Voya Strategic Income Opportunities Fund

Unconstrained Fixed Income

Strategy overview

Unconstrained and flexible approach, investing broadly across the global debt markets.

Key Takeaways

- For the quarter, the strategy outperformed its benchmark, the Merrill Lynch LIBOR Three-Month Constant Maturity index
- After the COVID-19 market dislocation, fixed income markets staged a significant recovery in the second quarter
- Sector allocation contributed the most to relative performance followed by security selection, rates and duration, which also added over the period

Portfolio Review

After the COVID-19 market dislocation, fixed income markets staged a significant recovery in the second quarter. In April and May, the power of the Federal Reserve (the "Fed") to move markets was on full display. On top of direct purchases of corporate bond ETFs, corporate credit lending facilities have proven effective in fostering spread tightening and in keeping the capital markets flowing for corporate borrowers. As a result, corporate credit has recovered faster than securitized credit and the investment-grade corporate bond market has seen record issuance during the first five months of 2020, totaling $1 trillion in new issuance year-to-date.

While we pivoted our portfolios to capture what we viewed as a tactical opportunity in corporate credit, our bias remains skewed towards securitized credit and the U.S. consumer. From a recovery perspective, securitized credit has lagged; fiscal- and monetary-policy-driven spending and programs directed towards securitized credit markets have been slower to become active. Longer term, we continue to believe that securitized credit represents attractive exposure to the relatively strong fundamentals of the U.S. consumer.

Sector Allocation and Duration/Curve Positioning

- Outperformance was driven primarily by the strategy's allocation to securitized credit.
- Non-agency RMBS and credit risk transfer (CRT) securities were the most significant contributors to performance.
- Sector allocations to CMBS and ABS also added to returns.
- CRT spreads tightened significantly over the period as securitized credit sectors stabilized after the March sell-off.
- The strategy's allocations to IG corporates, high yield and bank loans were additive to performance as corporate spreads tightened over the period.
- Emerging market allocations also added to performance.
- Currency positioning across G-10 currencies modestly added during the quarter.
- Duration positioning added to performance as rates declined and spreads tightened.

Security Selection

- The strategy's security selection was positive. In securitized, our exposure to more credit-sensitive non-agency CMBS investments was the largest detractor.
- Positive security selection within ABS was largely attributable to higher-yielding CLOs, while investments in CMOs also added.
- Positive security selection to IG corporates was offset by high yield corporates, which detracted.

Current Strategy and Outlook[1]

What letter shape is the economic recovery? This is the question on the mind of every investor. Certainly, our ability to reopen the U.S. economy without triggering an increase in infections will be critical. However, evaluating how effective we are in this pursuit will require time.

In the interim, economic data is heavily skewed and hard to forecast, as we saw in the June jobs report. The better than expected employment report had the unemployment rate falling from 13.3% in May to 11.1% in June. In addition, employers added 4.8 million jobs signaling improving economic data. Of course, no one is pointing to the jobs report as evidence of a V-shaped recovery—too much uncertainty remains. In relation to the reopening of the economy, we continue to expect volatility on the path ahead.

What is far more certain is the Federal Reserve's continued efforts to do "whatever it takes" to support the economy and ensure the stability of capital markets. In April and May, the power of the Fed to move markets was on full display. To date, most of the policy response has been targeted at municipal and corporate credit markets. On top of direct purchases of corporate bond ETFs, corporate credit lending facilities have proven effective in fostering spread tightening and in keeping the capital markets flowing for corporate borrowers. The investment-grade corporate bond market has seen record issuance during the first five months of 2020 and already totals $1T in new issuance year-to-date.

Moving forward, we believe the global growth recovery will be rocky and asynchronous with government support and pent-up demand fostering a substantial initial retracement. We also expect that stimulus will temporarily bridge the income gap but will recede before rehiring has fully taken place, exposing global growth to a stubbornly persistent weakness in demand that will limit the pace of the recovery.

[1] The firm relies upon quantitative models for certain investment strategies in developed currency markets.

The **Bank of America Merrill Lynch U.S. Dollar Three- Month LIBOR Constant Maturity Index** is designed to track the performance of a synthetic asset paying LIBOR to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day rate) and rolled into a new instrument. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot directly invest in an index.** BofA Merrill Lynch® indices used with permission, are provided "AS IS", without warranties, and with no liability. BofAML does not sponsor, endorse, review, or recommend Voya or its products or services.

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 employs a quantitative investment process. The process is based on a collection of proprietary computer programs, or models, that calculate expected return rankings based on variables such as earnings growth prospects, valuation, and relative strength. Portfolio construction uses a traditional optimizer that maximizes expected return of the portfolio, while managing tracking error.

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

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