The Case for Short-Duration High Yield Bonds

Portfolio Manager Jim Dudnick discusses how, where and when to consider short-duration high yield bonds—and what makes Voya Short Duration High Income Fund stand out.

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Key takeaways

- The investment case for US high yield is compelling—appealing total return potential supported by stable credit fundamentals.
- Adding US high yield bonds to a core fixed income allocation has historically improved risk/reward profiles, but short-duration high yield in particular can help expand the efficient frontier.
- Get to know Voya Short Duration High Income Fund and its goal of delivering strong risk-adjusted performance. Consider using it to complement a core fixed-income allocation, or as a complement to full-market high yield.

Why is US high yield attractive today?

Looking at the broader US high yield market, we see multiple reasons why this is a compelling asset class. With yields over 7%, high yield offers the potential for equity-like returns but with less volatility.[1] When we look at credit fundamentals, we also see strong support for the high yield market.

- **Credit metric stability:** Net leverage remains below the long-term average, and interest coverage is settling above the long-term average. The result is a high yield bond market that has a higher credit quality skew and is better positioned to weather an economic slowdown (should it occur).
- **Muted default rate expectations:** In addition to balance sheet health, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. Given these factors, the default rate for US high yield should stay below the historical average of 3-4%.

Why invest in the short end of the high yield market?

We see three primary benefits to investing in the front end of this asset class:

1. **A better risk/return ratio.** The front end of the US high yield market (as measured by the 1-3 Year US High Yield Index) has provided comparable returns to the broader US high yield market, but with significantly lower volatility (Exhibit 1).

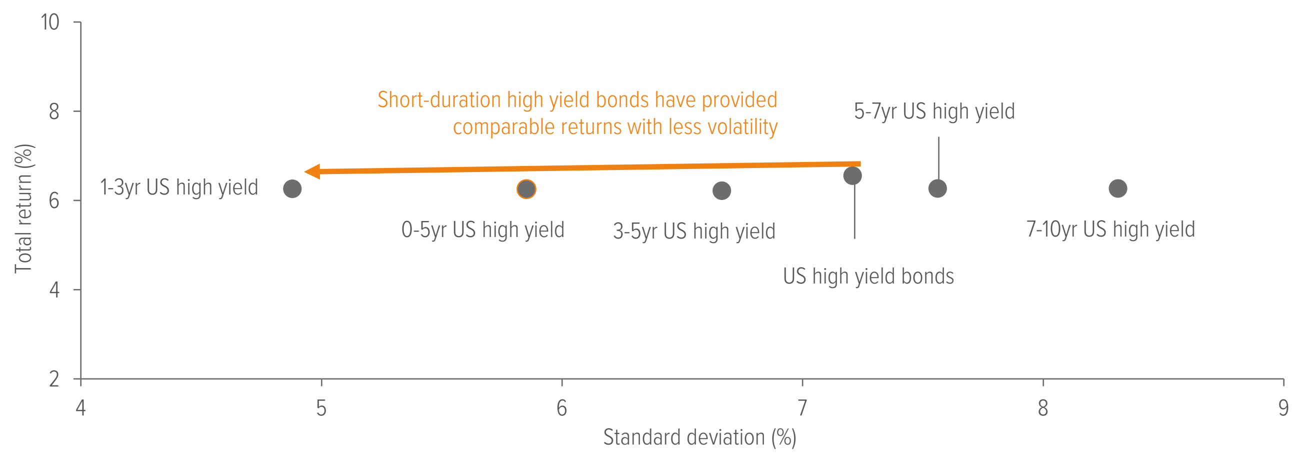
[1] Source: Bloomberg, 12/24. High yield bonds are represented by the ICE BofA US High Yield Index.

2. **An expanded efficient frontier.** Investors have long known that adding US high yield bonds to their core fixed income allocations can improve outcomes and expand the efficient frontier. But many investors don't know that short-duration high yield has done a particularly good job of expanding the efficient frontier (Exhibit 2).

3. **A compelling yield-to-duration tradeoff.** Record-high new issuance and refinancing activity in 2020 and 2021 pushed coupons and interest expense down and maturities out, creating an even more compelling yield-to-duration trade-off at the short end of the US high yield market (Exhibit 3).

Exhibit 1: High yield bonds have historically been less risky closer to maturity, without giving up much return

11/01/09 through 12/31/24



As of 12/31/24. Source: Voya Investment Management, FactSet, ICE Data Services. **Past performance is not indicative of future results.** This statement reflects performance and characteristics for the time period shown, results over a different time period may have been more or less favorable. See index associations and additional disclosures at the end of this document. Investors cannot invest directly in an index. Index returns are presented as net returns, which reflect both price performance and income from dividend payments, if any, but do not reflect fees, brokerage commissions or other expenses of investing.

Exhibit 2: Adding short-duration high yield has boosted returns and lowered volatility

11/01/09 through 12/31/24

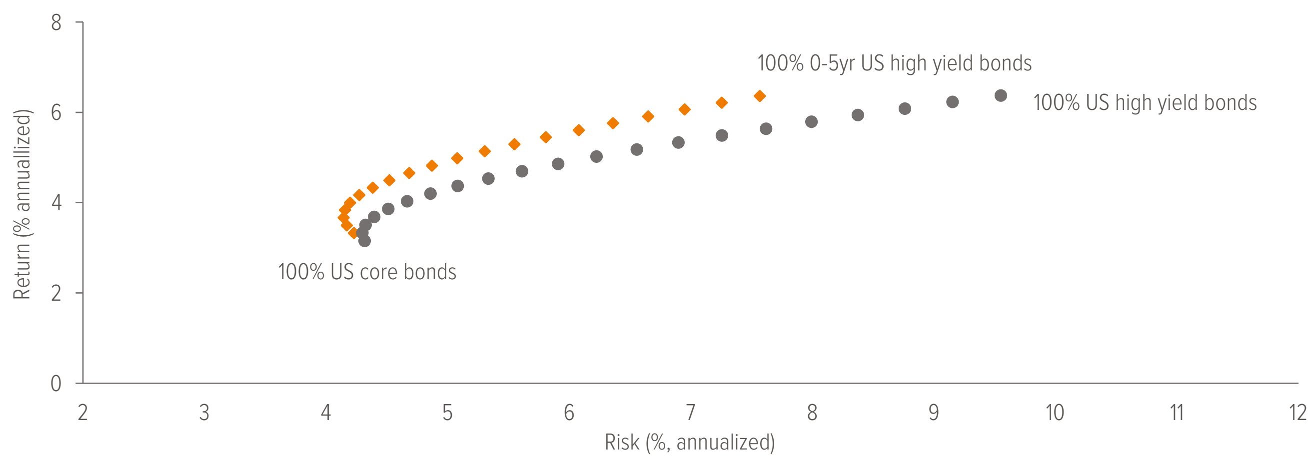


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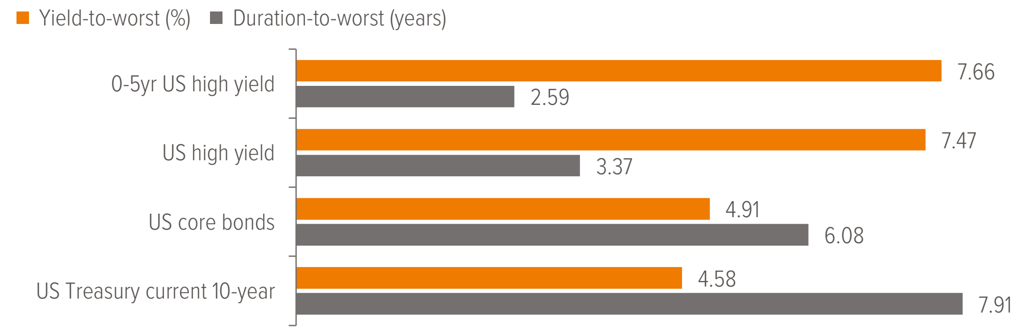
Exhibit 3: Short-duration high yield has historically offered the greatest yield to duration tradeoff

11/01/09 through 12/31/24



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Get to know Voya Short Duration High Income Fund

Philosophy

Active management focused on in depth industry assessment, thorough fundamental analysis, and rigorous credit research can uncover compelling investment opportunities and minimize portfolio volatility, producing superior risk adjusted performance.

Team

- Seasoned investment team with dedicated portfolio management
- Aims to achieve strong risk adjusted performance
- Consistent application of investment philosophy over multiple market cycles

Fund[2]

- Objective: High level of current income with lower volatility than the broader high yield market
- Outcome oriented approach
- Focuses on shorter duration issues to help minimize interest rate risk and utilizes a rigorous credit research process to help minimize potential credit losses

How Voya Short Duration High Income Fund addresses three key risks

Interest rate risk, credit risk and liquidity risk are the main risks that cause a bond to move up or down in price

Here is how Voya Short Duration High Income Fund addresses these risks:[3]

Interest rate risk	Credit risk	Liquidity risk
Target duration 1.5–2 years	Active management	US issuer bias over global
Negative correlation to 10-year US Treasury	Fundamental/ Credit analysis	Preference for larger seasoned issues

[2]Source: Voya Investment Management, as of 09/30/24. The characteristics above are typical for a US Short Duration High Income portfolio. During any particular period, the portfolio characteristics may vary from that shown above.

[3]See Important disclosure at the end of this document. Source: Voya Investment Management. The diagrams and statements above reflect the typical investment process applied to this fund. At any given time, other criteria may affect the investment process.

Where does Voya Short Duration High Fund fit in investor portfolios?

The Fund seeks consistent income and strong risk-adjusted performance compared with fixed income—both core bonds and high yield.

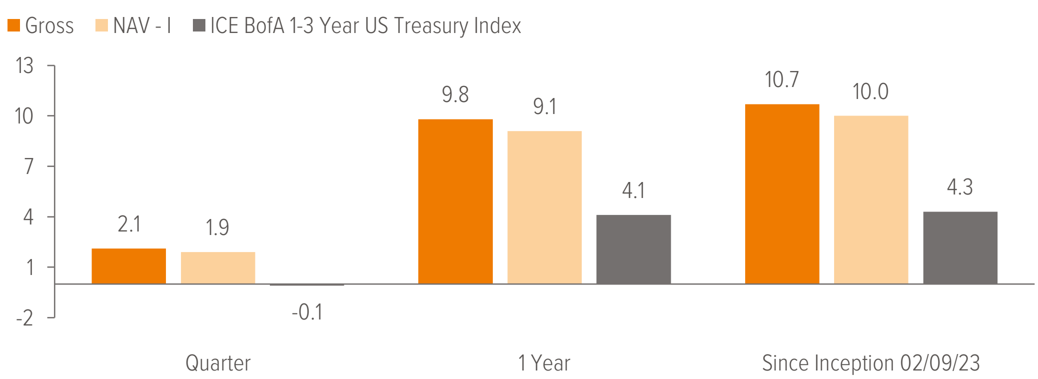
As a result, one way to use Voya Short Duration High Income Fund is to complement an allocation to full-market high yield. The Fund seeks a lower beta to the high yield market, potentially enhancing portfolio diversification by offering a narrower range of annual returns, and providing an asymmetric return profile.

Voya Short Duration High Income Fund can also be a good complement to a core fixed income allocation. The Fund seeks a low correlation to core bonds to help diminish the magnitude of negative performance outcomes and reduce overall volatility—all while seeking enhanced returns and improved positioning with a higher yield and a lower duration.

Voya US Short Duration High Income

Summary	Capital preservation emphasis, investing in high-yield corporate debt while seeking to minimize credit, liquidity, and interest rate risks.
Objective	The Fund seeks a high level of current income with lower volatility than the broader high yield market.
Inception–Class I	February 9, 2023
Strategy/Fund assets	$4.6 billion / $224.4 million
Portfolio managers	James Dudnick, CFA; Steven Gish, CFA; Justin Kass, CFA
Benchmark	ICE BofA 1-3 Year US Treasury Index

Annualized Returns (Class I shares)



As of 12/31/24 unless otherwise noted. Past performance does not guarantee future results. See disclosure for more important information. Performance numbers for time periods greater than one year are annualized. Current performance may be lower or higher than the performance information shown. The investment return and principal value of an investment in the portfolio will fluctuate, so that your shares, when redeemed, may be worth more or less than their original cost. You may obtain performance information current to the most recent month-end by visiting www.voyainvestments.com. Returns for the other share classes will vary due to different charges and expenses. Performance assumes reinvestment of distributions and does not account for taxes. SEC fund returns assume the reinvestment of dividends and capital gain distributions and include a sales charge. Net Asset Value fund returns assume the reinvestment of dividends and capital gain distributions. Results would have been less favorable if the sales charge were included. Source: Voya Investment Management.

Voya Short Duration High Income Fund performance (%)

As of 12/31/24	QTR	YTD	1 year	Since Inception 02/09/23	Expense Ratio[1] Gross	Net
Class A	1.76	8.83	8.83	9.70	0.97	0.85
Class A With Sales Charge[2]	-0.74	6.12	6.12	8.22	0.97	0.85
Class I	1.93	9.10	9.10	9.97	0.74	0.60
Class R6	1.93	8.99	8.99	9.99	0.71	0.60
Benchmark[3]	-0.06	4.08	4.08	4.26	—	–

The performance quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance information shown. The investment return and principal value of an investment in the Portfolio will fluctuate, so that your shares, when redeemed, may be worth more or less than their original cost. For performance information current to the most recent month-end, please visit www.voyainvestments.com.

[1] The Adviser has contractually agreed to limit expenses of the Fund. This expense limitation agreement excludes interest, taxes, investment-related costs, leverage expenses, and extraordinary expenses and may be subject to possible recoupment. Please see the Fund's prospectus for more information. The expense limits will continue through at least 08/01/2025. Expenses are being waived to the contractual cap.
[2] Current Maximum Sales Charge: 2.50%.
[3] ICE BofA 1-3 Year US Treasury Index.

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 www.voyainvestments.com or call (800) 992-0180. Please read the prospectus carefully before investing.

An investor cannot invest directly in an index, and index performance does not reflect the deduction of any fees, expenses or taxes. Index comparisons have limitations, as volatility and other characteristics may differ from a particular investment.

Index associations: 1–3 year US high yield: ICE BofA 1-3 Year US Cash Pay High Yield Index; 3–5 year US high yield: ICE BofA 3-5 Year US Cash Pay High Yield Index; 5–7 year US high yield: ICE BofA 5-7 Year US Cash Pay High Yield Index; 7–10 year US high yield: ICE BofA 7-10 Year US Cash Pay High Yield Index; US high yield bonds: ICE BofA US High Yield Index; 0–5 year US high yield: ICE BofA 0-5 Year US High Yield Constrained Index; US core bonds: Bloomberg US Aggregate Bond Index; US Treasury current 10-year: ICE BofA US Treasury Current 10 Year Index.

Index definitions: The Bloomberg US Aggregate Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency). The ICE BofA US Treasury Index series is an unmanaged index that tracks the performance of the direct sovereign debt of the US government with maturities in the ranges indicated. The Bloomberg US Government/Credit 1-3 Year Index covers Treasuries, agencies, publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements. The ICE BofA US High Yield Index is a market value–weighted index consisting of USD-denominated, non–investment grade bonds not currently in default. The J.P. Morgan Domestic High Yield Index is designed to mirror the investable universe of the USD domestic high yield corporate debt market. The J.P. Morgan Emerging Markets Bond (EMBI) Global Core Index tracks liquid, USD-denominated emerging market fixed and floating-rate debt instruments issued by sovereign and quasi-sovereign entities.

Key risks

Glossary of terms: Standard deviation is a measure of the degree to which an individual probability value varies from the distribution mean. Yield to worst is the lowest possible yield that could be received on a bond. Duration to worst is the duration of a bond calculated using the nearest call date or maturity, whichever comes first.

Debt instruments: Debt instruments are subject to greater levels of credit and liquidity risk, may be speculative, and may decline in value due to changes in interest rates or an issuer's or counterparty's deterioration or default. **High yield fixed income securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Market volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short or long term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio's manager(s) to invest the portfolio's assets as intended. **Issuer risk:** The portfolio will be affected by factors specific to the issuers of securities and other instruments in which the portfolio invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Interest rate risk:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Credit risk:** If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline.

Past performance does not guarantee future results. This market insight 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. 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. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

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