Voya High Yield Bond Fund

Comprehensive Research, Broad Diversification

Strategy Overview

The Voya High Yield Bond Fund seeks to deliver consistent outperformance through active management emphasizing credit selection and prudent diversification. High yield bonds have historically produced higher returns than other fixed income asset classes with less volatility than equities.

Expected Contribution to Returns

High

Security Selection the primary driver of returns and risk in the high yield market and, we believe, the most reliable way to generate repeatable outperformance

Industry Sector Allocation industry sector views and other broad investment themes implemented across a range of issuers to provide a second source of outperformance

Market Direction input from across the Voya IM fixed income platform informs appraisal of credit cycle and guides overall risk appetite

Low

Key Takeaways

- For the quarter, the Fund outperformed its benchmark, the Bloomberg Barclays U.S. High Yield 2% Issuer Constrained index
- The largest contributors to performance were the Fund's positioning in the energy sector and its holdings in the cable and satellite and retail sectors. Detractors included cash and holdings in the healthcare and paper sectors
- The high yield market posted solid returns during the second quarter, despite a brief pullback in May that was due to renewed trade tensions between the United States and China, as well as concerns over slowing global growth. A "dovish" Federal Reserve (Fed) and a cooling of trade rhetoric led to a bounce-back in June. The Bloomberg Barclays U.S. High Yield 2% Issuer Cap Index (Index) posted a total return of 2.50%. The rally was not full risk-on, however, as securities rated BB and B far outpaced lower quality CCC-rated issuers
- Fundamentals remain reasonable in the high yield market, but there are pockets of weakness
- Given the strength in the rally year to date, we believe valuations are back to fair levels, but further tightening will have to be driven by CCC-rated securities. As we move later in the cycle, we have used the rally to pare down risk by reducing our exposure to CCCs in favor of securities rated BB and B, while continuing to focus on domestically-oriented issuers with stronger balance sheets and less cyclical business models. We are avoiding issuers with higher exposure to Chinese and European industrials until we see signs of stabilization

Portfolio Review

Contributors

Energy. The Fund was underweighted in the oil field services and independent energy sectors, both of which underperformed as oil prices came under pressure during the quarter. Additionally, Weatherford International (not owned by the Fund) defaulted on its bonds during the quarter, leading to further underperformance for the sector.

Cable and Satellite. The Fund's security selection in the sector contributed to returns. Dish Network Corporation, in particular, benefited from its spectrum assets, as well as the announcement that the company is a possible suitor for acquiring potentially divested business units that would stem from the merger between Sprint and T-Mobile.

Retailers. Security selection in the retail sector added to returns, particularly the Fund's holdings in PetSmart Inc., whose bonds rallied on the initial public offering (IPO) of its e-commerce business Chewy.com. PetSmart plans to use the proceeds from the IPO to reduce leverage.

Detractors

Cash. The strong rebound in the high yield market was broad-based and, as a result, cash acted as a drag on the Fund's returns.

Healthcare. The Fund's holdings of MultiPlan, Inc. detracted from returns as the bonds came under pressure, driven by concerns over regulatory changes. Additionally, the Fund's holdings in Parexel International performed poorly, due to margin pressures that stemmed from contract changes.

Current Strategy and Outlook

Credit fundamentals remain reasonable, as economic growth in the U.S. is expected to stabilize around trend levels. The same pockets of weakness persist, specifically autos, technology, and now energy given the decline in oil prices. Earnings growth is expected to slow on the anniversary of last year's tax cuts but will remain positive for the year. Credit statistics are stable, as intentional leveraging and other, typical late-cycle behavior remains limited. Key risks remain in the macro environment, particularly geopolitical risks, such as trade tensions, politics in the U.S. and Europe and the potential slowing of growth in China, which are likely to continue to induce volatility ahead.

Dovish Fed policy will be supportive but brings the risk of volatility should growth or inflation surprise to the upside. Valuations are back to fair levels after the year-to-date rally. We believe spreads compensate for near-term default risk but will remain wide of post-crisis tight levels as the cycle continues to age. We favor more domestically oriented sectors, such as retailers as well as media and entertainment, which should benefit from the upcoming political cycle. We continue to avoid risker leveraged buyouts (LBOs) that have come to market, as well as companies with outsized exposure to China and European industrials until we begin to see signs of stabilization.

Holdings Detail

Companies mentioned in this report – percentage of portfolio investments, as of 6/30/19: Dish Network Corporation, 0.90%; PetSmart Inc., 0.55%; MultiPlan, Inc., 0.45%; Parexel International, 0.26%; Weatherford International, 0%; 0% indicates that the security is not held in the portfolio. Portfolio holdings are subject to change on a daily basis.

The **Bloomberg Barclays High Yield Bond—2% Issuer Constrained Composite Index** is an unmanaged index that includes all fixed income securities having a maximum quality rating of Ba1, a minimum amount outstanding of $150 million, and at least one year to maturity. **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. Investments rated below investment-grade (or of similar quality if unrated) are known as **High-Yield Securities** or "junk bonds." High-yield securities are subject to greater levels of credit and liquidity risks. High-yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payments. **Call Risk** During periods of falling interest rates, a bond issuer may call or repay its high-yielding bonds before their maturity date. If forced to invest the unanticipated proceeds at lower interest rates, the Fund would experience a decline in income. Prices of bonds and other debt securities can fall if the issuer's actual or perceived **Credit Risk** deteriorates, whether because of broad economic or company-specific reasons. In severe cases, the issuer could be late in paying interest or principal or could fail to pay altogether. **Derivative Instruments** are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect, which may increase the volatility of the Fund and reduce its returns. Other risks of the Fund include but are not limited to: **Liquidity Risk, Credit Derivatives Risk, Securities Lending Risk, Interest Rate Risk and U.S. Government Securities and Obligations Risks. Investors should consult the Fund's prospectus and statement of additional information for a more detailed discussion of the Fund's 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.**

This commentary 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. **Past performance is no guarantee of future results.**

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. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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