Voya High Yield Bond SMA Strategy

Seeks total return, balancing income and diversification potential

Strategy Overview

The Voya High Yield Bond SMA (the "SMA") strategy seeks to maximize total return over a full market cycle by taking a broadly diversified and well-balanced approach to discovering risk-adjusted opportunities within the below-investment-grade corporate bond sector.

Key Takeaways

- The ICE Bank of America U.S. High Yield Master II Constrained index (the "index") returned 6.47% for the quarter
- BB-rated bonds returned 5.57%, while B-rated securities gained 5.75% and CCC-rated and below securities returned 12.04%
- The SMA underperformed the index during the quarter, due to its higher-quality strategy

Portfolio review

The SMA portfolio pursues a high-quality strategy and does not invest in lower-quality CCC-rated bonds; for the quarter, this approach led to underperformance versus the index as lower-quality bonds outperformed.

On a sector level, the top detractor from performance was security selection and allocation within the supermarkets sector. Security selection within the midstream sector added the most to performance during the quarter as the sector benefited from oil prices rising off of their lows as the Organization of Petroleum Exporting Countries (OPEC) and its allies agreed to cut production in efforts to stabilize prices.

Current Strategy and Outlook

The high yield market has continued to bounce back from a total return standpoint with another positive quarter. Generally, earnings and operations continue to be challenged on a year-over-year basis across various sectors. However, the market has benefited from better-than-feared corporate earnings as well as the announcement of successful vaccine trials.

In the high yield market, downgrades and defaults have been focused in the energy and retail sectors, as the coronavirus outbreak pushed companies that were already facing challenges over the edge. Oil prices also began to rise off of their lows during the reporting period. At current prices, however, this still does not create credit stability for oil-price-driven energy issuers in the high yield market, specifically within the oil field services sector. Going forward, we remain focused on high-quality "survivors," i.e., those issuers we believe to have ample liquidity and those only moderately impacted by the economic downturn.

The **Bank of America Merrill Lynch High Yield Master II Index** is a market value-weighted index consisting of U.S. dollar-denominated, non-investment grade bonds not currently in default and limits any individual issuer to a maximum of 2% benchmark exposure.

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