Voya Global Real Estate Strategy

Worldwide Location Means Real Diversification

Key Takeaways
- Real estate stocks surged in one of their strongest quarters on record
- Strong absolute performance was enhanced by favorable stock selection across all major geographies and most property sectors
- For the quarter, the Strategy outperformed its benchmark, the FTSE/EPRA NAREIT Developed index

Outlook and Current Strategy
We remain positive on property types and markets with valuations that are attractive relative to their growth. In the U.S., we favor the residential, office and shopping center sectors, to which we added capital over the quarter. We have become more “neutral” on technology companies (data centers and cell towers), which have good but decelerating earnings growth, as well as self-storage, which has ongoing supply issues. We prefer grocery-anchored shopping centers and west coast urban office. Within residential, we like manufactured housing, single family home-for-rent companies and apartment REITs, which are benefitting from firming demand, particularly in the coastal markets.

In the Asia-Pacific region, we favor Hong Kong property companies which are showing strong growth relative to real estate valuations, thus scoring well on both “growth” and “value” criteria in our sector ranking analysis. We continue to monitor geopolitical risk surrounding trade friction between the U.S. and China. The Tokyo office market continues to experience improved rental growth as vacancies have fallen below 2% in the central business district (five central wards), a level at which landlords enjoy increasing pricing power.

In Europe, we favor the U.K. niche sectors of student housing, self-storage plus the industrial sector, which continues to generate attractive earnings growth on strong fundamentals. In Continental Europe, we prefer property companies in markets with attractive growth, including the Nordic region and the German residential sector. Both score well in our stock ranking system. We are cautious on retail.

We are cautious and selective in markets and property types which screen expensive relative to the rate of earnings growth. This includes Singapore, Canada and the U.S. net lease, skilled nursing and suburban office sectors. This also includes Class B mall/shopping center companies. Our outlook is mixed in Australia as fundamentals range from a robust office market to an uncertain retail market, and a residential market which is meeting headwinds of affordability.

1 Performance discussed in this commentary is intended to reflect the strategy and may not represent the net of fee results of all share classes.
Portfolio Review
Both absolute performance and relative performance were strong for the quarter. Strong absolute performance was enhanced by favorable stock selection across all major geographies and most property sectors. In the U.S., sectors and stocks with attractive valuations relative to their growth outperformed. Positioning in the healthcare sector added value via life sciences company Alexandria Real Estate Equities, Inc., a long-time investment which outperformed on continued strong earnings and dividend growth. Avoiding healthcare real estate investment trusts (REITs) that have exposure to senior housing and nursing home operator issues also added to relative value, as it is becoming more apparent to investors that credit issues are impacting dividend coverage levels of these companies. In the office sector, a position in Tier REIT, Inc. was up strongly on the announcement of an all-stock bid from Cousins Properties, Inc., another office real estate investment trust (REIT) with portfolios in the southeast and southwest, including Atlanta, Charlotte and Austin. We owned both companies and were the largest shareholder in Tier REIT; both positions added to relative value for the quarter.

In the technology sector, a position in data center Equinix, Inc. contributed to relative performance, as this company remains our favored position in the data center space. Data centers continue to enjoy strong secular growth and many investors consider Equinix to be “best-in-class” among its peer group. In the retail sector, stock selection contributed to relative results, thanks to the outperformance of positions in Brixmor Property Group, Inc. (shopping centers) as well as Taubman Centers, Inc. (malls) as valuations have arguably more than discounted ongoing concerns in several retail stocks.

Positioning in the Asia-Pacific region also added value for the quarter. Performance in Australia was particularly good, the result of owning outperforming diversified company, Mirvac Group, and avoiding the underperforming retail sector. Positions in outperforming Hong Kong real estate operating companies, Wheelock & Co., Ltd., New World Development Ltd. and CK Asset Holdings Ltd. also added to relative performance. Holding East Japan Railway Company detracted from performance. Stock selection in Europe was good, driven by outperforming positions in the U.K. as investors recognize that U.K. property companies may have more than discounted potential Brexit outcomes. Holdings in the transportation sector detracted value.

Holdings Detail
Companies mentioned in this report – percentage of mutual fund portfolio investments, as of 3/31/19: Alexandria Real Estate Equities, Inc. 2.01%, Cousins Properties, Inc. 0.93%, Tier REIT, Inc. 0.40%, Equinix, Inc. 1.59%, Brixmor Property Group, Inc. 1.36%, Taubman Centers, Inc. 0.70%, Mirvac Group 1.67%, Wheelock & Co., Ltd. 1.14%, New World Development Ltd. 1.13%, CK Asset Holdings Ltd. 2.34%, East Japan Railway Company 0.00%; 0.00% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change on a daily basis.
The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and real-estate investment trusts (REITS) worldwide. Relevant activities are defined as the ownership, disposal and development of income-producing real estate. Constituents are classified into distinct property sectors based on gross invested book assets, as disclosed in the latest published financial statement. Index constituents are free-float adjusted, liquidity, size and revenue screened. The Index does not reflect fees, brokerage commissions or other expenses of investing.

Investors cannot invest directly in an index.

**Principal Risks:** All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. Foreign Investing poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Emerging Market stocks may be especially volatile. Investing in stocks of Small- and Mid-Sized Companies may entail greater volatility and less liquidity than larger companies. Concentration of investments in one or more real estate industries may subject the Fund to greater volatility than a portfolio that is less concentrated. Price Volatility, liquidity and other risks accompany an investment in Global Real Estate Equities. The risks of REITs are similar to those associated with direct ownership of Real Estate, such as changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand and the management skill and creditworthiness of the issuer. Other risks of the Portfolio include but are not limited to: Company Risks, Currency Risks, Convertible Securities Risks, Rule 144A Securities Risks, Initial Public Offerings Risks, Investment By Other Funds Risks, Market Risks, Issuer Non- Diversification Risks, Other Investment Companies’ Risks, Liquidity Risks and Securities Lending Risks. Investors should consult the Portfolio’s Prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio’s risks. An investment in the Portfolio 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 is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information. Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

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. Insurance products, annuities and funding agreements issued by Voya Retirement Insurance and Annuity Company (“VRIAC”), One Orange Way, Windsor, CT 06095, which is solely responsible for meeting its obligations. Plan administrative services provided by VRIAC or Voya Institutional Plan Services, LLC (“VIPS”). Securities distributed by or offered through Voya Financial Partners, LLC (“VFP”) (member SIPC) or other broker-dealers with which it has a selling agreement. Only Voya Retirement Insurance and Annuity Company is admitted and can issue products in the state of New York. All companies are members of Voya Financial.

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