Targeting Your Income Needs

Strategy Overview

Coupled with a managed payment policy, the Fund invests in a combination of Voya Funds which are invested in global equity, fixed-income, and which may include floating rate loans, emerging markets debt, and real estate securities.

Key Takeaways

■ The Fund achieved its primary investment objective, to meet its managed payment policy by delivering level monthly payments
■ For the quarter, the Fund outperformed the S&P Target Risk Moderate index and its composite benchmark
■ Asset allocation and manager selection were both meaningful contributors to performance
■ In July, the investment team implemented an enhancement to the Fund’s option overlay strategy

Current Strategy and Outlook

For over six months, the world has anxiously awaited the time when coronavirus is no longer a significant threat to population health and people can resume their normal way of life. With worst case scenarios averted, infections somewhat contained, expanded testing and improved treatments, markets are fast forwarding to the end, which is almost sure to be sometime next year when an effective vaccine(s) is expected to be widely distributed. While there have been several recent roadblocks among the leading candidate vaccines, we still interpret the balance of data as promising. There is also a revitalized narrative around “herd immunity” that seems a lot more plausible than it did the first time around with a clear decline in the global death rate, and successful avoidance of secondary surges following initial hotspot outbreaks and a declining case count in Sweden, which elected to pursue an unconventional strategy from the start. Undoubtedly, there are flare-up risks associated with increased mobility as kids get back to school and potential seasonal elements to the coronavirus, but the pandemic is widely expected to end in 2021, probably sometime in the first half. An end date on the horizon is certainly a good thing for stocks. What’s more, easy money policies from global central banks are likely to extend several years beyond that.

The ultra-dovish path laid out by the Federal Reserve (the “Fed”) is likely to be followed by other major central banks, including the European Central Bank and Bank of Japan, whose economies also are grappling with structural deflationary headwinds. Although breakeven inflation rates have hooked up, they remain at or below pre-pandemic levels, even after some of the most aggressive government intervention in history. What we saw throughout the last cycle is that central bank action alone may not be sufficient to pull inflation higher. As Fed Chairman Jerome Powell has repeatedly implied, fiscal stimulus will be needed to sustain the recovery and elevate inflation to the Fed’s target. In the current U.S. political climate, passing the next stimulus bill has proven difficult.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Funds’ prospectus, or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read the prospectus carefully before investing.
Therefore, in the near term, we don’t anticipate an increase in government spending to a level that would incite a swift rise in inflation. As a result, we continue to hold an underweight to U.S. Treasury inflation-protected securities (TIPS) and commodities.

The government’s appetite for spending could change depending on the results of the elections. Of course, polls should be looked at very skeptically after the 2016 predictions and outcome, but as of this writing most project the democrats will win the house, senate and executive branches. Most betting markets have Biden in the lead too, yet stocks seem unphased. The general-consensus, with which we agree, is that the market would prefer Trump and his pro-business attitude, but would make do with Biden, given that his stated polices aren’t terribly progressive and stocks did fine under the last two Democrat Presidents. Either way, results seem destined to be contested, which won’t be well received by investors, but hopefully the uncertainty won’t last for long.

**Portfolio Review**

The Fund achieved its primary investment objective: to meet its managed payment policy by delivering level monthly payments. In addition, the Fund attempts to outperform its strategic composite benchmark through tactical asset allocation, i.e. deviating from the composite benchmark over the short and medium term and active manager selection. The Fund outperformed its composite benchmark over the quarter. Asset allocation and manager selection both contributed to performance.

Fundamental tactical asset allocation’s impact on performance in the second quarter was additive. The biggest driver of returns during the period was the Fund’s overweight to stocks versus bonds. Government intervention has helped bridge the gap in economic output while the private sector heals. This has enabled equities to continue to improve from the severe drop experienced during the first quarter, despite a still-struggling labor market and certain business industries near distress. Within equities, a preference for U.S. large caps continues to be beneficial. A tactical tilt toward emerging market equities was another driver of asset allocation alpha during the period. Asian stocks, lead by China and India, performed particularly well during the quarter. China has been one of the best performing regions year-to-date, as it has been very successful in containing the spread of the coronavirus relative to other countries. Meanwhile, India is still grappling with a dangerous level of COVID-19 infections, but the worst-case scenarios imaged early in the pandemic, which could have been particularly bad due to the country’s population density, appear to have been averted. This marginally brighter outlook has helped India’s equity market repair during the last three months and propel the emerging markets higher.

The Fund’s systematic tactical asset allocation strategies added to returns during the period. Both the cross-asset relative value (CARV) and the tactical currency (TC) strategies were tailwinds for the Fund. CARV’s trades for July – long emerging market and U.S. stocks – delivered most of the excess returns during the quarter. TC returns were positive in July and September. The strategy’s short GBP position versus the USD was the best return currency pair over the quarter. The pound has been and remains the largest underweight currency position for the strategy. The Fund also attempts to outperform its strategic allocation benchmark through the selection of managers to run the underlying funds, which represent the various asset classes within the composite. Manager selection was a contributor during the third quarter. The underlying funds with the largest outperformance relative to their respective asset class benchmarks were Voya Multi-Manager International Equity Fund, Voya Multi-Manager International Factors Fund and Voya Strategic Income Opportunities Fund. The largest underperformers were Voya Large Cap Growth Fund, Voya Multi-Manager Mid Cap Value Fund and Voya Small Company Fund.

In July, the investment team implemented an enhancement to the Fund’s option overlay strategy. The enhanced option overlay strategy is designed to better support the payment through premium generation and provide some downside protection if an underlying asset sells off. The new strategy seeks to accomplish these objectives through two sub-strategies. The first piece involves earning the volatility risk premium by selling options while hedging the delta exposure, in effect removing negative equity beta. This negative equity beta had been the major source of underperformance for the previous option overlay, as the strategy tended to drag on performance in upward trending equity markets. The second leg provides downside protection. This involves buying puts and put spreads or selling calls and call spreads. These positions should add to performance when equities fall. We expect the enhanced strategy will improve portfolio returns over the long-term and lower volatility, as the enhanced option strategy’s target tracking error is lower than the previous version. Over the quarter, however, the option overlay modestly detracted from performance.
The S&P Target Risk Growth Index is comprised of nine multi-asset class indexes, each corresponding to a particular risk level. The nine multi-asset classes include U.S. large-cap equities, U.S. mid-cap equities, U.S. small-cap equities, international equities, emerging markets, U.S. real estate investment trusts (REITs), core fixed income, short-term U.S. Treasury securities and Treasury inflation-protected securities (TIPS). Each index is designed to provide varying levels of exposure to equities and fixed income.

Investors cannot invest directly in an index.

Risks specific to Managed Payment: The Fund is expected to make monthly payments under its Managed Payment Policy regardless of the Fund’s investment performance. Because these payments will be made from Fund assets, the Fund’s monthly payments may reduce the amount of assets available for investment by the Fund. It is possible for the Fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its payments to shareholders under the Managed Payment Policy. The Fund may, under its Managed Payment Policy, return capital to shareholders which will decrease their costs basis in the Fund and will affect the amount of any capital gain or loss that shareholders realize when selling or exchanging their Fund shares.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. Investing in stocks of Small- and Mid-Sized Companies may entail greater volatility and less liquidity than larger companies. Foreign Investing poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Emerging Markets securities may be especially volatile. Convertible Securities with longer maturities tend to be more sensitive to changes in interest rates, usually making them more volatile than convertible securities with shorter maturities. Prices of Value-Oriented Securities tend to correlate more closely with economic cycles than growth-oriented securities, and generally are more sensitive to changing economic conditions. The Fund may use Derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Fund performance. Other risks of the Fund include but are not limited to: Market Trends, Other Investment Companies’ Risks, Price Volatility Risks, Inability to Sell Securities Risks and Securities Lending Risks. Investors should consult the Fund’s Prospectus and Statement of Additional Information for a more detailed discussion of the Fund’s risks. An investment in the Fund is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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