Voya Strategic Income Opportunities Fund

Unconstrained Fixed Income

Strategy overview

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

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 ICE BofA U.S. Dollar 3-Month Deposit Offered Rate Constant Maturity Index (the Index), on a net asset value (NAV) basis. Duration positioning and security selection weighed on performance, while sector allocation 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. Duration positioning and security selection weighed on performance, while sector allocation contributed to returns.

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 (bp) 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 (CPI) 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 meaningfully. 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. Asset backed- securities (ABS) sector-level returns 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.

Duration positioning and security selection dragged on performance, while sector positioning added. Overall duration was below our 2-year central tendency for most of the quarter. A tactical move to reduce duration early in the period and then partially add back later in the quarter detracted from performance. Within sector allocations, the Strategy benefited the most corporate allocations, including HY, bank loans and IG corporates. Securitized sector allocations had a mixed impact, agency RMBS added and ABS was a small detractor. Meanwhile, emerging market (EM) allocations while at

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the lower end of our historical range benefited from the strong rally in EM during the quarter. In security selection, CMBS security selection detracted as credit curves steepened with lower-rated more credit sensitive investments underperforming as the market reflects uncertainty in the commercial real estate markets. Agency RMBS security selection also detracted, as investments collateralized mortgage obligations (CMOs) did not keep pace with the broader rally. Meanwhile, ABS contributed as investments in higher-yielding collateralized loan obligations (CLOs) were supported by the rally in the underlying bank loan collateral. The most notable change in allocations over the period was our decision to increase allocations to agency mortgage-backed securities (MBS) to capture additional yield while maintaining a bias toward quality and liquidity as we await better entry points to increase exposures in the Strategy. In addition, we trimmed allocations to Bank Loans and allowing modest increases across CLOs, HY and IG.

Current strategy and outlook

Easing inflation pressures in the US should allow the Fed 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.

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