



Teamwork Pays Off

Delaware Corporate Bond A

Fund Facts

Symbol	DGCAX
Website	www.delawarefunds.com
Address	Delaware Investments, 1818 Market Street, Philadelphia, PA 19103-3682
Tel. No.	800-523-1918
Inception	09/15/98

Portfolio

Total Net Assets *	\$21.40
Avg Mkt Cap (\$ Weighted) *	---
Average Price/Earnings Ratio	---
Average Price/Book Ratio	---
Turnover Ratio	709.00%

Investment Information

New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$250

Risk (Against Std Index - 3-yr Average)

	DGCAX	Category Avg.
Alpha	-0.58	-1.23
Beta	1.00	0.95

Returns vs. Category

	DGCAX	Category Avg.
1 Year (Cum.)	10.00%	7.01%
3 Year (Ann.)	9.81%	8.63%
5 Year (Ann.)	---	---

Returns vs. Lehman Brothers Aggregate Bond

	DGCAX	Index
1 Year (Cum.)	10.00%	9.46%
3 Year (Ann.)	9.81%	10.25%
5 Year (Ann.)	---	7.29%

Fees and Expenses

Max Sales Charge - Front	4.50%
Max Sales Charge - Deferred	0.00%
Redemption Fee	0.00%
Total Expense Ratio	0.80%

Portfolio Manager

Ryan K. Brist	02/09/01
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* millions Data through: 01/18/03

Source: Company Documents; Lipper

When Jude T. Driscoll left Conseco Capital Management in August 2000 to head the fixed-income division at Delaware Investments, he brought along a bright young member of that firm's portfolio management team, Ryan K. Brist. For the past three years, Brist has guided the Delaware Corporate Bond Fund to a performance, according to Morningstar, that ranks the fund in the top ten percent in its category.

Q: *What is your fund's basic investment style?*

A: The basic philosophy of our fund is that primarily, about 80% of the investments relate to the high-grade corporate bond market. Up to 20% can be invested in the non-investment grade areas of the market.

Q: *You are describing your fund's character. In what ways do you deviate from this?*

A: Our basic philosophy is that there are tremendous inefficiencies in the corporate bond markets. The strategy of the fund is bottom up security analysis, bottom up fundamental research for individual security selection. We shy away from making broader top down bets in terms of triple Bs versus single As, or sector bets. We spend the majority of our time looking at individual securities within the capital structure of individual companies. The fund focuses on the triple B and double B sections of the corporate bond market. Another way to say it is: the fund focuses on the lower quality sections of the investment grade market and the higher quality sections of the junk market. Part of the reason is that over a long-dated period of time, triple B and double B corporate bonds have had the highest risk adjusted returns relative to other fixed-income securities. For example, we

know that Treasuries have provided investors tremendous returns over a long-dated period of time, but at a pretty tremendous volatility, where double Bs and triple Bs are a more efficient measure of risk. Currently, we are running the portfolio at about 175 different securities at an average position size of 0.3%. We have ultra diversification in the portfolio, so no one position can hurt the overall performance like we've seen in the past two years when WorldCom bonds went from par to 10 cents in a matter of weeks. Our research group was able to avoid these blowups. In the case of WorldCom, company management revised earnings dramatically twice over a very short amount of time. From a fundamental perspective, our research group was very forthcoming in saying we don't understand what's happening, so we sold the securities. We came to believe that we maybe didn't understand this corporation as well as we thought.

Q: *In a prior interview for TICKER, you mentioned some points about company debt structures you were examining and you had the view that corporations were paying more attention to paring down debt, and that would be good overall for corporate bonds.*

A: Absolutely. We spent the greater part of the 1990s leveraging company balance sheets. We're currently in an envi-

ronment where company managements have foregone the price of their stock and begun to focus on their balance sheets. More important, they're delivering those balance sheets, or paying down debt. Not only is the amount of corporate bonds outstanding going to be lower, but it also bodes well for the price performance of these securities.

Q: You also talked about the spread between corporate bonds and government instruments and that the spreads are narrowing. How did it affect the performance of the fund?

A: Our call mid-year of 2002 was that the earnings cycle was coming to a bottom. Coupled with the bottoming in the earnings cycle, corporate bonds were at historic valuations relative to Treasuries. We thought over the next six to nine months, we'd see a dramatic tightening in corporate bond spreads relative to Treasuries. We got the brunt of that tightening in the months of November and December and in the first part of January. November was the best performing month in the history of the Lehman indices. The Lehman Credit Index is our benchmark.

Q: How did Delaware take advantage of this?

A: We've had an overweight to the lower quality sections of the corporate bond market for the greater part of last year.

Q: So you think that these company bonds, with a slightly lower credit rating under investment grade, have an opportunity to appreciate in value based on the assumption that the companies are paying more attention to their balance sheets?

A: Yes. While the majority of my time is spent trying to clip coupons, because we know that coupons are the vast majority of total return in bond funds, we have spent a fair amount of time over the last six to twelve months trying to isolate the capitalization traits because the dollar price of corporate bonds had gone down so dramatically.

Q: How does the depreciating dollar affect corporate bonds?

A: You could say that a depreciating dollar could ultimately dampen U.S. corporate earnings over the near term, but the dollar was so inflated relative to most currencies that this initial move probably wouldn't have a dramatic effect.

Q: Going back to the issue of bargains in corporate bonds, where did you find them?

A: The biggest trades in the portfolio, or the strategy of where we're spending most of our time, are in the U.S.

telecom and cable media sectors. We're finding tremendous value in the electric utility sector. The biggest trade that we've had on in the capital structure is in beaten up electric utilities.

Q: Utilities are often thought of as cash cows and their ability to make good on their debt.

A: I would say that historically, electric utilities have been thought of as a sleepy

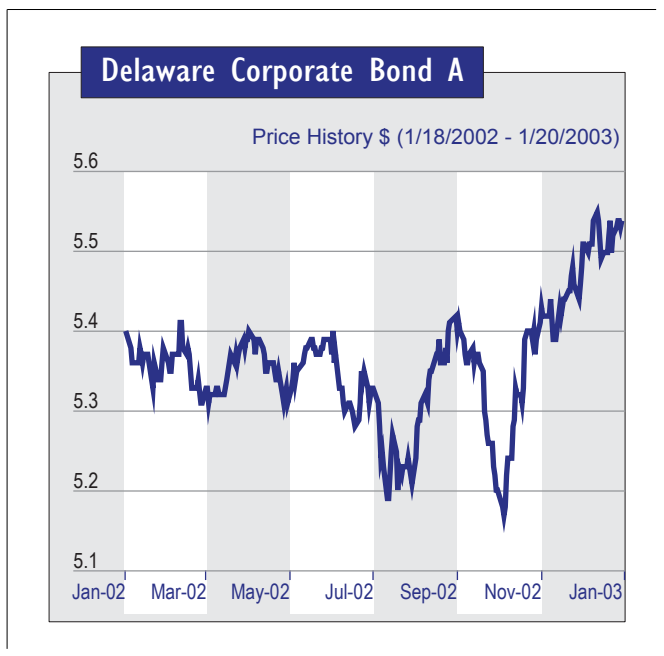
Energy, Inc. At the time, the first mortgage bonds were trading at 400 basis points off of Treasuries. The holding company bonds were trading at 70 cents on the dollar. The NRG bonds were trading at 55 cents on the dollar. There's a great disparity among the yields and among the securities in the same company. Our strategy has been to focus on the highest quality assets within these beaten up situations. We look at bonds backed up by hard assets.

Q: You rely heavily on internal research. How deep is the staffing?

A: The real attribution behind the fund's stellar returns is that we have a group of 19 people dedicated to corporate bond research on a full time basis. At a lot of firms, you have people that do some trading, some research and some management. If you work for Delaware on the fixed-income side, you're a specialist in a very narrowly defined area of the marketplace. For example, we have one person that dedicates 100% of his time to electric utility corporate bond research. Backing up our research group, we also have a group of 15 traders dedicated solely to the bond markets. For example, we have three people dedicated to corporate bond trading, a group of high-yield traders, and a mortgage-trading desk.

Q: You have a lot of people spotting opportunities.

A: More often than not, it's our trading desk that spots potential opportunities in the marketplace. They'll say, maybe we should look at this idea. This bond was trading at X



level and now it's trading at 200 basis points wider. This could be a potential opportunity. And that opportunity then goes into our research group.

Q: This tells the readers something about how dynamic the bond market is.

quality? Do you rely heavily on the major research firms?

A: We generate proprietary research internally. But we use both Moody's and street research as a benchmark to understand the broader market opinion. It's been well demonstrated, especially over

A: Absolutely. Our philosophy has always been to foremost focus on companies with a large amount of free cash flow underlined with a hard asset base. As market participants have come back down to earth, analysts are getting back to bottom up fundamental

A: We believe that all the spread sectors: corporate bonds, mortgage bonds and asset-backed securities still offer tremendous value, but we don't feel that way about the higher quality sections of the market, those being Treasury and agency securities. As for future returns

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A: It's important to remember that corporate bond markets are over the counter markets, where prices are verbally negotiated. On the New York Stock Exchange, Ford has one symbol to buy Ford stock. Ford has over 200 corporate bonds in the marketplace. Each bond has different maturities, different options, calls and puts associated with them, different entities that they're associated with. There are very many nuances or niches in the corporate bond market as opposed to analyzing the Ford stock.

Q: That is a huge universe of financial instruments to monitor. How do you rank these companies according to credit

the last two years, that Moody's and S&P have dramatically lagged actual pricing of bonds in the corporate marketplace. More often than not, our group finds itself purchasing securities on a review for downgrade and selling securities on a review for upgrade. We have a great example that happened recently. Georgia Pacific was put on review for downgrade. Keep in mind that the bonds of the company have traded down close to 20 points in the past month and a half. The market discounted the negative news well ahead of the review for downgrade.

Q: Can you talk a little about operating cash flow?

research. We've learned over the last two years how corporations have manipulated revenues and earnings. But the one metric that's very difficult for corporations to manipulate is free cash flow.

Q: Your outlook for the corporate debt market is what?

out of the fund, the double-digit return that we've seen in the last three years are probably coming to an end. We're probably going to see returns more in the neighborhood of 5% to 7% over the next few years. That still beats inflation.

Ryan K. Brist

Ryan K. Brist is a graduate with a degree in finance from Indiana University. Brist is the Team Leader of the Investment Grade Core and Core Plus Portfolio Management groups. Prior to joining Delaware in 2000, he was a member of Consec Capital Management's Investment Grade Core and Core Plus products. A chartered financial analyst, Brist started his career as an oil/gas investment-banking analyst at Dean Witter Reynolds.

Dave Jennings ■