Portfolio Manager Quarterly Commentary | September 30, 2018

Voya Strategic Income Opportunities Fund

> Strategy Overview

Voya's Strategic Income Opportunities strategy seeks greater return consistency through income and capital appreciation, across all market cycles, unconstrained by benchmark limitations. The strategy emphasizes loss avoidance.

> Expected Contribution to Returns

High

Active Asset Allocation — seek opportunities across global fixed income sectors; analyze sector relative value, downside skew and asymmetric return potential to identify tactical opportunities

Security Selection — top-down and bottom-up analysis driven by fundamental research, leverages Voya's experienced sector specialists

Duration Management — flexible duration profile from -2 to 6 years allows the strategy to seek an optimal mix of interest rate and credit risk, which can adjust to market conditions

Currency Management — proprietary quantitative modeling identifies relative value opportunities and adapts to prevailing currency regimes

Low

Key Takeaways

- We maintain our preference for "spread" assets such as securitized assets, senior bank loans and high yield, which could benefit from an improving global growth picture
- For the quarter, the strategy outperformed its benchmark, the Merrill Lynch LIBOR 3-month Constant Maturity index
- Asset allocation generated most of the outperformance, followed by security selection
- Duration and yield curve positioning detracted from returns

Current Strategy and Outlook

The themes from the second quarter rolled into the third: volatility has returned, and we believe it is here to stay. At this stage in the cycle, volatility creates opportunity; we believe that asset allocation, while always important, becomes an even greater focus. We maintained our positive stance on securitized assets, most notably collateralized loan obligations (CLOs), non-agency residential mortgages and commercial mortgage-backed securities (CMBS), while de-emphasizing emerging markets. Within corporate credit, spreads tightened on the backdrop of solid earnings and strong business sentiment. Political posturing around trade agreements continued throughout the quarter. Still, spreads absorbed some of the increase in rates and generally took the trade noise in stride, as fundamentals remained positive.

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 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.

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Portfolio Review

Active Asset Allocation

- Non-agency residential mortgages contributed to performance, largely driven by our allocation to credit-risk-transfer bonds
  - We believed RMBS would continue to benefit from a recovering housing market. Upside potential remains as credit availability increases, home ownership bottoms and demographic shifts continue. These dynamics should support sub-sectors such as credit risk transfer securities (CRTs)
- High yield sector allocation contributed as shorter duration and strong fundamentals led to spread tightening
- Bank loan sector allocation was the largest contributor to performance as shorter duration and spread sectors performed well
  - Bank loan fundamentals continue to trend mildly positive, however, the technical environment may leave risk assets more vulnerable to a pullback

Security Selection

- Selection among CMBS contributed to portfolio results
  - The strategy benefited from security selection focused on the non-senior part of the capital structure and interest-only securities
- Selection among asset-backed securities (ABS), particularly CLOs, contributed to results
- Within high yield credit, security selection in industrials added to returns
- Selection within emerging market sovereign detracted slightly

Duration/Curve and Currency Management

- The strategy maintained a neutral duration stance, which detracted from results for the period
  - The U.S. yield curve bear-flattened as the Fed hiked again in September
- U.S. central bank tapering continued
- Currency positioning was positive for the period
  - The strategy's long positioning in the Australian dollar and British pound, while short the euro, added to relative results

Portfolio Positioning

Asset Class	Current Position	Rationale
Global Interest Rates	2	Look for higher yields in U.S. and Europe; steady in U.K. and Japan
Global Currencies	2	U.S. dollar to weaken vs. emerging markets and most developed FX
Investment Grade Corporates	2	Modest underweight as issuance is likely to return and weigh on spreads
High Yield	3	Option-adjusted spread (OAS) is through fair value; we are taking profit opportunistically
Securitized Assets	4	Non-agency RMBS supported by improving housing market. Fed actions could impact agency mortgages
Senior Loans	3	Attractive relative value opportunities given improving fundamentals and rising rate environment
Emerging Markets	3	Attractive opportunities for select countries, but momentum beginning to fade

1 = maximum underweight, 5 = maximum overweight

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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.

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