Voya Short Duration High Income Fund

Focus on Short-Duration, U.S. Non-Investment Grade Credit

Strategy overview

Capital preservation emphasis, investing in high-yield corporate debt while seeking to minimize credit, liquidity, and interest rate risks.

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

- The high yield (HY) market remains well positioned to withstand an increasingly dynamic macro environment, with particular attractiveness exhibited by shorter-duration issues due to their inherently lower interest rate risk.
- For the quarter, the Fund outperformed the benchmark on a net asset value (NAV) basis.
- Looking ahead, asset class default expectations are projected to remain low due to several supporting factors including minimal refinancing risk in 2025.

Portfolio review

The HY bond market finished higher in the quarter. November's U.S. election results and the new administration's anticipated agenda were the primary drivers of market gains. In addition, corporate earnings results were broadly positive, with most companies exceeding top- and bottom-line consensus estimates. On the economic front, fourth quarter real gross domestic product (GDP) growth estimates trended higher. Initial jobless claims remained low, consumer sentiment increased and inflation measures were generally in-line with expectations. The services sector continued to expand, while the manufacturing sector continued to contract. The U.S. Federal Reserve (Fed) cut its benchmark interest rate twice—a total of 50 basis points—to a range of 4.25–4.50%. At December's Federal Open Market Committee meeting, the central bank also updated its summary of economic projections for 2025, decreasing its forecast for interest rate cuts and employment, while increasing its forecast for real GDP growth and inflation. Against this backdrop, the 10-year U.S. Treasury yield rose, steepening the yield curve and pressuring risk assets and core fixed income into quarter end.

The ICE BofA US High Yield Index returned 0.16% for the period. CCC rated bonds returned 2.45%, outperforming BB and B rated bonds, which returned –0.50% and 0.34%, respectively. Spreads narrowed to 292 basis points (bp) from 303 bp, the average bond price fell to 95.48, and the market's yield rose to 7.65%. Industry performance was mixed for the period. Telecoms, transportation and media outperformed whereas healthcare, real estate as well as packaging and paper underperformed. Trailing 12-month default rates declined to 1.47% (par) and 1.02% (issues). The upgrade to downgrade ratio decreased to 0.9. New issuance saw 76 issues priced, raising $49.1 billion in proceeds. Mutual fund flows were estimated at $0.9 billion.

For the quarter, the Fund outperformed the benchmark on a NAV. At the industry level, energy, media and air transportation made the largest positive contributions to performance in the period. Utilities, retail and automotive were the largest detractors from performance.

Current strategy and outlook

The U.S. economy should continue to expand in 2025, supported by earnings growth, further Fed easing as inflation and the labor market continue to normalize, and the new administration's pro-U.S. growth policies.

Apart from these factors, steady consumer spending, ongoing services sector expansion, continued fiscal spending and improving productivity aided by the proliferation of artificial intelligence are growth tailwinds. Risk to the economy may increase if these trends weaken. Other considerations include tariff and immigration policies, geopolitical tensions, prolonged labor market softening, continued manufacturing contraction and economic weakness outside of the U.S.

The U.S. HY market, yielding over 7%[1], is expected to deliver a coupon-like return in 2025 with upside possible. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamental factors are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. Increased merger and acquisition activity and deregulation could also have a positive market impact. In this environment, new issuance is expected to remain elevated, the default rate should stay below the historical average of 3–4%, and spreads can remain tight.

Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall HY market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, U.S. HY bonds contribute from both a diversification and a relative-performance perspective, offering a very compelling yield opportunity.

The Short Duration High Income strategy remains an attractive fixed income solution without taking excess credit risk, the shorter maturity puts securities first in line to repayment at par, and the strategy lessens price volatility that may be highly amplified in passively managed strategies.

[1] Source: ICE Data Services; data as of December 2024.

The **ICE BofA 1-3 Year US Treasury Index** is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of at least one year and less than three years. **Investors cannot directly invest in an Index.**

Past performance is no guarantee of future returns. All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

Investment Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. **Debt Instruments:** Debt instruments are subject to greater levels of credit and liquidity risk, may be speculative and may decline in value due to changes in interest rates or an issuer's or counterparty's deterioration or default. **High Yield Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **Market Volatility:** The value of the securities in the Fund may go up or down in response to the prospects of individual companies and/or general economic conditions. Price changes may be short- or long-term. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the Fund and its investments, including hampering the ability of the portfolio's manager(s) to invest the Fund's assets as intended. **Issuer Risk:** The Fund will be affected by factors specific to the issuers of securities and other instruments in which the Fund invests, including actual or perceived changes in the financial condition or business prospects of such issuers. **Interest Rate:** The values of debt instruments may rise or fall in response to changes in interest rates, and this risk may be enhanced for securities with longer maturities. **Credit Risk:** If the issuer of a debt instrument fails to pay interest or principal in a timely manner, or negative perceptions exist in the market of the issuer's ability to make such payments, the price of the security may decline. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

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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 that varies from stated performance. Please call your benefits office for more information.

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