Separately Managed Account | For Quarter Ending June 30, 2017 | 2Q17 Strategy Brief

Voya Concentrated Intermediate Fixed Income

Firm Overview

Voya Investment Management at a Glance

Voya Investment Management (Voya IM) is a leading active asset management firm. As of March 31, 2017, Voya IM manages approximately $219 billion* for affiliated and external institutions as well as individual investors. Drawing on over 40 years of experience and an ongoing commitment to reliable investing, Voya IM has the resources and expertise to help provide long-term investors with strong investment results.

Mission

Voya Investment Management's mission is to find unrecognized value ahead of consensus by seeking original insights on markets and companies. Toward that end, we apply our proprietary research and analytics, benchmark awareness and risk management to serve client needs within the guidelines and objectives of each assignment.

Portfolio Managers

Matt Toms, CFA
Chief Investment Officer, Fixed Income
Years of experience: 23
Years with company: 8

Bob Kase, CFA
Senior Portfolio Manager
Years of experience: 33
Years with company: 10

Strategy

Summary

Multi-sector total return approach, investing primarily in investment grade corporate bonds, US government bonds, and AAA-rated securitized assets.

Objective**

Seeks to provide total return utilizing a multi-sector approach with a higher quality posture through the use of Treasuries, Agencies and Corporate credit securities with 1-10 year maturities. Performance drivers of our investment grade fixed income portfolio are our sector allocation and security selection along with positioning for rate trends.

Investment Process

Our strategy employs an active investment style that seeks to identify attractive securities by combining our global macro-economic view with in-depth, original research and strict risk controls. By understanding where we are in the business cycle, our portfolio managers seek to adjust sector allocation, security selection and duration and yield curve management to take advantage of market opportunities. Top-down macro themes shape overall strategy and provide context for our bottom-up security selection. Ultimately, the portfolio is built one bond at a time selected by our seasoned senior analysts.

Risk Control

- Measured portfolio duration shifts based on long-term economic outlook
- Preference for liquid bonds from well-established corporations and government agencies
- Little exposure to extremely rate-sensitive bonds with high durations or structured products

Contribution to Process and Returns

High

Sector Allocation — We use macro themes, relative value analysis and security level research to guide broad sector allocation strategy.

Security Selection — We continuously review the fundamentals and relative value of eligible fixed income securities to find alpha opportunities.

Yield Curve — Weekly strategy meetings evaluate yield curve relative value, and we position the portfolio as opportunities present themselves.

Duration — The Investment Strategy Committee establishes a view on interest rates and makes moderate duration adjustments to capture incremental returns.

Low

*Voya IM assets of $219 billion include proprietary insurance general account assets of $89 billion calculated on a market value basis. Voya IM assets, as reported in Voya Financial, Inc. SEC filings, include general account assets valued on a statutory book value basis and total approximately $213 billion. Both totals include approximately $8 billion in Private Equity, $4 billion in Real Estate and $5 billion in other assets including those sub-advised through the Voya family of funds and the Multi-Asset Strategies and Solutions product offerings. Approximately $0.6 billion of total fixed income assets are also included in the Senior Loan and Private Equity totals.
**There is no guarantee that this objective will be achieved.

Voya Concentrated Intermediate Fixed Income

Supplemental Performance: Annualized Total Returns[1]
Voya Concentrated Intermediate Fixed Income SMA Composite

Composite	Quarter	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Gross:	0.98	1.66	-0.08	2.06	1.95	4.46
Net:	0.49	0.66	-2.04	0.06	-0.07	2.37
Bloomberg Barclays U.S. Intermediate Gov/Credit Index	0.94	1.73	-0.21	1.92	1.77	3.87
Gross Excess Return	0.04	-0.08	0.14	0.14	0.18	0.58

Commentary

Market Review

Global economic expansion gained strength in the second quarter as the growth impulse shifted to an international focus. As expected, the Federal Reserve (Fed) hiked short-term interest rates 25 basis points in June. As Fed policy has shifted toward normalizing, the European Central Bank (ECB) embraced accommodation but will likely be patient with no pressure from inflation. Domestic data continues to reflect economic growth but not as robustly as late last year. Meanwhile, the so-called "Trump trade" optimism has all but evaporated as prospects for a tax deal and fiscal stimulus have diminished. The low-growth U.S. GDP scenario needs a dose of fiscal policy change since monetary policy has seemingly run its course. These factors add up to financial markets that are well, but not fully, supported. Short of a shock such as geopolitics, equities seem to have the strength to hold their gains, and bond markets face marginally higher yields as U.S. fiscal policy gains clarity.

Account Performance

The Bloomberg Barclays Intermediate U.S. Government/Credit Index posted a total return of 0.94% for the quarter. The strategy outperformed the benchmark primarily due to an overweight to high quality investment grade credit relative to the benchmark.

Our investment grade (IG) credit versus an underweight to U.S. Treasury securities was favorable as corporates outperformed. We prefer "spread" assets with potential to benefit from improving global growth. Corporations look healthier as sales growth continues to recover; recent quarterly earnings have shown strong improvement over prior quarters. With limited overall cost pressures, corporate profit margins will be resilient. Leverage is slowly rising but looks supportable, and interest coverage remains elevated.

We've maintained a shorter duration posture than the benchmark which was a slight relative drag compared to the index. The 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.

With that, we believe the Fed's focus will be on balance sheet reduction for now, before resuming its cautious pace of rate normalization as guided by market expectations. While the Fed did not specify an endpoint for its total balance sheet size, it noted that afterward the level of assets will remain higher than before the financial crisis. It seems that the Fed is signaling it will be less "data dependent" and therefore will be more forecast driven, which has the potential to continue to suppress market volatility. We believe this continuation of easy monetary policy will keep volatility uncomfortably low, supporting full but sustainable valuations of risk assets.

The optimism that drove the so-called "Trump trade" in the first half of 2017 has all but evaporated. The market is questioning the possibility of a tax deal, but policy analysts still expect some fiscal stimulus, which they believe would add 0.3–0.5 percentage points to GDP in 2018. Even if this view proves correct, policy action is likely to be slow and unlikely to boost the economic growth trajectory much above its current 1.5–2.0% trend for any sustainable time period.

With that in mind, we believe subdued productivity and consumers' ongoing aversion to leverage will continue to limit growth potential over the longer term. Therefore, any benefits from demand-oriented policies such as tax cuts are likely to be limited and short-lived. Supply-oriented policies, e.g., significant deregulation or true tax reform, would provide more lasting benefits to growth but are unlikely to be delivered.

Wage pressures within the U.S. economy will continue to increase unevenly across industries. Wage increases for lower income workers will help offset current spending constraints and improve debt service capacity. Despite this increase in wages, overall inflation pressure will be limited by global excess supply. There are advantages to this more stable and therefore more sustainable growth. These include manageable wage and inflation pressures and a slower and limited rise of interest rates, both of which will support consumer spending and encourage business investment. Additionally, we believe this will temper any appreciation of the U.S. dollar. Finally, the combination of improving credit fundamentals and continued easy monetary policy will push credit spreads to new post-crisis tights.

Our outlook is that near-term growth in the United States will be closely tethered to trend level. The benefit from demand-oriented policy (tax cuts) is likely to be limited and short-lived. Supply-oriented policies, such as significant deregulation or true tax reform, are unlikely but would have more lasting benefits on growth. Wage pressure within the U.S. economy will continue to increase, albeit unevenly across industries. Overall inflation pressure will be limited by global excess supply. Wage increases for lower income workers will help offset current spending constraints and improve debt service capacity. Balance sheet reduction will be the near-term focus of the Federal Reserve; 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. With limited overall input cost pressure, corporate profit margins will be resilient. The combination of improving credit fundamentals and continued easy monetary policy will push credit spreads to new post-crisis tights even as we move closer to the end of the current cycle.

(1) Gross Returns are presented before the deduction of transaction costs and should be used as Supplemental Information only. Prior to January 2007, net-of-fee returns presented reflect the deduction of actual fees paid by each account in the composite. After January 2007, net-of-fees returns presented are calculated by subtracting a hypothetical maximum total wrap fee (estimated at 2.00% per annum) from the monthly "pure" gross-of-fees returns. The total wrap fee includes transaction costs, portfolio management, investment advisory, custodial and other administrative costs. Wrap fees vary amongst brokerage firms and may be negotiated based on account size and other factors. The hypothetical maximum total wrap fee used is deemed to be the maximum fee charged to any composite account but we cannot guarantee accuracy. More information about fees can be found in the Form ADV Part II of Voya Investment Management Co. **Please refer to Voya Investment Management GIPS compliant composite for additional performance information.**

Past performance does not guarantee future results. There is no guarantee that any forecasts or opinions in this material will be realized. Manager commentary is for informational purposes only and does not constitute investment advice and is not a recommendation to purchase or sell any of the securities referenced.

Voya Concentrated Intermediate Fixed Income

Strategy Statistics[2]

Sector Allocations(%)	Portfolio	Index
Corporates	53.09	32.63
US Treasury & Cash	42.87	57.28
Government Related	4.04	10.09

Quality Rating (%)†	Portfolio	Index
AAA	4.04	7.80
AA	11.07	4.61
A	16.97	13.39
BBB	25.05	16.86
<=BB	0.00	0.00
Not Rated	0.00	0.06
Treasuries/Cash	42.87	57.28

Top Ten Credit Exposures	Weight (%)
Fifth Third Bank	3.04
Chevron Corp.	3.03
AbbVie Inc.	3.02
AstraZeneca PLC	3.01
JPMorgan Chase & Co.	3.01
The Goldman Sachs Group Inc.	3.01
Anheuser-Busch InBev Finance Inc	3.01
Verizon Communications Inc.	2.98
Teva Pharmaceutical Finance Nether	2.97
Bank of America Corp.	2.03

Portfolio Characteristics	Portfolio	Index
Yield-to-Worst (%)	2.06	2.08
Effective Duration (Yrs.)	3.75	4.04
Average Quality	AA-	AA

Glossary of Terms:

Yield-to-Worst — Yield to Worst is the internal rate of return of the security based on the given market price. It is the single discount rate that equates a security price (inclusive of accrued interest) with its projected cashflows.

Effective Duration — Effective Duration is the Option Adjusted Duration. It measures the sensitivity of market price to parallel shifts in the yield curve assuming the OAS stays constant as the curve shifts. Unlike Modified Duration, the OAD does not assume that cashflows are constant as interest rates change.

Average Quality — Credit Quality is a portfolio's market value weighted credit quality. The effective credit rating is determined using the "middle of three/lower of two" ratings from the three NRSRO rating agencies: Fitch, S&P, and Moodys. Credit quality is calculated by weighting each security's effective credit rating by its market value divided by the portfolio's market value. The sum of those values is the Average Quality of the portfolio. Securities with no credit quality are ignored in this calculation.

Ratings Distribution – The Standard & Poor's rating scale is as follows, from excellent (high grade) to poor (including default): AAA to D, with intermediate ratings offered at each level between AA and CCC. Anything lower than a BBB- rating is considered a non-investment grade or junk bond. Any security that is not rated by Standard & Poor's is placed in the NR (Not Rated) category.

[2] For information purposes only and not a recommendation to purchase or sell any security. The sector, security and holdings information is based on a representative portfolio included in the Composite that we believe best represents this investment management style. It should not be assumed that the adviser continues to hold the securities listed. Other accounts in the Composite might have slightly different portfolio characteristics. Returns-based characteristics are based on the Composite returns. Composite information is subject to change at any time.

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Schedule of Composite Performance (%)

Year	"Pure" Gross Returns	Net Returns	Bloomberg Barclays U.S. Intermediate Gov/Credit Index Returns	Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Dispersion of Portfolio Returns	Number of Portfolios	Assets in this Composite ($mm)	Total Firm Assets ($mm)
2016	2.13	0.13	2.08	2.14	2.20	0.14	≤5	27	99,889
2015	1.48	-0.51	1.07	2.13	2.10	0.09	51	20	94,574
2014	3.11	1.08	3.13	2.08	1.94	0.07	59	25	100,577
2013	-0.54	-2.54	-0.86	2.26	2.11	0.07	72	32	93,084
2012	4.71	2.62	3.89	2.26	2.16	0.08	125	50	76,532
2011	5.08	2.95	5.80	2.83	2.55	0.06	198	92	65,776
2010	5.85	3.71	5.89	4.14	3.91	0.18	228	105	60,236
2009	4.08	1.99	5.24	4.17	3.82	0.10	231	113	61,643
2008	9.96	7.77	5.08	NA	NA	0.28	209	105	56,044
2007	8.58	6.41	7.39	NA	NA	0.08	178	70	74,322

**Cumulative return for the period is from February 1, 2006 (inception of strategy) to December 31, 2006.

Voya Investment Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. Voya Investment Management has been independently verified for the period January 1, 1996, through December 31, 2014. Verification assesses whether (1) the firm has complied with all of the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The verification report is available upon request.

Notes:

Firm Definition: Voya Investment Management (the "Firm") is defined as all discretionary accounts managed by Voya Investment Management Co. LLC and its subsidiary Voya Investment Trust Co., but not including collateralized debt obligation structures, long/short hedge funds, structured mortgage derivative portfolios, or specialized accounts supporting the reinsurance arrangements of affiliated insurance companies. Effective May 1st, 2014, the firm changed its name from ING Investment Management to Voya Investment Management. No changes to composites nor to investment groups & processes resulted from this event.

Composite Definition: This is a fixed income SMA strategy that seeks to provide total return while preserving capital, largely through the use of treasuries, non-securitized agencies, and corporate credit securities of 1-10 year maturities. Portfolio valuations and returns for this composite are computed and stated in U.S. dollars. In December 2012, there was a change in personnel within the portfolio management team for this composite. However, the change had no substantial impact on the investment objective of the strategy. A $100,000 minimum has been set for inclusion in the composite. The name of this composite changed in May 2014. The composite was formerly known as the ING Concentrated Intermediate Fixed Income SMA Composite. This composite was created and incepted on February 1, 2006.

Benchmark Definition: Returns are benchmarked to the Bloomberg Barclays U.S. Intermediate Government/Credit Index, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. The Bloomberg Barclays U.S. Intermediate Government/Credit Index includes fixed rate, dollar-denominated, investment grade securities with maturities of 1-10 years held within both the Bloomberg Barclays U.S. Government Index (public obligations of the U.S. Treasury, U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government) and the Bloomberg Barclays U.S. Credit Index (publicly issued U.S. corporate and foreign debentures and secured notes). Securities prices used to value the benchmark index for the purposes of calculating total return may or may not differ significantly from those used to value securities held within composite portfolios.

Treatment of Fees & Expenses: "Pure" Gross Returns are presented before the deduction of transaction costs, fees or expenses and should be used as supplemental information only. Prior to January 2007, net-of-fee returns presented reflect the deduction of actual fees paid by each account in the composite. After January 2007, net-of-fees returns presented are calculated by subtracting a hypothetical maximum total wrap fee (estimated at 2.00% per annum) from the monthly "pure" gross-of-fees returns. The total wrap fee includes transaction costs, portfolio management, investment advisory, custodial and other administrative costs. Wrap fees vary amongst brokerage firms and may be negotiated based on account size and other factors. The hypothetical maximum total wrap fee used is deemed to be the maximum fee charged to any composite account. More information about fees can be found in the Form ADV Part II of Voya Investment Management Co. LLC.

Explanation of Risk Measures: "Dispersion of Portfolio Returns" presented for each annual period is calculated using the asset-weighted standard deviation of the annual returns of all portfolios that were included in the composite for the entire year. "Composite 3-Yr St Dev" and "Benchmark 3-Yr St Dev" are rolling 3-year standard deviation calculations, which measure the variability of the monthly performance returns for the composite and benchmark index return over the preceding 36-month period on an annualized basis. If the composite has not been in existence for at least 3 years as of a particular year-end, then "NA" will be displayed.

Other Notes: Policies for valuing portfolios, calculating performance, and preparing compliant presentations, as well as a complete list of composite descriptions, are available upon request. Past performance is no guarantee of future results.

* "Pure" Gross Returns are supplemental information only.

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Past performance does not guarantee future results.

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