Commentary | 1Q25

Voya Securitized Credit Fund

Tap into Voya's Flexible "Through-the-Cycle" Approach

Strategy overview

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

Key takeaways

- The first quarter of 2025 was marked by volatility in fixed income markets, primarily driven by tariff policies and associated economic uncertainty. Despite robust job gains and a low unemployment rate, fixed income spreads widened, leading to broadly negative excess returns.
- For the quarter, the Fund modestly underperformed its benchmark, the Bloomberg US Securitized Index (the Index) on a net asset value (NAV) basis. Both sector allocation and security selection decisions contributed while duration positioning detracted.
- While spreads have widened and most securitized credit sectors are only indirectly exposed to tariffs, the macro-outlook has clearly weakened. As a result, the overall risk profile of the portfolio has changed only marginally.

Portfolio review

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The labor market remained strong, with job gains averaging around 200,000 per month and an unemployment rate only slightly above 4%. However, tariff policies were the primary driver of market moves. President Trump announced tariffs on Mexico, Canada and China at his inauguration, with tariffs on China going into effect on February 1st. Tariffs on Mexico and Canada were delayed until March 4th, and additional tariffs on China were imposed on the same day. The uncertainty surrounding these tariffs, along with the potential for an escalating trade war, negatively impacted risk assets, with credit spreads finishing the quarter wider, despite solid labor market dynamics. Similarly, rates fell during the quarter in response to lower growth expectations, which helped deliver positive total returns for most sectors.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Fund's prospectus or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read all materials carefully before investing.

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The U.S. Federal Reserve maintained a cautious stance in the first quarter of 2025, resisting further interest rate cuts after having cut rates by 100 basis points in 2024. The Fed cited stronger than expected economic data, including robust job gains and a low unemployment rate, as reasons for not cutting rates further. However, in response to tariffs, the updated Summary of Economic Projections (SEP) released following the March meeting showed the median projection for growth moving lower. Meanwhile, the median projection for inflation moved higher, however there was no change to rate expectations, with the median projection still indicating one to two cuts through year end, and another two cuts in 2026.

In markets, credit spreads began to widen in mid-February when tariff threats intensified. Commercial mortgage-backed securities (CMBS) was flat to treasuries at the benchmark level, but higher carry allowed non-agency to outperform agency, and below investment grade outperformed investment grade. Similarly, benchmark asset-backed securities (ABS) delivered a rare negative excess return quarter, as elevated new issue volume in 2024 weighed on investor demand, however a few off-benchmark subsectors were able to deliver positive excess returns. Collateralized loan obligation (CLO) spreads widened across the stack, but higher rated trances were still able to deliver modest outperformance versus cash. Non-agency residential mortgage-backed securities (RMBS) was a notable exception, with the sector outperforming, led by Prime Jumbo. Away from credit, agency mortgage-backed securities (MBS) experienced a roller-coaster ride, but ultimately outperformed all other benchmark sectors.

For the quarter, The Voya Securitized Credit Fund underperformed its benchmark, the Index on a NAV basis. With a relatively shorter profile, duration was the largest detractor from relative performance. From a sector allocation standpoint, the lack of exposure to Agency MBS detracted, but this was more than offset by our allocation to non-agency RMBS and credit risk transfer (CRT). Meanwhile, strong security selection results were realized in CMBS, primarily driven by agency re-securitization of real estate mortgage investment conduit (Re-REMICs). Finally, both ABS and CLOs detracted.

Current strategy and outlook

Looking ahead, fundamental factors remain supportive. Growth has been roughly 2–3% for the last 3 years, most recently delivering 2.50% in 4Q24. The labor market is healthy with only 4.10% UE. And on the consumer side, balance sheets remain healthy.

That said, survey data has indicated tariffs have negatively impacted both business and consumer sentiment. We have already seen consumers pull back (negative growth numbers in both personal consumption expenditures (PCE) and Retail sales numbers for January) and we will likely see a similar reaction on the business investment side. Even if tariffs are watered down, the associated uncertainty will remain a headwind.

That said, while a recession is not our base case, the probability has clearly increased. While there will likely be an impact on personal consumption and investment, household and corporate balance sheets still remain healthy. In addition, the downside to growth should be limited as the Fed has the room to cut rates, especially if employment numbers weaken. However, much depends on how much, and for how long, the announced tariffs remain in place.

Over the past several quarters, we have been constructive on fundamental factors but have recently become more cautious on valuations. As a result, we came into the quarter positioned with a high-quality bias. While spreads have widened and most securitized credit sectors are only indirectly exposed to tariffs, the macro-outlook has clearly weakened. As a result, the overall risk profile of the portfolio has changed only marginally, while quarter over quarter portfolio changes are more reflective of relative

value opportunities. For example, we reduced our exposure to Agency Re-REMICs given the strong rally in spreads prior to the tariff induced volatility. Looking forward, as volatility persists, we are well positioned to add risk where appropriate.

Read our Fund Fact Sheet

The **Bloomberg U.S. Securitized Index** includes the MBS, ABS, and CMBS sectors of the Bloomberg Aggregate universe. Securities prices used to value the benchmark index for the purposes of calculating total return may or may not differ significantly from those used to value securities held within composite portfolios.Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: Credit; Credit Default Swaps; Currency; Derivative Instruments; Environmental, Social, and Governance (Fixed Income); Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; High-Yield Securities; Interest in Loans; Interest Rate; Liquidity; Market Disruption and Geopolitical; Mortgage- and/or Asset-Backed Securities; Other Investment Companies; Prepayment and Extension; Securities Lending; Sovereign Debt; U.S. Government Securities and Obligations; When-Issued, Delayed Delivery and Forward Commitment Transactions. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

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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