Ivy Funds introduces new choices for real estate investors

Ivy Funds on April 1, 2013, introduced two new global real estate funds to help investors pursue the potential opportunities of investment in real estate securities: Ivy Global Real Estate Fund and Ivy Global Risk-Managed Real Estate Fund.

As the global financial crisis fades and the world economy returns to growth, the real estate sector again may trade on its fundamental factors: supply, demand and cash flow growth. There is recent evidence of strong investor interest in this asset class. Open-end real estate fund flows in 2012 of $15 billion were nearly double those of 2011, and in just the first two months of 2013 they reached $6.5 billion, surpassing flows for the entire year of 2010.1

The current real estate investment environment appears to be similar to the early to mid-1990s, when public companies became a dominant force in the real estate industry. Many of today’s conservatively capitalized public companies have weathered the credit crisis and now are preparing for strategic expansion. They have been successful in deleveraging their balance sheets and building capital for opportunistic acquisitions. In addition, international (cross-border) real estate investing has become more commonplace through the years and transparency has improved in many countries.

Why real estate securities?

• Offer potential diversification because they are not highly correlated with other asset classes, domestically or internationally.
• Potential for high current income from durable cash flows generated by “real” assets.
• Exposure to professionally managed real estate, coupled with daily liquidity and pricing.
• Public real estate companies may be well-positioned to compete and grow, especially in current economic environment.

Why global real estate securities?

• Offers a wider universe of potential investment opportunities than may be available in a single country or region.
• Correlations in real estate are low across regions of the globe, adding to diversification potential.
• Real estate investments may benefit from fast-growing population and wealth creation in certain regions of the world, and resulting increase in demand for real estate.

In this environment, public real estate companies may be able to add quality properties to their ownership portfolios at attractive prices. They thus may take further leadership of the global real estate industry. The equity securities of these companies provide investment opportunities for the new Ivy Funds.

Real estate securities can add diversification in a portfolio because they are not highly correlated with other global asset classes. Over time, they generated more volatility than other broad asset classes, but also higher returns.

Source: Morningstar. Global Real Estate represented by FTSE EPRA/NAREIT Developed Index, an unmanaged index that tracks the performance of listed real estate companies and REITs worldwide. Global Bonds represented by JP Morgan GBI Global Traded Index, an unmanaged index comprised of securities that represent the global bond market. Global Stocks represented by MSCI World Index, an unmanaged index comprised of securities that represent global equities markets. It is not possible to invest directly in an index. Stocks traditionally have been more volatile than other asset classes. Fixed-income securities are subject to interest-rate risk and, as such, their value may fall as interest rates rise. Investment risks associated with investing in real estate securities, in addition to other risks, include rental income fluctuations, depreciation, property tax value changes and differences in real estate market values. International investing involves additional risks including currency fluctuations, political or economic conditions affecting the foreign country, and differences in accounting standards and foreign regulations. Standard deviation is a measure of the degree to which the returns of a fund or index varies from its previous returns or from the average of all similar funds or indexes. The larger the standard deviation, the greater the likelihood (and risk) that a security’s performance will fluctuate from the average return.

A closer look at the new Funds

Ivy Global Real Estate Fund and Ivy Global Risk-Managed Real Estate Fund share an objective to seek total return through long-term capital appreciation and current income. The Funds will invest primarily in the equity and equity-related securities of global real estate companies, including real estate investment trusts (REITs) and real estate operating companies (REOCs). They typically will invest at least 80% of net assets in real estate or real estate-related industries, and will not invest directly in real estate. In addition, the Funds typically will invest at least 40% of total assets in securities of issuers outside the U.S.

The Funds can draw from a growing investment universe. The stock market capitalization of publicly traded real estate companies in the Funds’ benchmark was $1.0 trillion at the end of 2012, up more than 30% from the end of 2011, driven by price appreciation, new companies coming public and the growth of existing companies. Today, properties owned by the companies in the Funds’ benchmark comprise less than 11% of the total value of commercial real estate around the globe, which the managers
believe provides opportunities for continued long-term expansion in that universe.²

The Ivy Global Real Estate Fund will generally seek to maintain a risk profile similar to the broader global real estate securities market, as measured by the benchmark. The Fund typically will invest in the equity securities of companies in core property sectors (such as office, retail, multi-family or industrial) and specialty sectors (such as hotel, home building or other real estate). It will invest in securities offered by companies active in real estate ownership, development and investment management.

By comparison, the Ivy Global Risk-Managed Real Estate Fund will generally pursue a lower risk profile than the broader global real estate securities market, as measured by the benchmark. The investment team will seek to manage risk by maintaining a portfolio focused on companies they consider to have lower leverage, lower business risk and/or

lower-risk property types. Typical investments will focus on companies investing in the core property sectors. The risk review process for the Ivy Global Risk-Managed Real Estate Fund represents an important difference between the two new Funds. The portfolio management team generally will exclude companies from the investment universe that:

- have high financial leverage (greater than 45-50%);
- have substantial exposure to what are considered non-core asset types (such as hotels and home-building companies);
- have significant exposure to non-earning assets;
- have significant exposure to ancillary activities (such as merchant building or investment management).

LaSalle Investment Management Securities (LaSalle), a well-known real estate securities investment manager, will be subadviser for the Funds. LaSalle was established in 1985 and is one of the most experienced investors in real estate securities. Based in Baltimore, MD, LaSalle has nearly 60 employees based there and in regional investment and analytical offices in Amsterdam and Hong Kong. It has $10 billion of assets under management in listed real estate securities (as of Jan. 31, 2013) and is affiliated with LaSalle Investment Management, one of the leading institutional investors in real estate worldwide. Both are part of Jones Lang LaSalle (NYSE: JLL). With more than 45,000 employees operating in 1,000 locations across 70 countries, Jones Lang LaSalle focuses solely on real estate and is one of the world’s largest property services companies.

Key points to remember

The new Ivy Funds are designed to provide investors with exposure to high-quality, professionally managed global real estate with the added potential benefit of active management that seeks to identify securities offering an attractive combination of risk and return.

- Ivy Global Real Estate Fund
  - Broad universe of global real estate securities
  - Global allocation; not focused on a single country or region
  - Top-down and bottom-up analysis to identify potential opportunities
  - Experienced portfolio managers who are experts in real estate securities

- Ivy Global Risk-Managed Real Estate Fund
  - More conservative global strategy than its counterpart with many of the same key features
  - Focus on companies the managers believe have lower leverage, lower business risk and/or lower-risk property types, compared with the universe of real estate securities.

Past performance is not a guarantee of future results. The opinions expressed are those of the Funds’ portfolio 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 1, 2013, and are subject to change due to market conditions or other factors.

Risk factors. As with any mutual fund, the value of the Funds’ shares will change, and you could lose money on your investment. Investment risks associated with investing in real estate securities, in addition to other risks, include rental income fluctuation, depreciation, property tax value changes and differences in real estate market values. Because the Funds invest more than 25% of their total assets in the real estate industry, the Funds may be more susceptible to a single economic, regulatory, or technical occurrence than a fund that does not concentrate its investments in this industry. 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. The Funds are non-diversified, meaning that they may invest a significant portion of their total assets in a limited number of issuers, and a decline in value of those investments would cause the Fund’s overall value to decline greater than that of a more diversified portfolio. There is no guarantee that the Ivy Global Risk-Managed Real Estate Fund will not decline in value in comparison with funds that do not use a risk-managed approach. These and other risks are more fully described in the Fund’s prospectus. Not all funds or fund classes may be offered at all broker/dealers.

The Funds are subadvised by LaSalle Investment Management Securities, LLC, which delegates to its affiliate, LaSalle Investment Management Securities, B.V., for portfolio management responsibilities of the Funds’ assets allocated to European investments. References to LaSalle include both entities. The FTSE EPRA/NAREIT Developed Index is an unmanaged index that tracks the performance of listed real estate companies and REITs worldwide. It is not possible to invest directly in an index.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. For a prospectus, or if available a summary prospectus, containing this and other information for the Ivy Funds, call your financial advisor or visit us online at www.ivyfunds.com. Please read the prospectus or summary prospectus carefully before investing.