Voya Strategic 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

Randy Parrish, CFA
Head of Credit
Years of experience: 27
Years with company: 16

Strategy

Summary

A total return strategy that uses a multi-sector approach with a higher quality posture through the use of Treasury, Agency, and Corporate Credit securities, both Investment Grade and Below, with 1-10 year maturities

Objective**

Seeks to generate more income than pure investment grade, while preserving principle, by adding selective high yield bond exposure:

- Greater performance than pure investment grade portfolios
- Lower performance volatility than pure high yield portfolios

Investment Process

Our dynamic process balances top-down macro considerations and fundamental bottom-up analysis through all steps of the investment process:

- Sector allocation
- Security selection
- Duration
- Yield curve management

Portfolios tend to be positioned in the higher quality tier of the market

- Investment grade component:
- Multi-sector approach largely through the use of treasuries, agencies and corporate credit securities of 1-10 year maturities
- High yield component:
- Emphasizes rigorous fundamental research and bottom-up security selection
- Varies between 40% and 50%

Competitive Advantages

- A seasoned team of 100+ fixed income professionals influencing investment theme and model portfolio development
- Top-down macro themes shape overall strategy and provide context for our bottom-up security selection
- Balanced emphasis on quantitative and qualitative inputs fosters strong checks and balances and validation for our investment themes
- Proprietary risk budgeting and management tools guide portfolio construction
- Competitive performance over time and within each component of the portfolio

*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.

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

Composite	Quarter	YTD	1 Year	Annualized 3 Years	Annualized 5 Years	Annualized 10 Years
Gross:	1.51	2.86	3.72	3.01	3.57	5.19
Net:	1.01	1.85	1.69	0.99	1.52	3.10
Custom Benchmark[†]	1.42	2.99	4.81	2.98	3.83	5.50
Gross Excess Return	0.09	-0.14	-1.09	0.02	-0.26	-0.31

[†]Please refer to the benchmark definition in the Schedule of Composite Performance on the last page of this document.

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

For the quarter, the Voya Strategic Fixed Income SMA outperformed its benchmark. The benchmark is a blended index consisting of 60% Barclays Intermediate Government Credit Index and 40% Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index.

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.

Within high yield, 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.

[(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.

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Strategy Statistics[2]

Sector Allocations(%)	Portfolio	Index
HY Corporates	48.87	39.27
IG Corporates	25.08	19.46
US Treasury & Cash	22.57	34.37
Government Related	1.96	5.25
Emerging Markets	1.51	1.63

Quality Rating (%)†	Portfolio	Index
AAA	1.96	4.68
AA	5.43	2.77
A	8.54	8.03
BBB	12.63	10.44
<=BB	48.87	39.67
Not Rated	0.00	0.03
Treasuries/Cash	22.57	34.37

Portfolio Characteristics	Voya CINF	Voya HY	Voya SFI
Average Quality	AA-	BB-	BBB+
Yield-to-Worst (%)	2.06	3.88	2.96
Effective Duration (Yrs.)	3.75	2.45	3.09
Average Coupon	2.13	5.53	3.82

Voya CINF = Voya Concentrated Intermediate Strategy
Voya HY = Voya High Yield Strategy
Voya SFI = Voya Strategic Fixed Income Strategy

Top Ten Credit Exposures	Weight (%)
Huntsman International LLC	2.53
CSC Holdings Inc.	2.51
CCO Holdings LLC	2.50
Limited Brands Inc.	2.49
HCA Inc.	2.47
Calatlantic Group Inc.	2.38
CDW LLC / CDW Finance Corp.	2.04
T-Mobile USA Inc.	2.04
Calpine Corp.	2.03
Micron Technology Inc	2.02

Glossary of Terms:

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.

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 Coupon — The interest rate the issuer agrees to pay annually based upon a specified par amount. At a portfolio level this is the sum of each security's coupon contribution calculated as the par value of the security divided by the total portfolio par value multiplied by the coupon.

[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	Custom Benchmark 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	5.72	3.65	8.05	2.71	2.93	0.18	≤5	89	99,889
2015	0.21	-1.76	-1.19	2.92	2.83	0.14	127	92	94,574
2014	3.28	1.24	2.89	2.90	2.64	0.07	152	126	100,577
2013	1.90	-0.15	2.39	3.35	3.19	0.28	156	120	93,084
2012	7.48	5.33	8.43	3.31	3.21	0.26	182	144	76,532
2011	6.32	4.19	5.33	3.47	4.81	0.19	172	167	65,776
2010	8.21	6.03	9.54	4.83	7.61	0.17	175	149	60,236
2009	9.22	7.00	24.25	4.57	7.51	0.38	172	147	61,643
2008	2.64	0.58	-8.14	4.32	6.20	0.98	137	109	56,044
2007	6.43	4.30	5.50	2.42	2.38	0.58	145	117	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 Strategic Fixed Income SMA Composite has been examined for the periods 2002-2014. 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 seeks to generate higher income than pure investment grade bonds by adding selective high yield bond exposure while preserving principal. Portfolio valuations and returns for this composite are computed and stated in U.S. dollars. There were several changes to the named portfolio manager of the investment strategy (represented by the composite) throughout its existence, but none of those changes had a substantial impact on the investment objective of the strategy. Prior to December of 2012, the portfolio management team for the high yield portion of this strategy was Rogge Global Partners, which was appointed to sub-advise the assets managed by the team. A $250,000 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 Strategic Fixed Income SMA Composite. This composite incepted on July 1, 2001 and was created in July 2003.

Benchmark Definition: Returns are benchmarked to a customized blend of 60% Bloomberg Barclays U.S. Intermediate Government/Credit Index & 40% Merrill Lynch US High Yield Master II Constrained Index, rebalanced on a monthly basis, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. 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 High Yield portion of the custom-weighted 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 unrepresentative 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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