Portfolio Manager Quarterly Commentary | September 30, 2018

Voya Intermediate Bond Strategy

> Strategy Overview

Voya's intermediate bond strategy seeks to maximize total return consistent with reasonable risk. The strategy invests across the full spectrum of the fixed income market and may invest up to 20% of its assets in securities rated below investment grade.

> Expected Contribution to Returns

High

Security Selection — Identify opportunities to add value by continuously reviewing fundamentals and relative attraction of eligible fixed income securities

Sector Allocation — Guided by macroeconomic themes, relative value analysis and security level research

Yield Curve — Weekly assessment of yield curve relative value — position portfolio as opportunities arise

Duration — Employ strategic view of interest rate risk — make moderate adjustments to capture incremental returns

Low

Key Takeaways

- For the reporting period, the Voya Intermediate Bond strategy outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond index[1]
- Sector allocation drove outperformance, while duration/yield curve structure modestly added
  - The greatest contribution came from an underweight of U.S. Treasurys, which sustained losses as interest rates rose during the quarter
  - Portfolio overweights in non-government sectors contributed to relative results
  - Allocations to high yield and emerging market debt, while at the lower ends of the strategy's historical ranges, contributed to outperformance
  - A small duration underweight, focused in a short German interest-rate position, added to performance as German rates followed the United States on the path higher
- Security selection did not impact returns for the period

Current Strategy and Outlook

With the fourth quarter in full swing, we expect a fourth rate hike from the Federal Reserve (Fed) at its December meeting and two more hikes over the course of 2019. Once the Fed achieves a positive real Fed funds rate (Fed funds less inflation), we believe the U.S. central bank will become more data dependent in 2019. Inflation risks, while biased higher, are unlikely to accelerate even with any pressures related to trade and tariffs. The trade picture, while easing in some respects on the heels of a new trade pact between the United States, Mexico and Canada, still carries substantial uncertainty with the obvious tail risk stemming from escalating tensions between the U.S. and China.

Against this backdrop, our focus on assets that can withstand downside volatility remains intact. We continue to favor U.S.-centric assets that potentially benefit from the underlying strength of U.S. fundamentals. As a result, we prefer securitized assets to corporate credit. Within securitized, we like floating-rate securities such as CLOs and sectors tied to the U.S., as well as sectors tied to the strengthening housing market such as non-agency residential mortgage-backed securities (RMBS). Additionally, we continue to like commercial mortgage-backed securities (CMBS), as the fundamentals of the commercial real estate market remain solid.

Fundamentals for corporate credit remain supportive given the solid fundamental backdrop driven by higher nominal economic growth. What's more, we believe that there are no immediate catalysts to turn the credit cycle. That said, the strong outperformance in the third quarter leaves spreads closer to full valuation and we are neutral on the sector. We have taken steps to redirect investments from longer-dated corporates to shorter-dated corporates to reduce potential downside risk. We maintain modest allocations to high yield, given its more U.S.-centric nature, over investment grade corporates.

Finally, we believe uncertainty and volatility will provide attractive idiosyncratic opportunities within emerging markets (EMs). In line with our views of looking to take advantage of opportunities without exposing portfolios to significant downside volatility, we are biased toward opportunities in hard currency over local currency EMs and sovereign markets over corporate markets, where liquidity can be less reliable.

[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.

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Portfolio Review

For the quarter, the strategy outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Index.

Security Selection

- Security selection did not impact overall performance for the period
- Within investment grade corporates, security selection within communications and energy added to returns
- Within securitized credit, selection among asset-backed securities (ABS), which included higher-yielding collateralized loan obligations (CLOs), added to performance. Also contributing was security selection among commercial mortgage-backed securities (CMBS), which had a yield bias in non-agency transactions
- Emerging market security selection detracted from performance. During the quarter we reduced the strategy's investments in local currency emerging sovereigns

Sector Allocation

- Sector allocation was the predominant driver of outperformance for the period, especially an underweight of U.S. Treasury securities
- Overweights of non-government sectors outperformed Treasurys during the quarter's rising rate environment
- Non-agency residential mortgage-backed securities (RMBS) continued to outperform and contributed to results for the quarter
  - Performance was underpinned by a strong housing market and buoyant U.S. consumer
- Allocations to high yield and emerging markets (EM) also added to returns
  - High yield outperformed as the sector has a lower sensitivity to moves in U.S. rates and is more insulated from global volatility
  - EM rebounded as progress was shown on the trade front between the U.S. and Mexico as well as a calming in market conditions after a punishing second quarter underperformance

Yield Curve/Duration

- Yield curve/duration was a modest contributor for the period
  - We began the quarter with a small duration underweight, focused in a short German interest rate position. As German rates followed the U.S. on the path higher, we took profit in mid-September and ended the quarter with duration in line with the benchmark

Portfolio Positioning

Asset Class	Current Position	Rationale
Global Interest Rates	1	Look for higher yields in U.S. and Europe; steady in U.K. and Japan
Global Currencies	4	U.S. dollar to strengthen vs. pound and yen, weaken vs. euro and emerging markets
Investment Grade Corporates	3	Neutral on valuations, favor short-dated corporates vs long-dated corporates
High Yield	4	Option-adjusted spread (OAS) is close to full value; we are maintaining modest allocation
Securitized Assets	4	Non-agency RMBS supported by improving housing market. Fed actions could impact agency mortgages
Emerging Markets	4	Attractive opportunities for select countries, but momentum beginning to fade

1 = maximum underweight, 5 = maximum overweight

The **Bloomberg Barclays U.S. Aggregate Bond Index** is a widely recognized, unmanaged index of publicly issued investment grade U.S. Government, mortgage-backed, asset-backed and corporate debt securities. The Index does not reflect fees, brokerage commissions, taxes 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. **High-Yield Securities**, or "junk bonds," are rated lower than investment-grade bonds because there is a greater possibility that the issuer may be unable to make interest and principal payments on those securities. To the extent that the Fund invests in **Mortgage-Related Securities**, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. 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. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. As **Interest Rates** rise, bond prices fall, reducing the value of the Fund's share price. Other risks of the Fund include but are not limited to: **Credit Risks, Extension Risks, Investment Models Risks, Municipal Securities Risks, Other Investment Companies' Risks, Prepayment Risks, Price Volatility Risks, U.S. Government Securities and Obligations Risks, Debt Risks, Liquidity Risks, Portfolio Turnover Risks, and Securities Lending 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 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.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds off ered through a retirement plan, carefully before investing. The prospectuses/prospectus summaries/information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 386-3799. Please read the information carefully.

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