



Voya: The QDIA Manager of Choice

Using Voya target date funds as qualified default investment alternatives may benefit both retirement plan participants and sponsors.

TDFs may capture two-thirds of DC investment flows within the next five years

DOL Aims for Better Retirement Outcomes for Employees

With passage of the Pension Protection Act (PPA) in 2006 and subsequent adoption of the Regulation Relating to Qualified Default Investment Alternatives (QDIA) in 2007, the Department of Labor (DoL) acknowledged the structural shift towards defined contribution (DC) plans as the primary savings vehicles of employee retirement security. The PPA addressed critical issues that were seen as impediments to improving retirement readiness: getting employees to save more, and encouraging appropriate investments for long-term savings.

The PPA seeks to increase retirement savings by

- Providing “safe harbor” fiduciary relief from fiduciary liability for investment outcomes to plan sponsors who directed savings into a qualified default investment alternative (QDIA) that best serve the retirement needs of workers, if plan sponsors satisfy certain conditions (see below)
- Approving three primary types of QDIAs: target date funds, managed accounts and balanced funds¹
- Encouraging employers to adopt automatic enrollment and automatic escalation of contributions

Though using a QDIA gives safe harbor from financial outcomes, the PPA does not absolve plan sponsors of the duty to prudently select and monitor QDIAs.

Target Date Funds: the QDIA of Choice

Since the DoL guidance, target date funds (TDFs) have become the investment of choice for more than 70% of plans that feature a QDIA.² Target date strategies are projected to garner 56-67% of all flows to defined contribution plans over the next five years,³ making them one of the most important investment options for participants to understand and for plan sponsors to research, select and monitor.

One reason why TDFs have become so popular is that they simplify decision-making for participants, which helps them stay invested for the long term. The target date is the approximate date when investors plan to start withdrawing their money.⁴ Second, they offer broadly diversified portfolios that systematically adjust to age-appropriate risk-return levels throughout employees’ working lives into retirement. In contrast to the static asset allocations of balanced accounts, TDFs’ dynamic portfolio construction, delivered at a similar cost, can relieve plan sponsors of the need to periodically adjust allocation policies. Compared to managed account QDIAs, TDFs are often more cost-effective and more successful in overcoming participant inertia, which can have a perpetual negative impact on participant account values.

Safe Harbor Relief

The PPA grants safe harbor relief from fiduciary liability for investment outcomes, if plan sponsors satisfy these conditions:

- Assets are placed in a QDIA as defined in the Act
- A QDIA must either be managed by an investment manager, plan trustee, plan sponsor or a committee comprised primarily of employees of the plan sponsor that is a named fiduciary, or be an investment company registered under the Investment Company Act of 1940. What’s more, a QDIA generally may not invest participant contributions in the employer’s securities.
- Participants must have been given the opportunity to direct their investments, but did not give directions
- Participants must be given 30 days’ advance notice of how their investments will be handled if they don’t give directions, and annually thereafter at least 30 days in advance of each subsequent plan year
- Fiduciaries must provide participants with all materials related investment in the QDIA, such as account statements, prospectuses and proxy materials
- Participants must be allowed to direct investments out of a QDIA, without penalty, to any available investment alternative — at least quarterly
- The rule limits the fees that can be imposed on participant who opt out of participation in the plan or who decide to direct their investments
- The plan must offer a “broad range of investment alternatives” as defined in section 404(c) of ERISA

¹ A short-term capital preservation product may be used for the initial 120 days of investment in the plan.

² Source: Defined Contributions Trends Survey, Callan Investments Institute; April 2015

³ Source: Cerulli Associates, “Defined Contribution Distribution 2015”

⁴ The principal value of the fund(s) is not guaranteed at any time, including at the target date.

Not all Target Date Funds are Alike

Beneath their apparent simplicity lie divergent investment methodologies which can deliver dramatically different results over time. Plan sponsors need to understand the major differences among TDFs in order to select the TDF that best matches the needs and characteristics of their plan and participants. The key factors to consider are

- Glide path construction, i.e., the equity and bond mix throughout the life of the TDF
 - Sufficient wealth generation during the accumulation phase
 - How are assets managed near and in retirement (“to” retirement or “through” retirement)
- Asset allocation
 - Degree of diversification
 - Dynamic or static process
- Underlying investment managers and portfolio construction approach
 - Open to multiple firms or only proprietary managers
 - Use of active managers, passive managers or a blend of both

A Helping Hand: DoL Guidance on Selecting and Monitoring TDFs

Under the Employee Retirement Income Security Act of 1974 (ERISA), a plan sponsor must act in the best interest of plan participants. When selecting a TDF, it does so as a fiduciary and must employ a prudent process in the TDF selection and monitoring. Given the plethora of TDFs methodologies and the significance of the selection, the DoL issued a bulletin⁵ in 2013 intended to help plan sponsors with their decision-making process. Recommendations include:

- **Consider whether an open-architecture or custom target date fund would be a better fit.** Some TDF investment managers only offer pre-packaged products that use only their own funds as the TDF underlying investments. An open-architecture or custom TDF can help minimize single-investment manager risk by including funds that are managed by fund managers other than the TDF provider itself.
- **Establish a process for comparison and selection including reviewing participant population.** Consider how well the TDF’s characteristics align with eligible employees’ ages, benefits, likely retirement dates, withdrawal rates, etc.
- **Periodically review the plan’s selected TDFs** to ensure that they should continue to be offered. At a minimum, the review process should include examining whether there have been any significant changes in the information fiduciaries considered when the option was selected or last reviewed.
- **Understand the fund’s investments** — asset class allocation, underlying investments and asset classes, principal strategies and risks — and how these will change over time. Pay particular attention to the fund’s glide path — when the fund will reach its most conservative asset allocation and whether that will occur at or after the target date.
- **Understand the fees and expenses for the TDF.** Added expenses may be worth it, e.g., for asset allocation, rebalancing or access to special investments that can smooth returns in uncertain markets, but it is important to ask.
- **Develop effective employee communications** that help participants understand TDFs as a retirement investment option, particularly the TDFs available in the plan.
- **Document the selection process.** Retain records of how your plan’s fiduciaries reached decisions about individual investment options.

⁵ Source: “Target Date Retirement Funds — Tips for ERISA Plan Fiduciaries,” U.S. Department of Labor, Employee Benefits Security Administration, February 2013.

Voya Target Date: the QDIA Choice to Help Keep Retirement Goals on Track

Voya Investment Management is the investment management arm of Voya Financial, a leader in retirement services and investing. With over 40 years of experience, our investment platform has been carefully built to meet the long-term needs of our clients, supported by more than 200 investment professionals managing over \$210 billion in assets.

Reliability is the cornerstone of our investment philosophy:

- Our long-term perspective favors sound investment principles that are well aligned with the priorities of retirement investors
- Our risk-efficient process seeks to maximize returns while minimizing risk
- Our focus is on consistent delivery of strong results

Voya's target date funds were designed with participants' needs and behaviors in mind; we believe they are in accord with DoL guidance and can help plan sponsors feel confident that they're making an appropriate choice for their plan. Our TDFs are designed to balance the evolving risk-return profiles of participants as they progress through their different stages of life, to maximize the probability of a successful retirement.

Voya Investment Management has been selecting and monitoring managers in asset allocation portfolios for more than 26 years. Our Multi-Asset Strategies and Solutions (MASS) team applies a process that incorporates numerous checks and balances to help maximize market opportunities while minimizing unnecessary risk. The MASS team consists of over 25 dedicated investment professionals employing a rigorous investment process for the Voya TDFs that combines quantitative and fundamental analysis, including macroeconomic forecasting, proprietary optimization techniques and multiple layers of risk management. The team has over 10 years of experience in designing and managing world-class target date funds with the following unique features:

- Sophisticated glide path design that seeks to optimize accumulation potential and wealth protection for participants
- Broad diversification across traditional, non-traditional and alternative asset classes
- Tactical asset allocation flexibility to benefit from active risk management and potentially higher returns
- Open-architecture approach that blends active and passive strategies (pertains to Voya Target Date suites that invest in active managers)

Voya's target date funds were designed with participants' needs in mind

One Solution for the Different Stages of a Participant's Savings Life

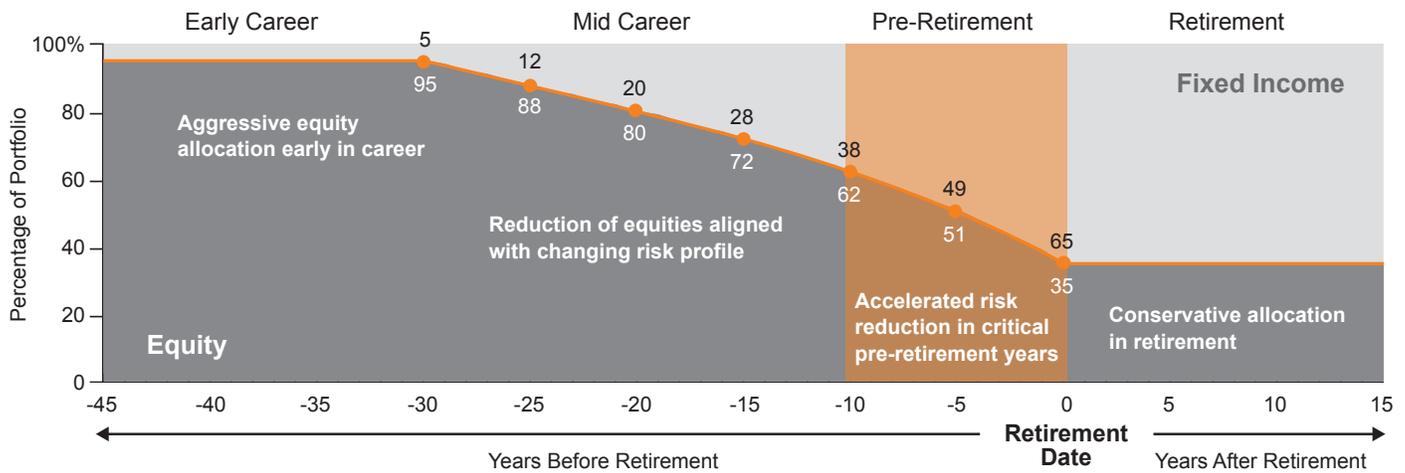
				
Life Stage	Young Savers (<40)	Mid-Career (40–55)	Nearing Retirement (55–65)	In Retirement (>65)
Key Objective	Maximize wealth accumulation	Reduce investment risk as savings grow	Reduce volatility to preserve assets	Protect assets and generate income that lasts as long as one lives
Key Risks	Not saving enough	Volatility or low returns	Significant capital losses and inflation	Income needs outstrip assets
Voya Target Retirement Funds	Maximize equity exposures to give investors a head start on accumulating for retirement	Slowly and steadily reduce equity exposure over time taking into account market conditions	Continue to trim exposure to risky assets such that most conservative allocation occurs at retirement	Diversify and actively manage asset mixes to lead to potentially greater income stability

Sophisticated Glide Path Designed to Optimize Accumulation Potential in Early Years with Wealth Protection in Later Years

In general, younger participants can afford to take on more investment risk in exchange for greater potential returns. As participants approach retirement, however, their risk profiles must become more conservative to protect the accumulated wealth. The manner in which a portfolio adjusts to this change in risk tolerance over time is known as its glide path and is a key differentiating feature among the many available target date funds — and a primary determinant of their returns and volatility.

In the early years of participants' careers, Voya TDFs seek to maximize asset accumulation by taking more aggressive equity positions, relative to the industry average. The funds shift emphasis to asset protection in later years, reducing risk and ultimately reaching their most conservative equity allocation of 35% at retirement to help investors hold onto what they have accumulated in a lifetime of saving.

Voya's Glide Path Seeks Growth in the Early Years, Wealth Protection in Later Years.



Source: Voya Investment Management. This chart is for illustrative purposes only and may not reflect the current allocations of the Voya Target Retirement Funds. This illustration is intended to show how the Voya Target Retirement Funds transition over time.

Broad Diversification with Tactical Flexibility: Active Allocations for Each Stage of Retirement Planning

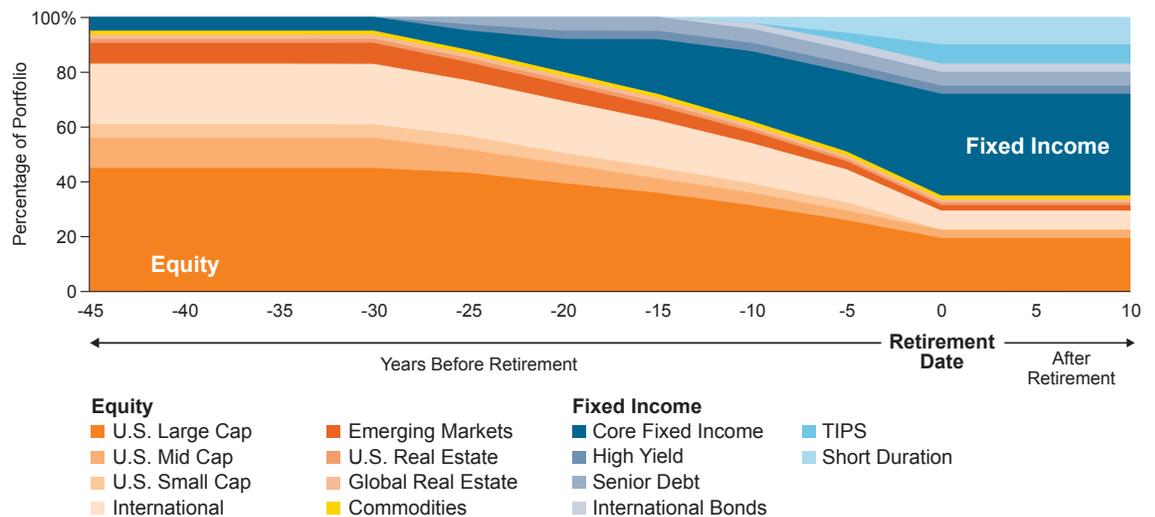
Effective TDF portfolio management entails more than adjusting the weightings of stocks and bonds.

Because target date funds span a participant's entire life cycle, the different risks faced by participants change in degree as participants work, save and eventually retire. In order to optimize asset allocation throughout the participant's experience, Voya drills down into sub-asset classes to identify investments best suited for each stage of the participant's life cycle.

For example, early in participants' careers, as part of its greater exposure to equities a Voya TDF might invest more in riskier equity classes such as U.S. small cap and emerging markets. Despite the greater potential for short-term volatility, these investments also offer greater potential for return, given a sufficiently long time horizon. As participants move closer to retirement, Voya addresses the need to preserve wealth — not just by reducing equity exposure but also by shifting into less-volatile asset classes and emphasizing income-producing assets such as high yield bonds and other forms of corporate credit. The funds might also employ shorter-term inflation hedges, if appropriate, to minimize the impact of a volatile interest rate environment.

In addition, given the long-term nature of these retirement portfolios, we do not believe a static approach is appropriate. Voya's TDFs will make risk-aware, tactical asset allocation shifts throughout the year to reflect short to intermediate-term market views. These tactical shifts allow participants to benefit from active risk management and potentially higher returns.

Voya TDFs Seek to Reduce Risk through Broader Diversification.



Source: Voya Investment Management. This chart is for illustrative purposes only and may not reflect the current allocations of the Voya Target Retirement Funds. This illustration is intended to show how the Voya Target Retirement Funds transition over time.

There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio.

Open-Architecture/Multi-Manager Approach with Blend of Active and Passive Strategies

Voya TDFs suites that invest in active managers offer access to an extensive universe of underlying funds managed by leading investment managers. This multi-manager approach offers access to best-in-class investment managers across both traditional and alternative asset classes, regions and investment styles. Manager diversification reduces the risk that a single manager's performance challenges could jeopardize performance across an investment program. What's more, it allows Voya TDFs greater flexibility to add new asset classes and investment styles in response to evolving plan needs.

Within the MASS team, there is a dedicated team of seasoned analysts responsible for selecting and monitoring "best-in-class" managers for each asset class to create diversified investment options for participants. This Manager Research and Selection Team has over 10 years of experience working within an open architecture target date framework, and consists of career research analysts who average more than 20 years of industry experience. Team members are assigned specific asset class responsibilities and are supported by three quantitative analysts.

In addition, a mix of active and passive strategies are utilized to draw on the alpha generating potential of proven institutional asset managers while delivering a robust product at an attractive fee level.

When determining the active and passive mix for our target date fund for each asset class, we analyze:

- **Alpha opportunity set within each asset class** – Historically, how has active management performed relative to the passive alternative after fees? Do certain market environments favor active vs. passive in a particular asset class?
- **Up/down capture management across the glide path** – Do active or passive managers tend to provide better upside or downside capture ratios and, if so, how can we take advantage of that within different target date vintages?
- **Liquidity management** – Does the active or passive vehicle offer enough liquidity?
- **Fee constraints** – What are the overall fee constraints of the target date suite?
- **Availability and effectiveness of passive replication strategies** – How effective is the passive vehicle at replicating the benchmark returns (high or low tracking error?) and at what cost?
- **Credit exposure management** – How effective are the fixed income managers at adjusting their credit exposure throughout the business cycle?

Access to
best-in-class
investment
managers

Sample of Investment Managers Found in Voya's Target Date Funds



Equity | Fixed Income | Multi-Asset Strategies & Solutions

Voya Investment Management is the asset management arm of Voya Financial, a leader in retirement services and investing. Our investment platform has been carefully built to help meet the long-term needs and goals of our clients, supported by more than 200 investment professionals. Our deep understanding of managing risk exposure and capturing unrecognized investment potential through intense fundamental research and skilled portfolio construction has delivered a consistency of results across continuously evolving market cycles. Today, we are proud to manage more than \$219 billion in assets for investors.¹

82% of our assets outperformed their benchmark or peer median on a 3-year basis.²

87% of our assets outperformed their benchmark or peer median on a 5-year basis.²

86% of the time our portfolios outperformed their benchmark on a rolling 3-year basis.³

Past performance does not guarantee future results.

¹ As of 03/31/17, Voya IM assets of \$219 billion include proprietary insurance general account assets of \$89 billion calculated on a market value basis. Voya IM assets, as reported in Voya Financial, Inc. SEC filings, include general account assets valued on a statutory book value basis and total approximately \$213 billion. ² Metrics presented use pre-determined criteria to measure each individual investment product based on its ability to either A) rank above the median of its peer category; or B) outperform its benchmark index on a gross-of-fees basis. Generally speaking, the results for unconstrained, fully-active investment products were based on relevant peer category rankings while those of "enhanced index", rules-based, risk-constrained, or client-specific investment products were based on benchmark-relative performance. Metrics are calculated on an annualized basis and includes mutual funds as well as pooled and separately-managed institutional portfolios that fall within our traditional (long-only) commercial book of business that remain open as of 03/31/17. If terminated and other accounts had been included, results may have differed from that shown. ³ Metrics are based on observations of rolling 3-year annualized returns over the last 30 months, calculated on an annualized, gross-of-fees basis, and includes mutual funds as well as pooled and separately-managed institutional portfolios that fall within our traditional long-only commercial book of business that remain open as of 03/31/17. If terminated and other accounts had been included, results may have differed from that shown. Source of performance returns and peer medians is Voya Investment Management but is based in part on data from Morningstar (mutual funds) and eVestment (institutional composites). Further detailed information regarding these calculations is available upon request.

A reliable partner committed to reliable investing®



For more information on **Voya Target Retirement Fund Series**, contact your Financial Professional or visit www.voyainvestments.com.

Principal Risks

The funds discussed may be available to you as part of your employer sponsored retirement plan. Fees and performance will vary from those detailed here. Please call your benefits office for more information.

As with any portfolio, you could lose money on your investment in a target date fund. Although asset allocation seeks to optimize returns given various levels of risk tolerance, you still may lose money and experience volatility. Market and asset class performance and the assumptions used form the asset allocations for the target date funds. There is risk that you could achieve better returns in an underlying portfolio or other portfolios representing a single asset class than in a target date fund. Important factors to consider when planning for retirement include your expected expenses, sources of income, and available assets. Before investing a target date fund, weigh your objectives, time horizon and risk tolerance. Target date funds invest in many underlying portfolios which are exposed to the risks of different areas of the market. The higher a portfolio's allocation to stocks, the greater the risk. Diversification cannot assure a profit or protect against loss in a declining market.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Fund's prospectus, or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read all materials carefully before investing.

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