Quarter ending September 30, 2017 I 3Q Strategy Brief

Voya Securitized Credit Strategy

Firm Overview

Voya Investment Management at a Glance

Voya Investment Management (Voya IM) is a leading active asset management firm. As of June 30, 2017, Voya IM manages approximately $224 billion* for affiliated and external institutions as well as individual investors. Drawing on over 40 years of experience and an ongoing commitment to reliable investing, Voya IM has the resources and expertise to help provide long-term investors with strong investment results.

Mission

Voya Investment Management's mission is to find unrecognized value ahead of consensus by seeking original insights on markets and companies. Toward that end, we apply our proprietary research and analytics, benchmark awareness and risk management to serve client needs within the guidelines and objectives of each assignment.

Portfolio Manager

Dave Goodson

Head of Securitized

Years of experience: 21

Years with company: 15

Supported by over 100 Fixed Income Investment Professionals with the majority averaging 10+ years of experience.

Strategy

A Compelling Investment Opportunity

Today we find Securitized Credit markets at a compelling entry point, as they have benefited fundamentally from the recovery in real estate values, but still carry yields reflective of a more unsettled market. Furthermore, following the intense deleveraging process that ensued after the credit crisis, market liquidity is on a firm footing, and collateral seasoning has contributed significantly to improved predictability. This seasoning dynamic also allows securitized credit portfolios to exhibit less sensitivity to interest rate risk without sacrificing yield.

Summary

Invests in fixed income sectors collateralized by distinct asset types: commercial real estate (CMBS), residential housing (RMBS) and nonmortgage assets (ABS)

Objective**

To generate through the cycle outperformance through a combination of income and capital appreciation from a diversified portfolio of securitized credit investments

Contribution to Process and Returns

High

Security Selection — Continuous review of the fundamentals and relative value of each security in our universe ensures our portfolios are well-positioned to add value.

Sector Allocation — Fixed income segment returns vary over time; macro theme analysis evaluates the changes and guides our sector allocation strategy.

Duration — While a potential source of outperformance, duration is typically managed within a relatively narrow band as appropriate given each client's objectives.

Low

Competitive Advantages

- A dedicated securitized credit team with 16 years average experience aligned to take advantage of unique expertise in specific sectors of the market
- Prominent and long-standing presence in managing securitized credit assets since 2011
- Information advantages extracted from strategically integrated approach with the broader Fixed Income team, MBS platform and our in-house Commercial Real Estate Whole Loan group
- Leverages proprietary and industry lobby representation to glean insight and shape legislative and regulatory outcomes

*Voya IM assets of $224 billion include proprietary insurance general account assets of $90 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 $217 billion. Both totals include approximately $9 billion in Private Equity, $4 billion in Real Estate and $5 billion in other assets including those sub-advised through the Voya family of funds and the Multi-Asset Strategies and Solutions product offerings. Approximately $0.7 billion of total fixed income assets are also included in the Senior Loan and Private Equity totals.

**There is no guarantee that this objective will be achieved.

For more information, please contact your relationship manager or go to www.voyainvestments.com
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Voya Securitized Credit Strategy

Performance (%)

	Quarter	YTD	1 Year	Annualized Since Inception (11/01/14)
Composite Gross:	1.98	7.45	6.90	6.53
Composite Net:	1.86	7.09	6.43	6.06
Bloomberg Barclays U.S. Securitized Index	0.94	2.34	0.29	2.19
Gross Excess Return	1.04	5.10	6.62	4.34

Commentary

Market Review

A broad swath of global markets set new record highs or rebounded sharply during the third quarter. In the U.S., performance was spurred by an incredible turnaround in the energy sector. Away from the U.S., the economic outlook is firm for Europe and Japan. Eurozone growth is above trend and headline inflation is ticking up, both of which, combined with fading systemic risk, are prompting investment flows into Europe and therefore benefiting the euro. Japan's GDP is expected to run above trend for 2017; growth is underpinned by strong domestic demand and export volumes.

We continue to view the credit markets as fully priced. U.S. high yield spreads are near their lowest levels in nearly a decade. In our view, current market risks are decidedly to the upside. We believe this will continue to be demonstrated. The probability that the U.S. gets a comprehensive tax cut sometime in the near future remains. We think that the best way to capitalize in the current economic environment is to engage in broad global diversification, across continents and across equity and fixed income. The pro-business economic backdrop further enforces the resilience of these markets.

Strategy Performance

The strategy remained strategically underweight to the largest constituent of the index, Agency RMBS, based on the long-term view that when compared to the credit portion of securitized markets Agency RMBS is less attractive. This underweight was a slight detractor for the strategy over the period as Agency RMBS performed well post-Fed balance sheet reduction announcement. However, the outperformance from credit-oriented sectors well outweighed the drag.

Funded by the underweight to the Agency portion of the index, the strategy continued to focus on strategic overweights to off-benchmark allocations in credit portions of the securitized market: Non-Agency RMBS, Commercial MBS, Asset Backed Securities (ABS) and Collateralized Loan Obligations (CLOs). Asset allocation to non-benchmark securities like Credit Risk Transfers (CRTs) was one of the primary drivers of performance, supported by favorable technicals and a strong U.S. housing market. Valuations during the quarter dampened our outlook for CRTs slightly, and thus we reduced this allocation incrementally late in the quarter. Additionally, strong security selection within ABS/CLOs and CMBS contributed significantly to the excess returns. While CMBS valuations and fundamentals have recently been lagging, we retained our overweight and relied on security selection decisions to drive alpha.

Absolute duration was unchanged over the quarter; currently we've positioned the portfolio short relative to the index. U.S. rates sold-off and the treasury curve flattened modestly. The performance impact in the strategy was marginally negative.

Current Strategy and Outlook

Heading into the final quarter of 2017, we believe securitized markets will remain well-supported by improving global growth and a strong U.S. consumer. We continue to find opportunities in both ABS and CMBS. The ABS sector continues to provide modest incremental yield while demonstrating lower price sensitivity in more volatile markets. As for CMBS, current fundamentals are strong and have likely plateaued. However, the lingering impact of regulatory changes to the CMBS market appear to be fostering a more sustainable higher quality paradigm for CMBS issuance going forward. Agency RMBS outperformed Treasurys during September, bringing current coupon spreads to their tightest levels since early 2013. Large yield-based buyers could keep spreads tight as tapering ramps up; at current spread levels, however, near-term mortgage performance risk is skewed to the downside.

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Portfolio Highlights

Holdings-Based Characteristics	Portfolio	Bloomberg Barclays U.S. Securitized Index
Yield-to-Worst (%)	4.46	2.76
Effective Duration (Yrs.)	3.29	4.32
Average Quality	BB-	AAA

Sector Weights (%)	Portfolio	Bloomberg Barclays U.S. Securitized Index
Non-Agency RMBS and SF CRT	32.81	0.00
Asset-Backed Securities	31.08	1.61
Commercial Mortgage-Backed Securities	24.64	5.95
US Treasury & Cash	11.47	0.00
IG Corporates	0.00	0.24
Agency Mortgages	0.00	92.20

The specific securities identified and described above are for illustrative purposes only. The securities were not selected based on performance and do not represent all or any of the securities purchased, sold, or recommended for our client accounts. It should not be assumed that investment in these securities was or will be profitable or that this is a recommendation. We may change information contained herein at any time and make no commitment to update the information.

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Glossary of Terms:

Yield-to-Worst — Yield to Worst is the internal rate of return of the security based on the given market price. It is the single discount rate that equates a security price (inclusive of accrued interest) with its projected cashflows.

Effective Duration — Effective Duration is the Option Adjusted Duration. It measures the sensitivity of market price to parallel shifts in the yield curve assuming the OAS stays constant as the curve shifts. Unlike Modified Duration, the OAD does not assume that cashflows are constant as interest rates change.

Average Quality — Credit Quality is a portfolio's market value weighted credit quality. The effective credit rating is determined using the "middle of three/lower of two" ratings from the three NRSRO rating agencies: Fitch, S&P, and Moodys. Credit quality is calculated by weighting each security's effective credit rating by its market value divided by the portfolio's market value. The sum of those values is the Average Quality of the portfolio. Securities with no credit quality are ignored in this calculation.

Principal Risks Disclosure:

The principal risks are generally those attributable to bond investing. Holdings are subject to market, issuer, credit, prepayment, extension, and other risks, and their values may fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security may decline for reasons specific to the issuer, such as changes in its financial condition. The strategy invests in mortgage-related securities, which can be paid off early if the borrowers on the underlying mortgages pay off their mortgages sooner than scheduled. If interest rates are falling, the strategy will be forced to reinvest this money at lower yields. Conversely, if interest rates are rising, the expected principal payments will slow, thereby locking in the coupon rate at below market levels and extending the security's life and duration while reducing its market value.

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