Portfolio Manager Quarterly Commentary | June 30, 2017

Voya Strategic Income Opportunities Fund

> Strategy Overview

Voya's Strategic Income Opportunities strategy seeks greater return consistency through income and capital appreciation, across all market cycles, unconstrained by benchmark limitations. The strategy emphasizes loss avoidance.

> Expected Contribution to Returns

High

Active Asset Allocation — seek opportunities across global fixed income sectors; analyze sector relative value, downside skew and asymmetric return potential to identify tactical opportunities

Security Selection — top-down and bottom-up analysis driven by fundamental research, leverages Voya's experienced sector specialists

Duration Management — flexible duration profile from -2 to 6 years allows the strategy to seek an optimal mix of interest-rate and credit risk, which can adjust to market conditions

Currency Management — proprietary quantitative modeling identifies relative value opportunities and adapts to prevailing currency regimes

Low

Key Takeaways

- For the quarter, the strategy outperformed its benchmark, the Merrill Lynch LIBOR 3-month Constant Maturity Index
- Sector allocation generated most of the outperformance, followed by security selection
- Duration positioning contributed slightly, currency positioning was neutral
- 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

Active Asset Allocation

- Non-agency residential mortgages were the largest contributors to performance, largely driven by our allocation to 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.
- Our allocation to emerging markets debt added to results as we maintained a bias towards local rates
  - We continue to like EM with a bias towards local currency interest rate risk and hard currency sovereigns; however, country differentiation remains key

Security Selection

- 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
- 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
- Security selection within high yield added to results, particularly within the energy sector
  - We believed that oil prices would remain in a range adequate to provide a return for onshore shale producers but not increase enough to boost deep water drilling activity
  - As a result, the strategy remained underweight energy in total while continuing to favor onshore exploration and production companies and midstream pipeline operators over offshore drillers

Portfolio Positioning

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

1 = maximum underweight, 5 = maximum overweight

Duration/Curve and Currency Management

- We maintained a short duration stance for the period to both U.S. and German interest rates, which added to 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
  - German interest rates rose as European growth continues to pick up and the European Central Bank moves closer to possibly tapering its current easing program
- FX positioning was neutral for the period
  - Long euro positioning added to results, as well as tactical positioning in New Zealand dollar
  - Short positioning of pound detracted slightly

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 credit, both investment grade and high yield despite tight valuations, as well as select emerging markets. We are also keeping an overweight to securitized products such as collateralized loan obligations, CMBS and non-agency residential mortgages.

Voya Strategic Income Opportunities Fund

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.**

The **Standard & Poor's 500 Index** is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average computed from the stock prices of 30 of the largest and most widely held public companies in the United States, adjusted to reflect stock splits and stock dividends.

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