

# Voya High Yield

## 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



### Randy Parrish, CFA

Head of Credit

Years of experience: 27

Years with company: 16

- The Voya Investment Management (Voya IM) High Yield team has an average of more than 15 years of experience, with all members of the team having been through multiple economic and market cycles
- Analysts are integrated into the investment decision-making process with regard to sector positioning and overall risk budgeting, resulting in a high level of portfolio ownership across the group

## Strategy

### Philosophy

Returns in High Yield are driven by changes in actual and perceived credit risk. The Voya High Yield Team emphasizes rigorous fundamental research and bottom-up security selection, while seeking to employ multiple sources of alpha and provide consistent outperformance across market cycles. To protect against the risk of negative company-specific events, the strategy is positioned in the higher quality tier of the high yield market. Security selection through rigorous bottom-up fundamental credit research is the key driver of the strategy's returns.

### Summary

Total return approach, investing in below-investment grade corporate securities with a bias towards higher quality and a concentrated posture

### Objective\*\*

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

### Investment Process

We believe security selection has the greatest impact on return; however, the team seeks to employ multiple sources of alpha in the portfolio construction process to mitigate negative company specific risks:

- **Credit Selection:** Specific issuer and issue positions based on fundamental research and relative value analysis
- **Investment Themes:** Broad investment themes help shape our portfolio positioning both within and across industry sectors
- **Voya IM Fixed Income Team:** Macroeconomic and market views from across the Voya IM Fixed Income Team help shape investment themes and guide overall risk appetite

\*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 High Yield

Supplemental Performance: Annualized Total Returns<sup>1</sup>  
Voya High Yield SMA Composite

Composite	Quarter	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
Gross:	1.93	3.90	7.24	3.77	5.13	5.34
Net:	1.43	2.89	5.15	1.73	3.05	3.24
Merrill Lynch U.S. High Yield Master II Constrained Index	2.14	4.90	12.74	4.49	6.92	7.63
Gross Excess Return	-0.21	-1.01	-5.50	-0.72	-1.79	-2.29

## 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 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 tightness 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.

<sup>(1)</sup> 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.

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## Voya High Yield

Strategy Statistics<sup>(2)</sup>

Top Sector Allocations (%)	Portfolio	Index
Cable and Satellite	13.94	7.07
Technology	12.01	7.30
Healthcare	8.98	6.86
Independent Energy	8.06	6.21
Home Construction	5.06	2.22
Retailers	5.01	2.94
Chemicals	4.98	2.44
Other Industry	4.03	1.25
Gaming	4.02	2.81
Utility	4.02	2.52

Quality Rating (%)	Portfolio	Merrill Lynch U.S. High Yield Master II Constrained Index
≥BBB	0.00	0.81
BB	72.15	44.08
B	25.96	39.74
CCC	0.00	14.03
Below CCC	0.00	1.33
Not Rated	0.00	0.00
Cash	1.89	0.00

Portfolio Characteristics	Portfolio	Index
Yield-to-Worst (%)	3.88	5.63
Modified Duration-to-Worst (Yrs.)	3.52	3.73
Average Quality	BB-	B+

Top Ten Credit Exposures	Weight (%)
Calatlantic Group Inc.	5.06
Limited Brands Inc.	5.01
CCO Holdings LLC	4.99
Huntsman International LLC	4.98
HCA Inc.	4.97
CSC Holdings Inc.	4.95
Continental Resources Inc.	4.07
Micron Technology Inc	4.03
AECOM	4.03
MGM Resorts International	4.02

## 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.

**Modified Duration-to-Worst** — Modified Duration to Worst is a mathematically adjusted form of Macaulay Duration measuring the sensitivity of a bond's price to small, instantaneous changes in yield. This calculates the rate sensitivity of a security assuming that cashflows do not change 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.

<sup>(2)</sup> 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.

## Voya High Yield

## Schedule of Composite Performance (%)

Year	"Pure" Gross Returns	Net Returns	Merrill Lynch U.S. High Yield Master II Constrained 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	9.00	6.87	17.49	4.12	5.96	0.76	≤5	48	99,889
2015	-1.11	-3.05	-4.61	4.37	5.26	0.33	85	38	94,574
2014	3.18	1.14	2.51	4.06	4.44	0.19	98	44	100,577
2013	4.78	2.68	7.40	5.23	6.42	0.17	84	59	93,084
2012	10.21	8.00	15.55	5.40	7.02	0.31	95	62	76,532
2011	7.14	5.00	4.37	6.12	10.96	0.18	74	46	65,776
2010	10.47	8.28	15.07	10.36	16.79	0.33	51	31	60,236
2009	17.39	15.04	58.10	10.19	16.66	0.51	30	20	61,643
2008	-9.56	-11.41	-26.11	9.56	13.15	1.02	15	11	56,044
2007	2.97	0.90	2.53	4.19	4.53	0.77	20	14	74,322

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 Voya High Yield SMA Composite has been examined for the periods 2004-2014. The verification and performance examination reports are 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 invests in below-investment grade debt securities across multiple sectors and industries in order to maximize total return through income and capital appreciation. Portfolio valuations and returns for this composite are computed and stated in U.S. dollars. Effective April 1, 2009, a \$200,000 minimum has been set for inclusion in the composite, and prior to that, the asset minimum was \$500,000. Prior to December 2012, the portfolio management team for this strategy was Rogge Global Partners, which was appointed to sub-advise the assets managed by the team. In December 2012, the portfolio management was transitioned back to ING(Voya Investment Management). During the transition, 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. The name of this composite changed in May 2014. The composite was formerly known as the ING High Yield Fixed Income SMA Composite. This composite was created and inceptioned on July 1, 2003.

**Benchmark Definition:** Returns are benchmarked to the Bank of American Merrill Lynch U.S. High Yield Master II Constrained Index, which does not incur management fees,

transaction costs, or other expenses associated with a composite portfolio. The Bank of America Merrill Lynch High Yield Master II Index is a market value-weighted index consisting of U.S. dollar-denominated, non-investment grade bonds not currently in default and limits any individual issuer to a maximum of 2% benchmark exposure. 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. In December 2006, the benchmark was changed from the Citigroup High Yield Cash Pay Index to the Bank of America Merrill Lynch US High Yield Master II Constrained Index effective from June 1, 2005 to the present. The reason for the change was due to a fundamental change in the composition of the Citigroup index that made it un-representative of the strategy's investment process.

**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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