Portfolio Manager Quarterly Commentary | June 30, 2017

Voya Intermediate Bond Strategy

> Strategy Overview

Voya's intermediate bond strategy seeks to maximize total return consistent with reasonable risk. The strategy invests across the full spectrum of the fixed income market and may invest up to 20% of its assets in securities rated below investment grade.

> Expected Contribution to Returns

High

- **Security Selection —** Identify opportunities to add value by continuously reviewing fundamentals and relative attraction of eligible fixed income securities
- **Sector Allocation —** Guided by macroeconomic themes, relative value analysis and security level research
- **Yield Curve —** Ongoing assessment of yield curve relative value — position portfolio as opportunities arise
- **Duration —** Employ strategic and tactical views of interest rate risk — make moderate adjustments to capture incremental returns

Low

Key Takeaways

- For the quarter, the strategy outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate index
- Sector allocation generated most of the outperformance, followed by security selection
- Currency and yield curve positioning detracted slightly from relative results
- We maintain our preference for "spread" assets such as securitized assets, emerging markets and high yield, which could benefit from an improving global growth picture

Portfolio Review

Security Selection

- Selection among investment grade (IG) corporate bonds was a strong contributor to results
  - Security selection in banking and insurance added to returns, while security selection in energy modestly detracted
- Selection among commercial mortgage-backed securities (CMBS) also contributed to portfolio results
  - Within CMBS, the strategy benefited from security selection focused on the non-senior part of the capital structure
- Our holdings in asset-backed securities (ABS) also helped performance
  - ABS outperformed U.S. Treasurys and performed in line with the broader benchmark over the quarter

Sector Allocation

- Non-agency residential mortgage-backed securities (RMBS) contributed the most to performance, driven in part by our holdings of credit-risk-transfer bonds
  - We believed RMBS would be supported by a housing market that continues to improve; and by continued strong demand, increased prepayments and lower defaults. Despite tight valuations, we kept an overweight to the sector
- Our focus on higher-quality, high-yield bonds contributed to the strategy's outperformance
  - High yield fundamentals continue to show signs of improvement, though retail and supermarkets remain notable exceptions. We held a modest allocation to the sector throughout the quarter
- An allocation to agency mortgages was a minor drag on results but was offset by security selection
  - We maintained a neutral short-term outlook as we felt that policy and headline risk, as well as the tapering of Federal Reserve (Fed) reinvestments, outweighed any potential upside
  - During the quarter, we covered our underweight position to be flat agency mortgages after dovish Fed minutes

Yield Curve/Duration

- We maintained a short duration stance on 10-yr U.S. yields, which detracted from results
- The U.S. yield curve continued to flatten — short rates sold off as the Fed hiked again in June and intermediate and long rates fell slightly

Portfolio Positioning

Asset Class	Current Position	Rationale
Global Interest Rates	1 **2** 3 4 5	Look for higher yields in U.S. and Europe; steady in U.K. and Japan
Global Currencies	1 2 3 **4** 5	U.S. dollar to strengthen vs. pound and yen, weaken vs. euro and emerging markets
Investment Grade Corporates	1 2 3 **4** 5	Maintain positive bias given continued strong demand, supportive fundamentals
High Yield	1 2 3 **4** 5	Option-adjusted spread (OAS) is close to full value; we are maintaining modest allocation
Securitized Assets	1 2 3 **4** 5	Non-agency RMBS supported by improving housing market. Fed actions could impact agency mortgages
Emerging Markets	1 2 3 **4** 5	Attractive opportunities for select countries, but momentum beginning to fade

1 = maximum underweight, 5 = maximum overweight

Current Strategy and Outlook

We believe that near-term growth in the United States will be closely tethered to trend level. Legislation that could provide upside to U.S. GDP — such as tax cuts, tax reform or significant deregulation — appears less likely given the lack of progress in Washington. We believe that wage pressures within the U.S. economy will continue to increase, albeit unevenly across industries, and that overall inflation pressure will be limited by global excess supply. Balance sheet reduction will be the near-term focus of the Fed; a cautious pace of rate normalization guided by market expectations will continue later. Continued easy monetary policy will keep volatility uncomfortably low, supporting full but sustainable valuations of risk assets.

For these reasons, we are maintaining our preference towards spread assets, specifically those that could benefit from an improving global growth picture such as emerging markets; and high yield despite tight valuations. We are also keeping an overweight to securitized products such as collateralized loan obligations, CMBS and credit-risk-transfer securities.

Voya Intermediate Bond Strategy

The **Bloomberg Barclays U.S. Aggregate Bond Index** is a widely recognized, unmanaged index of publicly issued investment grade U.S. Government, mortgage-backed, asset-backed and corporate debt securities. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. **High-Yield Securities**, or "junk bonds," are rated lower than investment-grade bonds because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. To the extent that the Fund invests in **Mortgage-Related Securities**, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. The Fund may use **Derivatives**, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Fund performance. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. As **Interest Rates** rise, bond prices fall, reducing the value of the Fund's share price. Other risks of the Fund include but are not limited to: **Credit Risks, Extension Risks, Investment Models Risks, Municipal Securities Risks, Other Investment Companies' Risks, Prepayment Risks, Price Volatility Risks, U.S. Government Securities and Obligations Risks, Debt Risks, Liquidity Risks, Portfolio Turnover Risks, and Securities Lending Risks. An investment in the Fund is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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