Commentary | 4Q23

Voya Global Diversified Payment Fund

Targeting Your Income Needs

Strategy overview

Coupled with a managed payment policy, the Fund invests in a combination of Voya Funds which are invested in global equity, fixed-income, and which may include floating rate loans, emerging markets debt and real estate securities.

Key takeaways

- Global stocks and bonds produced strong returns in the final quarter of 2023, as wanning inflation and dovish central bank communications caused interest rates to drop and capital markets to rally.
- In our view, disinflation should continue as economic growth slows, but U.S. labor markets will hold up relatively well, creating a backdrop in which domestic equities can move higher through 2024. We are less sanguine on the prospects for Europe and China.
- The Fund achieved its primary investment objective, to meet its managed payment policy by delivering level monthly payments.
- During the period, the Fund outperformed the S&P Target Risk Moderate Index on a net asset value (NAV) basis but trailed its strategic allocation benchmark. Asset allocation and alternative strategies detracted, while manager selection contributed.

Market review

During the fourth quarter, waning inflation in the United States and Europe and a pause in the U.S. Federal Reserve's interest-rate hiking cycle helped most major asset classes rebound from the previous quarter's modest downturn. Developed market equities and global bonds were strong performers, while commodities lagged following the sector's exceptional performance in 2021 and 2022.

Within equities, real estate investment trusts (REITs) and small caps — which were previously challenged by higher rates — led during the quarter. Growth stocks beat value stocks, although both styles performed well. European equities trailed U.S. equities, due mostly to index composition rather than sector-level issues. Despite strong results in Latin America, emerging market equities suffered due to China's underperformance. Japanese and United Kingdom equities struggled on a combination of unfavorable exposure to energy names and the strength of the sterling.

Lower rates boosted returns across the fixed income spectrum during the quarter; government bonds performed particularly well. Investment grade bonds generally longer duration helped them outperform high yield (HY). Emerging market debt was the best-performing fixed income sector, aided by lower global rates and a weaker U.S. dollar.

Outlook

After unexpectedly strong performance from the United States economy and capital markets last year, investors enter 2024 more upbeat. While we are encouraged about the progress of inflation and the resiliency of consumers and corporations, we think noticeably slower economic growth, fair to modestly extended valuations and very optimistic forecasts around Fed rate cuts could limit upside potential for stocks. We see rates markets are providing little room for yields to decline outside a meaningful slowing of economic growth. Despite high expectations, we think global stocks and bonds can produce respectable returns throughout the year. The current setting

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presents opportunities for allocators to benefit from divergences in global policy, business cycles and pricing of risk. In this macro environment, we emphasize balance in our multi-asset portfolios, but believe U.S. exceptionalism is set to persist.

The disinflationary process continues as decongested supply chain issues and slowing demand forces have accounted for most of the recent relief. We see more downside from factors such as shelter, and weaker wage growth as the lagged impact of tighter monetary policy further filters into the labor market, where there are early signs of weakness — such as declining job openings and quits. However, we do not expect significant deterioration in the labor market. Limited private sector overreach and rising real incomes from falling inflation should keep the growth downturn mild.

U.S. equities may continue to outperform other countries and regions, driven by their higher growth potential, proactive corporate rightsizing and robust earnings from unrivaled software innovation. We continue to be cautious on Europe as the region's cyclical gearing and relatively high interest rate sensitivity has made the sting from tighter policy more broadly felt. Europe is also more exposed to energy supply shocks and external demand from China, which is struggling. Exports have plunged, due in part to U.S. companies efforts to re-shore or move offshore manufacturing elsewhere. Furthermore, China's real estate sector, their main growth engine, is in freefall. We are mindful that sentiment is beaten down and look for signs that the Chinese authorities will implement coordinated policy action before shifting stances.

Positioning

At the beginning of the period, the Fund held a neutral equity — fixed income split relative to its strategic allocation benchmark. Equity sub-asset class allocations were tilted toward U.S. large cap value versus growth. Within fixed income, the Fund was tactically underweight U.S. core and overweight HY.

There were no fundamental tactical asset allocation trades during the period. Strategically, portfolios continue to favor U.S. assets and maintain modestly defensive posture overall with a preference for U.S. large cap equities and core investment grade fixed income.

Performance

The Fund achieved its primary investment objective: to meet its managed payment policy by delivering level monthly payments. In addition, the Fund attempts to outperform its strategic allocation benchmark through tactical asset allocation, i.e. deviating from the composite benchmark over the short and medium-term, alternative strategies and active manager selection. For the fourth quarter of 2023, the Fund outperformed the S&P Target Risk Moderate Index on a NAV basis but trailed its strategic allocation benchmark. Asset allocation and alternative strategies detracted, while manager selection contributed.

Tactical asset allocation was a slight detractor during the period. The Fund's tactical overweight to U.S. large cap value versus growth hurt, as growthier sectors — technologies, consumer discretionary, etc. — outperformed during the risk-on period. An overweight to HY also hurt. HY's relatively short duration was a drawback given the big drop in interest rates over the final three months of the year. An underweight in U.S. core fixed income was the main contributor.

Alternative strategies were a slight detractor from relative returns over the quarter. Cross-asset relative value (CARV) produced positive returns, while tactical currency (TC) was negative for the quarter. CARV's primary contributors were the long stocks – short bonds pair in November and the long growth — short value pair in December. TC's short yen — long U.S. dollar pair was the biggest detractor, as the yen strengthened against the U.S. dollar in the fourth quarter. However, this brief period of strength comes amid significant yen weakness over the last couple of years, so being short the yen has paid off for most of that time.

The Fund also attempts to outperform its strategic allocation benchmark through the selection of managers to run the underlying funds, which represent the various asset classes within the composite. Manager selection was a contributor during quarter. Strategies that contributed most to excess returns in the quarter were Voya Multi-Manager Emerging Markets Equity, Vanguard Real Estate ETF and Voya Multi-Manager International Equity. The biggest detractors in the quarter were Voya US High Dividend Low Volatility Fund, Voya High Yield Bond and Voya Multi-Manager Mid Cap Value.

The Fund's option overlay strategy is designed to support the monthly payment through premium generation and provide some downside protection if an underlying asset sells off substantially. This strategy seeks to accomplish these objectives through two sub-strategies. The first piece involves earning the volatility risk premium by selling options while hedging the delta exposure, in effect removing negative equity beta. The second leg provides downside protection. This involves buying puts and put spreads or selling calls and call spreads. These positions should add to performance when equities fall. Over the quarter, the option overlay was additive, with volatility premium capture delivering strong returns and the hedge leg modestly detracting.

The **S&P Target Risk Growth Index** is comprised of nine multi-asset class indexes, each corresponding to a particular risk level. The nine multi-asset classes include U.S. large-cap equities, U.S. mid-cap equities, U.S. small-cap equities, international equities, emerging markets, U.S. real estate investment trusts (REITs), core fixed income, short-term U.S. Treasury securities and Treasury inflation-protected securities (TIPS). Each index is designed to provide varying levels of exposure to equities and fixed income. **Investors cannot invest directly in an index.**

Risks specific to Managed Payment: The Fund is expected to make monthly payments under its Managed Payment Policy regardless of the Fund's investment performance. Because these payments will be made from Fund assets, the Fund's monthly payments may reduce the amount of assets available for investment by the Fund. It is possible for the Fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its payments to shareholders under the Managed Payment Policy. The Fund may, under its Managed Payment Policy, return capital to shareholders which will decrease their costs basis in the Fund and will affect the amount of any capital gain or loss that shareholders realize when selling or exchanging their Fund shares.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. Investing in stocks of **Small- and Mid-Sized Companies** may entail greater volatility and less liquidity than larger companies. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. **Emerging Markets** securities may be especially volatile. **Convertible Securities** with longer maturities tend to be more sensitive to changes in interest rates, usually making them more volatile than convertible securities with shorter maturities. Prices of **Value-Oriented Securities** tend to correlate more closely with economic cycles than growth-oriented securities, and generally are more sensitive to changing economic conditions. 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. Other risks of the Fund include but are not limited to: **Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Inability to Sell Securities Risks and Securities Lending 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.**

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.

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