Voya Intermediate Bond Strategy

Dynamic Core Bond Strategy

Strategy overview

Total return approach, investing across full spectrum of the fixed income market including up to 20% in below investment-grade securities.

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Key takeaways

- Yields continued to zig-zag in 4Q22, with bond markets influenced by inflation and US Federal Reserve actions.
- The Strategy underperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index (the Index) on a net asset value (NAV) basis. Security selection and duration and yield curve decisions weighed on performance, while sector allocations contributed.
- Easing inflation pressures in the United States should allow the Fed to halt the rapid rate rise, but we do not expect rate cuts until labor markets rebalance.

Portfolio review

For the quarter ended December 31, 2022, the Strategy underperformed the Index. Security selection and duration and yield curve decisions weighed on performance, while sector allocations contributed.

Yields continued to zig-zag in 4Q22, with bond markets influenced by inflation and Fed actions. The start of 4Q22 saw a continued rise in interest rates, driven primarily by additional upside surprises in inflation and payroll reports. The Fed hiked rates an additional 75 basis points in November but then laid the groundwork for smaller hikes going forward. The more dovish comments fueled a rally across rates and credit markets which was extended when November Consumer Price Index data came in better than expected adding to the optimism that inflation may have finally peaked.

Spread markets broadly rallied, fueled by optimism that Fed hawkishness might wane. Corporate credit markets benefited the most, with high yield (HY) and investment grade (IG) corporate spreads narrowing. Meanwhile the impact across securitized assets was mixed. Agency residential mortgage-backed securities (RMBS), non-agency RMBS and credit risk transfer securities (CRTs) were supported by the rate rally and a decline in rate volatility, while commercial mortgage-backed securities (CMBS) struggled as credit curves steepened and lower-rated tranches lagged as the market was pricing in a real estate recession. Asset-backed securities (ABS) modestly trailed as growing concerns on inflation's impact on US consumers weighed on spreads. Going into year-end, yields retraced the intra-quarter rally after the Bank of Japan surprised markets by adjusting their yield curve control policy, highlighting the fact that risks can come from unexpected disruptions. For the quarter, the Bloomberg Aggregate returned 1.87% and finished the year down –13.01%.

Bottom-up security selection dragged on performance, while sector positioning added to performance. With overall duration in line with the Index for the period was not a meaningful source of relative performance for the period. Within sector allocations, the Strategy benefited the most from our broad stance of being underweight Treasuries over credit sectors. We did trim our overweight in IG corporate allocations, selling into strength as valuations began to reflect an overly optimistic view on the Fed. Across

securitized, ABS sector allocations detracted reflecting the lower beta characteristics of the sector as well as growing concerns over inflation's impact on US consumers. In security selection, agency mortgage-backed securities (MBS) selection that included collateralized mortgage obligations (CMOs) detracted as these securities lagged the broader rally. CMBS security selection also detracted as credit curves steepened with lower-rated more credit sensitive investments underperforming as the market reflects uncertainty in the commercial real estate markets. Gains in ABS security selection that included high quality collateralized loan obligations (CLOs) added to relative returns as the underlying collateral rallied in the last quarter of the year.

Current strategy and outlook

Easing inflation pressures in the US should allow the Federal Reserve to halt the rapid rate rise, but we do not expect rate cuts until labor markets rebalance. The cumulative effects of central bank tightening, disruption in the energy supply and the fading impact of Covid stimulus will push global growth below potential and threaten recession in several key economies — particularly in the Eurozone. While the probability of a US recession is high, we do not anticipate that economic growth will drop suddenly. This is in part because we do not see significant imbalances in either the corporate or consumer segments. Corporate balance sheets are merely cooling from their very strong positions, and consumer spending is still supported by excess savings left over from various Covid stimulus packages.

If a recession happens, it will be a painful experience for many people but necessary medicine to ensure the healthy functioning of the economy. A side effect will be higher unemployment, driven by the decrease in demand for labor. But on the flip side, companies have been struggling to recruit skilled talent, which could cause many of them to hold onto workers in a downturn. The persistent shortfall in the labor supply should keep the unemployment rate from going too high, too quickly. That said, the speed of interest rate hikes has been swift and unrelenting, increasing the strain on the markets. Housing has fallen, crypto is in crisis, and the September rout in the United Kingdom government bond market forced many UK pension plans to offload assets.

We are cautious of additional imbalances lurking that could disrupt markets. Therefore, Portfolios remain relatively defensive while we wait for more attractive entry points to increase exposures in the portfolio.

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

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.

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