Voya High Yield Bond Fund

Comprehensive Research, Broad Diversification

Strategy Overview

The Voya High Yield Bond Fund seeks to deliver consistent outperformance through active management emphasizing credit selection and prudent diversification. High yield bonds have historically produced higher returns than other fixed income asset classes with less volatility than equities.

Expected Contribution to Returns

High

Security Selection the primary driver of returns and risk in the high yield market and, we believe, the most reliable way to generate repeatable outperformance

Industry Sector Allocation industry sector views and other broad investment themes implemented across a range of issuers to provide a second source of outperformance

Market Direction input from across the Voya IM fixed income platform informs appraisal of credit cycle and guides overall risk appetite

Low

Key Takeaways

- For the quarter, the fund underperformed its benchmark, the Bloomberg Barclays U.S. High Yield 2% Issuer Constrained Index.
- The largest positive contributors to performance were the Fund's holdings in the Chemicals, Pharmaceuticals, and Technology sectors, while its Energy underweight was the main driver of underperformance.
- Fundamentals remain reasonable in high yield but there are pockets of weakness and the U.S. economic growth picture is mixed. Valuations are becoming stretched, but with the absence of a recession near term, the next market-wide default cycle remains beyond the horizon. We believe spreads compensate for near-term default risk, but are clearly on the tight side of historical averages. We are slightly more biased to domestically oriented issuers over international exposure, and within the U.S., more consumer-oriented risk over industrial.

Portfolio Review

High Yield closed out 2019 with a strong fourth quarter, posting total returns of 2.61%, leading to a whopping 14.32% total return print on the year. After trailing higher quality BB and single-B issuers all year, CCCs found their footing and outperformed on the quarter, helped in part by prospects of a trade truce between the U.S. and China. Spreads ended the year at an OAS of 336 basis points, 37 bps tighter on the quarter and 190 bps tighter on the year, equating to an index yield-to-worst of 5.19%.

Contributors

Chemicals. Security selection in the sector was the largest contributor to performance for the quarter. The Fund gained from its overweight positioning in Tronox Inc, which benefitted from a rebound in cyclical trends. Additionally, our exit of Chemours Co contributed positively as the name underperformed due to liability issues related to legacy business units.

Pharmaceuticals. The Fund benefitted from an overweight and strong selection in the sector, notably its overweight to Teva Pharmaceuticals, which outperformed on better than feared earnings and some calming of headline risk.

Technology. Credit selection in the sector contributed to performance driven by overweight positioning in Commscope Inc., which benefitted from a rebound in sentiment surrounding an acquisition earlier in the year and by our position in SSL Robotics/Maxar, which rallied on asset sales and strong contracts.

Detractors

Energy. The Fund maintained an underweight to the Independent Energy, which rebounded strongly late in the quarter amid the bounce in CCCs and rising oil prices. We remain cautious on Energy overall and bearish on commodity prices.

Automotive. The Fund held an underweight position to the automotive industry given the impact from trade uncertainty in China and Europe as well as slowing global growth.

Current Strategy and Outlook

Credit fundamentals are reasonable as mixed data is showing some early signs of stabilization in manufacturing. Earnings growth has slowed but we expect a recovery in 2020. Additionally, credit statistics remain stable outside Energy given intentional leveraging and other typical late-cycle behavior has been limited. Technicals remain well supported as a rebound in issuance in 2019 was well absorbed and flows into the asset class were robust. Valuations look rich, but with the absence of a recession in 2020, the next market-wide default cycle remains beyond the horizon.

We continue to prefer single-B risk, with select opportunities among higher-rated CCC issuers. Given the continued strength of the U.S. consumer, we prefer domestically oriented sectors such as Leisure, Building Materials, and Retailers, as well as Media and Entertainment, which will benefit from the upcoming election cycle and Olympics. We are maintaining an underweight to Energy given our bearish view on natural gas and belief that the recent oil rally was overdone.

Companies mentioned in this report – percentage of portfolio investments, as of 12/31/19:

Tronox Inc	0.29%
The Chemours Company	0.00%
Teva Pharmaceuticals, Inc.	0.25%
Commscope, Inc	0.71%
SSL Robotics, Inc	0.38%

Portfolio holdings are subject to change on a daily basis.

The **Bloomberg Barclays High Yield Bond—2% Issuer Constrained Composite Index** is an unmanaged index that includes all fixed income securities having a maximum quality rating of Ba1, a minimum amount outstanding of $150 million, and at least one year to maturity. **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. Investments rated below investment-grade (or of similar quality if unrated) are known as **High-Yield Securities** or “junk bonds.” High-yield securities are subject to greater levels of credit and liquidity risks. High-yield securities are considered primarily speculative with respect to the issuer’s continuing ability to make principal and interest payments. **Call Risk** During periods of falling interest rates, a bond issuer may call or repay its high-yielding bonds before their maturity date. If forced to invest the unanticipated proceeds at lower interest rates, the Fund would experience a decline in income. Prices of bonds and other debt securities can fall if the issuer’s actual or perceived **Credit Risk** deteriorates, whether because of broad economic or company-specific reasons. In severe cases, the issuer could be late in paying interest or principal or could fail to pay altogether. **Derivative Instruments** are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect, which may increase the volatility of the Fund and reduce its returns. Other risks of the Fund include but are not limited to: **Liquidity Risk, Credit Derivatives Risk, Securities Lending Risk, Interest Rate Risk and U.S. Government Securities and Obligations 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.**

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. **Past performance is no guarantee of future results.**

The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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