate justification for renewal of the Ivy Funds' existing advisory agreements.