Voya Intermediate Bond Strategy

Dynamic Core Bond Strategy

Strategy Overview

Total return approach, investing across full spectrum of the fixed income market including up to 20% in below investment-grade securities.

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

Key Takeaways

- For the quarter ending June 30, 2021, the Strategy outperformed the Bloomberg Barclays U.S. Aggregate Bond index (the "index")
- Outperformance was driven by sector allocation and security selection
- While we see a higher inflation baseline, we do not expect structural inflation to create a significant headwind for fixed income investors
- We believe securitized credit can continue to grind tighter – particularly more credit sensitive tranches, benefiting from the breadth and depth of the U.S. recovery

Portfolio Review

For the quarter ending June 30, 2021, the Voya Intermediate Bond strategy outperformed its benchmark, the Bloomberg Barclays U.S. Aggregate Bond index (the "index"). Outperformance was driven by sector allocation and security selection decisions, while duration and yield curve positioning detracted for the period.

Yields see-sawed early in the quarter, as inflation reports fueled ongoing concerns that the Federal Reserve (the "Fed") was falling behind curve. Those fears were short-circuited with the release of the dot plot from the Fed showing that the voting members had pulled forward rate hike expectations into 2023, with two increases in the Fed funds rate on the table. This news that the Fed was still diligent in its response to inflationary pressures triggered a rally in the U.S. dollar (USD) and a massive flattening in the yield curve as 10-year Treasury yields fell to 1.43% before settling at 1.47% at quarter-end. While Treasurys rallied, agency mortgage-backed securities (MBS) trailed, with rate volatility and growing speculation of a tapering in Fed purchases weighing on the sector. Meanwhile, continued expectations for solid growth as the world reopens, combined with a solid earnings season and consumer re-engagement, helped corporate credit and securitized credit sectors produce solid returns. Credit curves flattened with lower-rated securities outperforming, and the most cyclically sensitive sectors, including high-yield (HY) and emerging markets (EM), posting the best excess returns. The index returned 1.83% in the second quarter, but remains at -1.60% year-to-date (YTD).

Sector allocations in both securitized credit and corporate sectors contributed to strategy results. In securitized credit sector, an underweight in agency MBS, that we increased during the quarter, added as the sector underperformed, while security selection within the sector offset some of these gains. Overweights to non-agency residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) all added to performance, as these sectors continued to respond positively to the breadth of the economic recovery. In addition, our more credit sensitive investments in CMBS and ABS – including high yielding collateralized loan obligations (CLOs) – further boosted returns. Corporate allocations to both investment-grade (IG) and HY also added as spreads continued to grind tighter. In addition, IG security selection that favored BBB-rated issuers modestly added. While EM sector allocation did not impact performance, security selection that favored Latin American and African sovereign risk added to our performance. Duration and yield curve positioning detracted over the period. Our short duration posture relative to the benchmark, and a bias towards a curve steepener, detracted as the Treasury market rallied and the curve flattened dramatically after the release of the Fed's quarterly economic projections.

Current Strategy and Outlook

Re-openings across developed markets (DM) are driving synchronous U.S. and European recoveries. Meanwhile, China is reining in policy support and accepting a lower growth rate as it shifts composition to domestic growth. While spreads across many sectors have reached uncomfortably tight levels, the macroeconomic backdrop remains supportive and we see few catalysts that could trigger a correction in corporate and securitized credit sectors. Shareholder friendly activity is on the rise as Covid-19 challenges continue to ebb, creating idiosyncratic risks for some corporate issuers. We believe securitized credit can continue to grind tighter – particularly more credit sensitive tranches, benefiting from the breadth and depth in the U.S. recovery. Agency MBS has been overwhelmed by rate volatility and the looming risk of Fed tapering which we anticipate could occur in 4Q21 or 1Q22, a headwind we expect to continue.

With the Fed signaling to the market the likelihood of rate hikes in 2023, we see upward pressure on long-term yields. Inflation and its expectation will remain a key driver for rates in the second half of the year. While we see a higher inflation baseline, ultimately, we do not expect structural inflation to take hold that could create a significant headwind for fixed income investors. As a result, we expect the upside risk to the 10-year Treasury yield to be up to 2% between now and year-end.

The **Bloomberg Barclays U.S. Aggregate Bond Index** is a widely recognized, unmanaged index of publicly issued investment grade U.S. Government, mortgage-backed, asset-backed and corporate debt securities. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **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. **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 model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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