Portfolio Manager Quarterly Commentary | September 30, 2017

VY® Real Estate Strategy

> Strategy Overview

Voya's real estate strategy seeks to deliver a total return similar to the U.S. market for publicly traded real estate companies, a narrow segment of the total U.S. stock market. It pursues this aim by investing in U.S. real estate investment trusts ("REITs") and stocks of real estate companies. The strategy is managed by CBRE Clarion Securities, which uses proprietary analytics to identify securities it believes can provide above-average income and growth potential.

> Expected Contribution to Returns

High

- **Asset allocation —** top-down research evaluates property market conditions and trends to determine which sectors offer attractive return potential
- **Security selection —** uses proprietary analytics to conduct fundamental analysis, evaluate performance characteristics of securities independently and relative to each other
- **Sell discipline —**secure gains, limit losses or redeploy assets into more promising opportunities

Low

Key Takeaways

- For the quarter, the Strategy underperformed its benchmark, the MSCI U.S. REIT index
- Real estate stocks moved modestly higher during the quarter, up +0.9%, and are positive year-to-date, up +3.6%
- Asset allocation was positive but security selection detracted from results
- We believe real estate stocks remain attractively priced, trading at modest discounts to the value of underlying real estate

Market Review

- Real estate stocks were modestly positive for the quarter
  - Investors ultimately focused on economic releases
  - This helped to push stocks higher despite geopolitical distractions and natural disasters
- Economic data were sufficiently robust for the U.S. Federal Reserve to maintain its bias to raising policy rates again later this year
  - Our view is that real GDP growth in the United States will improve to the 2% range in 2017
  - We think the 10-year U.S. Treasury yield will trend gradually higher
- The Federal Reserve will likely raise the Fed funds rate again this year, after having already raised it twice, to a current target rate between 1.00% and 1.25%

Portfolio Review

- The strategy trailed the benchmark as the contributions from sector positioning were more than offset by the detractions of stock selection
  - Sub-par selection in the office, storage and residential sectors was the primary cause of underperformance
  - By contrast, selection in the industrial sector was positive for the quarter
- Sector allocation contributed to results
  - An overweight to the outperforming technology/data center sector helped returns
  - An underweight to the underperforming healthcare sector contributed to relative results

Outlook and Current Strategy

- The strategy is overweight sectors and stocks where we are positive on the fundamentals and valuations seem reasonable to cheap
  - Prefer attractively-valued stocks that offer visible earnings growth, conservative balance sheets and modest development pipelines
- We favor class-A mall companies, technology and select residential and industrial companies
  - Within residential, we like manufactured housing, single family home-for-rent companies and select coastal apartment REITs
- Class-A mall stocks have been weak due to concerns about competition from on-line shopping
  - We believe they offer attractive value at current levels and have added to existing positions
- The strategy is underweight sectors where fundamentals are weak and valuations are not attractive enough to compensate
  - More selective in the self-storage, healthcare, net lease, office, shopping center and hotel sectors
  - Selective on the more bond-like sectors that offer modest growth and trade less attractively relative to our estimate of underlying private market real estate value
- We favor companies that offer growth in an economic environment which will see fiscal stimulus, increased consumer spending and higher rates of inflation

- Underweighting sectors where we think fundamentals are weak and valuations are not cheap enough to compensate
  - Storage
  - Healthcare
  - Net lease
  - Office
  - Shopping centers
  - Hotels
- We remain selective on the more bond-like sectors that offer modest growth and trade less attractively relative to our estimate of underlying real estate value

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The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity REITs that are included in the MSCI US Investable Market 2500 Index (with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing obligations). The index represents approximately 85% of the US REIT universe. 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. The risks of REITs are similar to those associated with direct ownership of **Real Estate**, such as changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer. **Concentration** of investments in one or more real estate industries may subject the Portfolio to greater volatility than a portfolio that is less concentrated. Other risks of the Portfolio include but are not limited to: **Initial Public Offerings Risks, Convertible Securities Risks, Market Trends Risks, Non-Diversification Risks, Other Investment Companies' Risks, Sector Risks, Rule 144A Securities Risks, Inability to Sell Securities Risks, Restricted and Illiquid Securities Risk, Manager Risks, Investment Models Risks and Securities Lending Risks. Investors should consult the Portfolio's Prospectus, or summary prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio's risks. An investment in the Portfolio is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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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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