Voya High Yield

> **Investment Objective**
> The Voya High Yield SMA strategy is managed for total return through a combination of current income and capital appreciation.

> **Portfolio Management**

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Portfolio Review and Outlook

The Federal Reserve (Fed) hiked short-term interest rates 25 basis points in June, as expected. The announcement struck a rather hawkish tone, emphasizing moderate economic expansion and downplaying softer inflation data. The Fed also discussed its plan to begin gradually trimming its balance sheet this year, with perhaps another interest rate hike in play as well. Fed Chair Janet Yellen emphasized that employing gradual rate hikes eliminates the potential to fall behind the curve and therefore the need to hike more quickly and risk recession.

The Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index posted a positive return of 2.14% in the quarter, outpacing like-duration U.S. Treasury securities by 1.40%. Though far from robust, the mildly positive trend of economic data has kept credit fundamentals in the sweet spot. Slow and steady growth allows modest improvement in credit quality, but keeps overly aggressive behavior in check. The pharmaceutical and healthcare sectors continued to improve this month while energy and retail continue to be the areas of weakness. Expectations for defaults have continued to drop and corporate actions such as mergers and acquisitions (M&A) and dividends have been credit neutral.

On a total return basis, BB-rated bonds gained 2.59%, single-Bs were up 1.67%, and CCCs returned 1.17%. High quality bonds outperformed. The portfolio is a high quality strategy and does not invest in the lower quality CCC bonds. The index's yield was 5.75% as of June 30, representing an option adjusted spread (OAS) of 378. Expectations for defaults have continued to drop and earnings have started to show improvement. The forecasted default activity for 2017 is anticipated to be about 2%, which is below historical averages.

We expect U.S. economic growth to accelerate on a modest dose of pro-growth tax, regulatory and fiscal policy changes. We believe that a higher nominal growth rate will boost corporate revenue and earnings, allowing credit stats and fundamentals to continue to improve through the remainder of 2017. We are not seeing significant intentional leveraging or typical late-cycle behavior, and we think that the next default cycle remains beyond the horizon. Spreads are still wide to post-crisis tights and, in our view, are attractive given low expected defaults and ability to absorb the majority of any back-up in rates. Risks are primarily in the macro environment, including geopolitical risks (Russia, China, North Korea), U.S. policy risks (the Trump administration failing to deliver pro-growth policies) and the potential for a policy error as the Fed seeks to unwind monetary accommodation.

SMAC-HY2