JPM Insurance CIO Call – Voya Financial

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Call Participants

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Moderator	Welcome and thank you for standing by. I would like to inform all participants that this conference call as well as the Q&A is being recorded and will be available to clients of JP Morgan. Parts of this conference call may also be reproduced in JP Morgan Research. If you have any objections, you may disconnect at this time. Press participants are not permitted on this call and should disconnect now. Unless otherwise permitted by internal JP Morgan policy, members of JP Morgan investment and corporate banking are not permitted on this call, and should disconnect now. Views and opinions expressed by any external speakers on this call are those of the speakers and not of JP Morgan. I would now like to pass the conference over to Jimmy Bhullar with JP Morgan. Jimmy, you may proceed.
Jimmy Bhullar (JPM)	Thank you, Jennifer. Good morning, everyone. Thanks for joining the call. Hope you're well. Also thanks to the Voya team for participating. This is the first in a series of calls we're hosting with the chief investment officers of major life insurers over the next month. Today, we'll be speaking with Voya. We have several members of senior management from Voya including Don Templin, CFO; Matt Toms, CEO of Voya Investment Management; Mike Katz, EVP of Finance; and Eric Stein, Head of Investments and Chief Investment Officer of Fixed Income. As most of you know, Voya Investment Management is the company's third party asset management business and manages about $330 billion of assets across a variety of strategies and geographies. It manages the company's general account as well. In terms of the format, I'll ask the Voya team a few questions on the broad credit environment, and we'll take your questions as well. The call should last about half an hour. Jennifer, could you announce instructions for questions?
Moderator	If you would like to ask a question, press star one on your telephone keypad. If your question has been answered or you wish to remove your question, press star followed by two. To submit a text question, navigate to the registration page for the call and use the Q&A button in the top right corner.
Jimmy Bhullar (JPM)	And I think those who are streaming could write a question as well. If you'd rather that I ask on your behalf, you're welcome to email me as well. But maybe just to start with, if you could just discuss your overall views on the credit environment. A year ago around this time, credit was very topical. Luckily, it isn't as much

anymore. But what are your views overall on the economy and the credit environment broadly?

Eric Stein (Voya) Thank you, Jimmy. This is Eric, and thanks for having us on the call. And thanks to everyone else who dialed in.

It's interesting, you mentioned a year ago, if you step back, here we are in May of 2024, if you step back 14 months ago to March of 2023, we were in the Silicon Valley Bank and regional bank kind of issues flaring up which in some ways, surprisingly, so calmed down pretty quickly; I think quicker than then a lot of people would have thought. And I'd also make a broad comment on the kind of REIT environment we've had really over the past two and a half quarters; a significant rally in interest rates at the end of 2023, the last quarter of '23, with a turn in the inflation data and more dovish Fed rhetoric. Not a complete rebound in the first quarter of 2024, but a very strong sell off in rates, higher rate environment with inflation data, sticky high in the first quarter. And now here we are halfway through or so the second quarter, and rates are down and inflation data has come in more benign than it was at the beginning of the year.

So I think from a broad macro backdrop perspective, I think we're in an environment that the Fed wants to cut rates, if they can. The data in the first quarter of the year was kind of so strong that they couldn't. But the data that we've gotten, again, the past six weeks or so has been more benign from an installation perspective and you've seen that with Fed commentary backing that up. So I think we are in an environment that the Fed will cut rates if they can, and it's really a matter of does the data allow and we've had this oscillation back and forth the past couple of quarters. And so now here in the second quarter of 2024, it seems like the data is starting to allow the Fed the ability to cut.

From a broad credit environment perspective, I do think we're four years really into the post COVID recovery. And despite the fact that we thought we were going to see some slowdown in the economy, we really haven't. The US economy, particularly the consumer side of the economy, has been remarkably resilience and credit losses that we've seen really through the broad credit ecosystem have been remarkably low. If I would have said that a year ago, I think it's also very fair to say that today. So the environment is fairly benign from a credit perspective. However, at the same point, there are still higher interest rates that creditors are paying, so it may take some time before we see even more credit losses. But I'd say the credit environment remains quite benign, but there's still certainly an element of cautiousness, just given the absolute level of rates and the fact that monetary policy works with a lag, so the economy likely will slow; it's really just a matter of how much and a more significant slowdown would lead to a tougher credit environment.

When I take a step down, just thinking about GA, the portfolio skews higher quality, 96%, fixed maturities. Our investment grade is broadly diversified. So we think it's a good portfolio for the current environment. But those are some thoughts on that question for me.

Jimmy Bhullar (JPM) And your portfolio and those of your peer companies as well have held up a lot better than people would have expected a year ago, especially given concerns about not just the broader economy, but specifically commercial real estate. Where, if any, are you seeing sort of pain points or pressure on the portfolio where the underlying sort of metrics might be getting a little bit worse? Or where you're having to emphasize or de-emphasize certain types of investments?

Eric Stein (Voya) Great question. I think even when you look broadly at different credit markets, the default rates and impairment rates are really low, almost everywhere. If there's one area, it's probably CMBS, though I think you've compensated for that with the spread in that asset class. And I think, if anything, that was the one asset class that really lagged the rally, particularly that we saw in the fourth quarter of last year, so coming into 2024, one of the areas of the fixed income markets that were arguably cheap to other sectors. So not really a particular sub asset class within fixed income that we have an acute concern about. And keep in mind, we always have a bottom of credit focus really across all the asset classes that we manage within our GA.

Jimmy Bhullar (JPM) And it seems like the economists have been predicting rates will go down three months from now for the last year, almost. But obviously, they stayed higher longer. What's your view on the timing of rates or timing of the Fed cutting? Do you expect them to do so beginning this year? Or do you think it really depends on how the data comes out and it's possible that we don't see rate cuts this year?

Eric Stein (Voya) My view would be, this is a Fed that leans dovish, that wants to cut if they can, if the data allows them to, which it kind of did in the fourth quarter of '23. But keep in mind, we came into the year with something like six rate cuts priced into 2024. A lot of people were saying, well, that doesn't make any sense. And then at the same time, you see stronger data and maybe we were priced in at some time in April cut, maybe, and now we've moved to two cuts, approximately two cuts priced in for the rest of the year. So I do think that July is certainly a live meeting, I think maybe something like 30% probability is priced in; I would say 50/50 or even a little higher. We have a couple more CPI prints. That's what the Fed will focus on, primarily the inflation data and maybe secondarily the labor market data. But I do think the Fed, my kind of modal forecast will be the Fed cuts twice this year. The stronger the data is, the harder that is for them to do that. But I'd say two cuts makes sense from my perspective.

Matt Toms (Voya) This is Matt, Jimmy. I might build just a little bit. Just to differentiate back to your first question about here versus a year ago, the environment then was did the Fed kill it by moving as much as they've moved and volatility was much higher. The rates may be in and around the same level, but the fear a year ago was meaningfully different than today's debate on should the Fed cut is around is growth going to slow. And as growth isn't slowing, the fear of the Fed may have already killed it from a year ago is really a "How long can this last?" And that's why you see the VIX at a lower level, interest rate volatility at a lower level, credit spreads at a lower level. So I think that vol component is very different than from a year ago about when will cuts come. But it's not because of a fait accompli that they've killed it, it's does the economy eventually start to roll and that feels different than a snap or a break point that was feared a year ago. So a much more constructive environment for risk assets. Credit spreads lower, equity valuations higher. I think that's the backdrop.

And then investors say, well, if the Fed has to cut into some economic weakness, that's great. Because you have a natural buffer built in and that takes confidence higher again. And so I think a very, very different market field today than a year ago.

Jimmy Bhullar (JPM) The interesting thing is, the economy is pretty strong. And typically, you would assume that the Fed would want to cut if the data is coming out weak, but it just seems like the Fed is itching to cut and they're almost hoping that the data is weak, that it justifies them cutting. So it's a little bit odd in that you'd assume that politicians would be acting that way because they want to sort of stimulate growth. But it just seems from the outside, that the Fed is much more interested in cutting for the sake of cutting as opposed to just looking at the data and then deciding. It just seems like they have a greater bias towards cutting than they have had towards raising in the past.

Eric Stein (Voya) I think that's right. I think there's an intellectual lean towards cutting rates. And so the bar is pretty high. It's not impossibly high, but it's fairly high.

Jimmy Bhullar (JPM) And then with that backdrop, where is it that you're seeing the best opportunity for your portfolio by asset class? And are there areas that you're avoiding, either because you're not comfortable with the risk, or you just feel that you're not being paid enough to take on the risk?

Eric Stein (Voya) I'd say there are areas across the credit markets. I'll try to hit on a couple. One even within the IG, kind of public IG credit space is actually a debate I think that's going on in fixed income markets that should you focus on the spread or should you focus on the yield? And it really depends on which buyer base you're talking about. So spreads have been quite narrow on BIG corporate side, but the yields are high. And so the yields are attractive whether it's for our general account or other companies general accounts, the yields are attractive, but the spreads have tightened there. They probably remain probably the best value from a spread perspective on the public side within CMBS, other securitized products, CLOs as well. And then obviously, we have a very strong private credit in CML franchise across the broader Voya investment management platform, but those are also key components to our general account and offered attractive yields and things that we think we do well. So really, those are the kind of the opportunities that we see.

Jimmy Bhullar (JPM) And then can you talk about where your new money is currently, and how that compares to the portfolio yield? And also just to the bonds that are going off the books so that one gets an idea about where your portfolio yield is set, assuming rate stays stable?

Eric Stein (Voya) So I think the current new money rates are in the kind of 6-ish, six handle area versus the portfolio yield of 5.2%. Obviously, in an environment where yields of anything that was issued kind of post GFC, post financial crisis, is a lot lower than where yields are today. And so I think from a broad fixed income investment perspective, the starting place in yields is a more valuable proposition for investors. And certainly, from the standpoint of our general account, you get a higher yield with new investments than you did with older investments, broadly speaking.

Matt Toms (Voya) And maybe just to build on that for a second. The real yield on the 10-year, and it's just over 2% level, if you look back historically, it's a little higher than a 20-year or 30-year average, but not a lot higher. So you're back in an environment where the suppression of the past is gone, and I think sometimes that's missed in the market. Zero or negative real interest rates were a distortion, not a normality. And so while yields feel high, and they're attractive for regulatory balance sheets, 2% is a little high, but you'd say 1.5% to 2% is kind of where you've been on 30-year average. So, part of the persistence of the economy growing and the yield structure being where it is, is a return to a lack of a suppression, so maybe that's also what's feeding into the economy not rolling as quickly, as some of it getting off of zero is a removal of things that were headwinds to savers and to consumers as well, where you actually have income that's generated that is passing through into the higher end consumer and into regulated balance sheets, that is a positive. So while the change in rates has created the fear, as you stay here longer and the economy in portfolios like our own can see that existing portfolio yield migrate higher, those are all things that has allowed the economy and balance sheets and businesses to work. It was the shock higher that's been honestly the surprise has been how well it's a managed. Once you're at a new level, staying there is less difficult.

Jimmy Bhullar (JPM) And in some ways, I think being at a base level that's higher is the pluses that it provides the Fed ammunition in the future, if the economy were to weaken. Because when you are at a very low level, then that's one of the sort of catalysts that you have that you don't when your starting point is very low.

Matt Toms (Voya) 100% agree. The zero bound is real, it's intimidating, and just look at the work that JD or the Bank of Japan has had to do to try to get away from that. We've hit exit speed and let's just all agree that we don't want to have to be back near zero anytime in our careers.

Jimmy Bhullar (JPM) Yes. Jennifer, would you go to the line for questions?

Moderator Our first question comes from the line of Pablo. Pablo, your line is now open.

Pablo Singzon (JPM) Hi, thank you. Voya allocation to private credit in it's GA. I think it's about 21% today. Are you looking to grow that allocation further? And I was hoping you could provide perspective on what benefit Voya gets from private credit and what the competitive conditions are in that market today? I think one concern investors have with private credit is the potential for reducing inflation. Thank you.

Matt Toms (Voya) So what was the last part that concerns you? I want to be perfectly clear.

Pablo Singzon (JPM) Just ratings inflation?

Matt Toms (Voya) Got it. Yep. Perfect. Thanks for the question. Yes, so 21% of the general account, private credit portfolio. Importantly, when you dig through this and you think about the quality of the portfolio, and private credit often gets conflated into middle market lending and that's not what this is, only 4% of our entire balance sheet is in below investment grade securities, very low level versus peers, so this is private credit investment grade rated. Actually, a good percentage of this is rated by agencies that prefer actually not to be competitive advantaged to be able to rate yourself and not make it easy for others to participate in the industry. But this is somewhere where we're a leader, top three, top five, along with other names you know very well. We manage for our own balance sheet as well as for over 60 external insurance clients in the private credit space.

We've been in and around that 20% number for some time, we're very comfortable with that. We like the diversification. You get away from public markets; we like to covenants that you get. So while private credit for our portfolio is meaningfully skewed towards BBB's, about two thirds of the portfolio is NAIC-2, but you get covenants as well. So you're at the table, you can't be primed, secured debt can't get ahead of you, and that protects the downside experience over time as well. You can get to the table earlier.

So losses in private credit are lower than in public credit over time, and the income is higher. On average, we've been in the 70 to 100 basis points of incremental income over time from our private credit portfolio.

So we really liked the space. We're a leader in this space. We do it for our own balance sheet and a broad array of external clients, and we think we've been ahead of an industry that's increasingly moving in that direction. You've seen the disintermediation of credit away from public markets into private markets, not just the middle market space, which is written about in FT in *The Wall Street Journal* at least once a day each. We think you're seeing that in club lending and the like on the investment grade side, and we're well positioned to continue to participate there.

And if we look backwards, our losses in these spaces, including in CML, where our 20-year loss ratio, not in credit, but on the commercial real estate side, is only four basis points. If you can underwrite well in these private markets, you can get higher income and something we think we're quite good at.

Pablo Singzon (JPM) Thank you.

Jimmy Bhullar (JPM) If we think about alternative returns, they've been weak for most life insurers. Your results haven't been as weak or as depressed as some of your peers. I think it's partly to do with where you're allocated. But can you talk about what's been going on with your alternative investment returns and what your expectations are for that part of the portfolio given that we've got a fairly healthy equity market and there's been some improvement in the electivity and capital markets activities?

Matt Toms (Voya) It’s a really important and topical question, and we've noted the dispersion and return expectations across our peer group. We actually had provided in this quarterly report and the investor materials a further breakdown of our alt portfolio. And, importantly, if we look at what we've achieved over time, and this is perhaps not terribly different than our peers, we've had a 9% expectation. We've had peers with maybe a little higher, I'm not sure a lot were lower, so we think that 9% is conservative. We've actually achieved an average of 12% over time, so we've outkicked that number. And even if you exclude 2021, which was a massive melt up in valuations, that average is still low double digits above that 9% number. So, we like the long term number, we're trying not to adjust that number on a quarter-to-quarter, year-to-year basis, so we think nine feels about right.

But importantly, why the dispersion in the industry and why our confidence? And we've been asked this question a good number of times over recent quarters, and we've held firm with 9%. In the first quarter, we were just a hair under the 9%, but quite close to that number, where we're seeing peers have much higher dispersion and why, and this is a breakout we provided. Our portfolio is heavily tilted towards private equity, LP interest, and it's been built over a long term period. We think it's a very high quality array of both buyout, growth equity and secondary strategies; well diversified, premier managers, great vintage diversification. And if we step back and think about where headwinds have been – and that's 75, by the way, 75% of the portfolio in that private equity and extended components, where the real estate component of our alternative portfolios is just 3%.

Now we have other debt holdings that also were performing quite well. But while our GA alt portfolio is diversified, it's not diversified in the things that are really having headwinds. It's not heavy in hedge funds. It's only 1%. It’s only 3% in real estate equity. Where if you look at peers and dispersion, I think you'll see a broader array of components that may be more real asset oriented, more real estate oriented, more hedge fund oriented, things that are actually experiencing headwinds from the higher rate environment. And while the private equity industry has perhaps experienced a bit of a headwind from an IPO market standpoint, which would be something that could take that number even higher in the short term, you don't need IPOs to achieve a consistent return in the private equity components. You need IPOs to really see the upside to that.

So, very happy with that long term 9% assumption. We think factors that could drive outperformance would be realizations, IPO market picking up, capital is impatient, the secondary markets continue to provide opportunity, we have our Pomona Investment Company as part of VIM that we participate there, so we feel well diversified. But longer term, there's also areas of potential underperformance. There's weak equity markets, there's interest rates vol or declined broadly in markets, we'd have some drawdown. But over time, we think the 9% is right and we feel confident going into the second quarter that we are close to nine the first quarter, second quarter outlook looks pretty good, so we feel good for the year. It's not something that we're particularly feeling strained over right now.

Jimmy Bhullar (JPM) And can you talk about your commercial mortgage loan book? Your portfolio is almost industry average in terms of exposure, but there are obviously differences in terms of allocation, but maybe just talk first about what you're seeing in the commercial mortgage loan book. And I guess it varies a lot by the type of loan and the borrower, but what are you seeing broadly? And should we assume that the office part of it, at least, should see ongoing pain? Or do you think that that's actually close to bottoming in the near term? Maybe another might have a few specific questions on the CML portfolio as well, but maybe start more broadly.

Matt Toms (Voya) I'll start and, Eric, you might have some other opponents to add in as well. But undeniably, the commercial real estate space broadly has been hit by the higher interest rate environment and by concentrated positions that industry participants have and levered positions in funds that are in the paper quite often as well that you can read about.

Broadly speaking, we feel extremely good about our portfolio, and I'll go into that in a second, but the high rate environment directly impacts an asset like commercial real estate, where so much of the value or the expenses is in the financing costs, so it's a quite natural development. And then within office specifically, you have the influence of lower demand. I'd say broadly you'd think it was retail, the malls are going to die, who had mall exposure and the industry has worked through that. Time healed a lot of those amortizing structures, as well as new purposes for different properties solves this over time, and we do think you're in that phase. So undeniably, a very difficult industry environment. We think time and capital availability provide the solution, and that's where this extended cycle has been key for different outcomes to emerge.

But when you step back and look at where our loss is likely, it's really, in our opinion, continues down the office space, because you have both the headwind of higher financing costs and capital hesitancy and the lower demand. We do not think you've seen the bottom of the office space yet. We do believe that there's a bit of a market debate that the gateway cities, large office markets where you have major buildings tenanted by one or a few non-diverse rent roll with $100 plus million, $200 million loans or more, you have big gap risk to the debt tranche. Our portfolio is much more diversified. So we do see that theme, but with an average loan size of $11 million in our CML portfolio, for example, and that's the same number on our office, our average loan size is $11 million, we have a very diverse array of properties, properties that don't need hundreds of millions of dollars in checks to roll capital to provide equity. And we think that's different than in a more concentrated portfolio, which has been hyper competitive across the New York's, the San Francisco's of the world where usage has changed meaningfully.

So, we don't think we're out of the woods yet in the CML space. But broadly speaking, I say that we see that as more of an opportunity, particularly for external clients. The hesitancy to allocate more to commercial real estate actually provides the opportunity. So it's something that while we don't think we're out of the woods, we do think it's time to think about how you monetize the dislocation in today's world.

And just on office specifically for our own balance sheet, bringing it more narrow, makes up about 2% of our total portfolio. So it's 14% of our real estate portfolio. Our real estate portfolio is about the same size; our CML portfolio is the same size as the industry. We're 13%, we see the industry at 14%. But remember, we're a senior lender. That's not an equity portfolio, it's senior debt. Within office, we think we're meaningfully underweight versus our peers, 14% versus 26% on the ACLI, so we think that's a meaningful difference.

And then the other meaningful difference is, we have a conservative portfolio. I mentioned earlier that historical, multi decade lookback of a four basis point loss ratio, that's because we think we underwrite well. Everyone says that, but I think our numbers prove it over time. And we underwrite to a higher quality standard.

The last I'd throw out is that CM1 score, which is an industry standard score, our portfolio is a 73% CM1 weighting. And that compares to 46% in the industry. So what you care about in debt portfolios is the tale of things that snap; like how many things could fall to CM3 and below and default, and we're just fundamentally starting at a higher quality rate, lower LTVs, higher debt service coverage ratios and a lower weighting towards office. So, we provide a good amount of more information in the data pack this quarter. We gave some updated stats as well on current loan to values. But make no mistake, it's a difficult environment, we think you're starting to see signs of opportunity, but from our own balance sheet, feel very confident. Very minimal amounts of losses last year, no losses in the first quarter. And even when we do think we'll have properties that we need to "take the keys back", we don't anticipate meaningful losses. And again, that well diversified portfolio is a key part of that.

Eric Stein (Voya) And maybe just to add two things onto that. One is, just from what trades are happening in the market from an office property perspective, again, keep in mind that, as Matt said, we have lower office exposure in the GA than our peers, and started to see some properties trade granted at lower valuations. And so to me, the first sign of a rebound in a market that's been stressed, it's actually see clearing of trades of underlying properties. I think that is positive. And then when you think of the office sector more broadly, there's obviously the rate component, which affects any piece of commercial real estate because the cap rates are so sensitive to the base rates, think of the 10 year US Treasury rate, so as we've gotten stability in that rate, and rates have even come down a little bit, that should be helpful. And if we did get a Fed, back to some of the earlier questions, if we did get Fed rate cuts, that would be really good for both commercial real estate itself and assets that are related to commercial real estate.

And then the other on the office specifically, obviously, there was this significant demand shock post-COVID and post the hybrid work world. It seems to me, given that the labor market is easing just so much, companies are calling people back in more than I think what people were thinking a couple of years ago. So does that mean that there's going to be a massive demand for office space? Probably not. Does that mean some of fears for maybe 12, 18, 24 months ago of office of no one ever going to the office, have those dissipated some? I think they have.

Jimmy Bhullar (JPM) And the decline in rates would be a little bit of a relief, but on the point back to the office, the labor market overall is actually very good right now. So one could even argue that if it were to weaken, and not just slightly but if it weakens a lot, then maybe that's another leg down and might offset the benefit of declines in interest rates. But how do you think about the risks to office from a labor market downturn?

Eric Stein (Voya) I think part of the reason companies are calling people back in more is because the labor market, despite still being tight from an absolute perspective, has loosened up a little bit versus call it the 2021 Great Resignation post-COVID. So I think, generally speaking, companies probably want, and this varies by industry and by company, want people in more than the average employee, but there's some kind of labor versus the employer/employee bargaining in there. I think if we had a slight easing of the labor market and moderate weakness, that would be good for office demand because companies would probably call people back in more. We had a significant recession and companies were laying people off, along with the structural headwinds that office has faced since COVID. That obviously wouldn't be good. So the sweet spot from an office demand perspective is some weakness in the labor market, which would probably call more people incrementally back but not massive weakness where companies are significantly cutting their payroll ranks.

Jimmy Bhullar (JPM) And you mentioned your debt service coverage ratio has been fairly stable. I think the overall portfolio is around 1.9% and office is 2.1%. LTVs for office, on the loans that you've underwritten, I think are around 72%. Should we assume that those numbers are close to transaction values or when there's a deal out there, it'll go for, given sort of the lack of demand and more supply, that the actual transaction value of a property sold is lower than what the LTV would suggest?

Matt Toms (Voya) So, a really good question and we provided extra detail in this quarters investor deck as well. We introduced a new concept, so let me dig into that a little bit. So we historically have shown and the industry has shown LTV at funding, and that has current loan value versus the historical appraisal at time of close, so the market value doesn't move. But we've also done it, again, an appraisal is different than a Voya underwriting amount. When we underwrite a property, we stress rent rolls, we stress analyse and recap rates. And an appraiser will give it a value and then we'll underwrite to a value which is generally lower. In this quarter's information, we provided that updated data. And you're right, when we took a look at every property in our portfolio and said where would we underwrite it to today, within office is the biggest delta. There's not a lot of movement, actually. The NCREIF Index or the National Index for Commercial Property has only really been down over the last two years and the majority of our loans have been made well before this decline. And remember, you had a run up before that. And so the majority of the portfolio was underwritten and put on the books well before the downturn.

But even with that, if you look across the portfolio, most things don't move a whole lot with this higher rate structure. Office does move up to 72%, but that's where we would say, not that we're out making a ton of new office loans, but that's what we would underwrite the value of the property to on an LTV basis, with haircuts and with a conservative approach, which would generally be lower than MAI. So I think that's a conservative approach, that 72%

number gives us a lot of confidence that even if you were to say a property needs to sell at a 15% to 20% haircut to bring capital in, you still have cover. And while it's not the big, lumpy loans that are coming through, when we take the keys, by and large, we're not losing a lot of money, we're not taking write downs; it's close to par. And so anything could always happen on a property-to-property basis, but we feel pretty good about those Voya underwritten approaches more than a MAI, here's what an appraiser would slap on something, we think it's a more refined and more conservative approach.

Jimmy Bhullar (JPM) Okay. And then there's a question from a client on text. "On private equity, what are the exit strategies outside of IPOs given that there's over $3 trillion worth of PE investments to be sold?"

Matt Toms (Voya) So it's a good question broadly, and we do have a lot of our portfolio is in private equity LP interests. As an owner of those, if these are well run companies, you're fine. As a PE operator, exits allow potentially for higher valuations and performance fees. But our portfolio has driven a nice long term value over time. If we were to have a whole lot of realizations, we'd have more reinvestment to do. So I think what matters in this space is that there's some capital that's feeling a little tied up, so you're having growth in the secondary space, which we participate in. We actually allocate a good amount to the secondary space. You don't have the same upside because you're further through the J curve, so you don't have the J curve downside, you don't have all the upside because it's more mature portfolios, but it's a great way to have a more consistent return profile. Again, why we're comfortable with that 9%.

So while it gives the industry some headwinds, as an investor in the space, that is happy with the exposure, we think it's fine. We do think you'll continue to see continuation funds; we think the secondary market will continue to be strong. But, we don't think that companies staying private longer is really fundamentally a problem. There's good returns to be made by owning a company just as you own a stock portfolio. So that'd be the general case.

On the debt side, I think debt naturally rolls and so the private debt structures, providing liquidity into these vehicles is another way for liquidity to be garnered by the private equity funds. We think that's growing some of the middle market lending. That's an area to watch that could get a little heated over time if you lend too much on an out basis into these structures. But today, we think it's reasonably well coordinated.

Jimmy Bhullar (JPM) Jennifer, can we take the next question from the line?

Moderator Our next question comes from the line of Kevin with JP Morgan. Kevin, your line is now open.

Kevin Wijendra (JPM) Hi. Could you provide some more detail on your CMBS exposure? What type of properties you're exposed to and the mix between conduit versus single asset?

Matt Toms (Voya) Kevin, happy to do that. So our CMBS portfolio is a key piece of our portfolio, 8% percent of the overall and 11% of the GA is the actual stat. Sorry. And again, just to backup one step, we have a quite diversified portfolio with thousands of issuers. And one of the reasons we can have this diversity of portfolio include things like CMBS and other ABS's because our duration of our portfolio is shorter than a typical life issuer that has to have so many assets in the 10 to 15 year duration or longer bucket. And so when we're building a portfolio, more in the intermediate duration space, backed by our retirement assets, the ability to invest in things like CMBS, which is going to be more in that, think of it as a three to five-year duration space, we view it as an attractive source of income. Not all insurance companies can do that if they have longer, more light oriented liabilities; hence, our ability to diversify there.

So, we like the diversification that CMBS brings, but we approach it from a high quality standpoint. So 95% of our portfolio is NAIC-1 or 2. I'll just break out that one a little bit: 63% is AAA, and 19% is AA to A. So it's a very high quality skew in the overall portfolio with 80 plus percent in A up to AAA, with 63% at the AAA level. So we don't have to stretch super far to get that nice diversified return in that intermediate duration space, and that provides an income.

The area of more strain in the CMBS space has been in BBB. Again, that's a small component of our overall portfolio.

As far as the split between conduit and single asset, single borrower, and beyond, it actually is about 1/3 conduit, 1/3 SASB, single asset/single borrower, and 1/3 is actually agency backed. So think of [indiscernible 41:15] off of agency deals. And it's the conduit space within that. That 1/3 of the 11% in conduit is where there's been the most market uncertainty because that array of loans in there can create uncertainty. So that 1/3 is conduit, but again, high rating skew overall, and 2% of the entire portfolio is in the BBB components.

So we think we're playing it the right way. We have good visibility and our own CML team to help underwrite every different loan. Our underwriting, we believe in it.

The office within that, a natural follow on would be what kind of office is in that? And it's about $800 million would be the number and majority of that is in single asset/single borrower. So again, direct eyes that we can look through to the property. So high quality, well diversified and we think it's an attractive part of the portfolio.

Jimmy Bhullar (JPM) Maybe just shifting to different topics since we've got Don and Michael on the call as well. Don, you've been fairly optimistic on your flows in asset management. The results recently haven't been good, but it seems like things are starting to improve for some of the asset managers. So what's your expectations for flows in asset management? And are you optimistic that things will improve? Or is that contingent upon interest rates moving in a certain direction or the equity market moving in a certain direction?

Don Templin (Voya) So we are very happy with the positive net cash flows in the first quarter. The whole industry, obviously, with headwinds throughout 2023. We were not immune from that and also the recent deals, reforming our international business in the handoff for NNIP, now Goldman, into AGI. We love the future outlook on that, but it does create that transitionary period in 2023.

So we were positive net cash flows in Q1 within the asset management business. We have stated a 2% plus organic growth rate as our target. And the positive first quarter is a step in the right direction. Our early look into 2Q, I guess it's not so early anymore. We're halfway through 2Q, we're very encouraged by that momentum continuing.

And why? Well, we can see a good amount of the quarter developing, but what do we attribute that to? I really go back to the volatility comment to where interest rates – well, let me step back. The demand right now is, by and large, in the fixed income and the private and alt side. Fixed income demand is both domestic and international. And private and alts, we have three private fund launches planned for this year. So what we're seeing is with interest rate volatility falling, I'd call out the move index here. Interest rate vol was extremely high in 2023. It's fallen in 2024 and continued even with this recent rate moves to moderate. That's the best leading indicator for clients having the confidence to allocate, particularly institutional clients, both the public and private vehicle.

So our forward look, our goal is that 2% plus organic growth rate. Good start in the first quarter. The forward-looking 2Q is very constructive. And interest rate volatility levels staying in and around this level is supportive of that.

If we look forward into '25 and beyond, that's where we look for the international and the equity component to broaden. Right now it's skewed towards fixed income and the private asset side.

Jimmy Bhullar (JPM) And if you look at your business, the Allianz deal was obviously very opportunistic. But as you think about your overall product capabilities, geographic reach, distribution, are there areas that you're looking to add actively? Or do you feel unless something is very opportunistic, we should not assume that you're actively looking for deals in asset management?

Don Templin (Voya) We are always open-minded to opportunistic. But the way I look at the businesses, we have a lot of things to scale today. So as we continue to deliver excellent outcomes for clients, we have fixed income, we have equities, both fundamental and thematic. We have multi asset solutions, we have the income and growth strategy, which is quite unique and resonates in global markets. So I feel like we have enough investment strategies. And I think our access in international markets with AGI, an over 500 person international distribution team, as well as in the US, we have differentiated access within the insurance market and also present in the in the US institutional and retail markets, I don't wake up each day worried about not having enough things. I want to focus on scaling the things we have. So we were very optimistic with AGI. I think it puts us in a great position to scale the business going forward. But as far as incremental expansion, I'd say what we've been loud on is adjacencies within our private and alternative books. So we've been in the private markets for five plus decades, in private assets and private credit and commercial real estate, and that's an area where we continue to expand. In middle market lending, renewable energy infrastructure lending, and the like. So you should expect further investments. Some of that can be organic, and if we see opportunities that are inorganic, we'll always be open minded, but the core of the business is about scaling what we have, and incrementally expanding into adjacencies on the private side.

Jimmy Bhullar (JPM) We've gone longer on the time than I expected, but Don, Mei Ni, are there anything sort of key messages for investors that are listening on Voya, on your portfolio or otherwise? And are there any questions that you've received from investors recently on the portfolio on topics that haven't been covered on this call?

Don Templin (Voya) So Jimmy, I think that the questions that you asked and that were asked by Pablo and Kevin, are very consistent with the kinds of questions that we've been receiving from investors since our first quarter earnings call. I guess what we want to make sure we leave folks with, the message I think well-articulated by Eric and Matt is that we have built a portfolio that's intended to perform through cycle. We've been very thoughtful about how we have put that portfolio together and we feel very comfortable that it has been performing over the last couple of years. You've had an opportunity to view that through some periods where there have been reasonably significant changes in the macro and where there have been some

	headwinds, and that portfolio has performed very well. So I think that's what we're planning to do, that's what we intended it to do, and that's how it is performing.
Jimmy Bhullar (JPM)	Jennifer, are there any other questions on the line?
Moderator	There are no further questions registered at this time.
Jimmy Bhullar (JPM)	And then maybe the last one for Matt and Eric. As you're looking at the broader credit environment, are there areas or behavior by some of the investors you might compete with where you feel that the risk/reward is really not that compelling? Or you're seeing some investors do things that don't make much sense to you and you think there's aggressive behavior out there?
Eric Stein (Voya)	Thanks for the question. I wouldn't say there's one particular market where you look at behavior in various credit markets and say that doesn't make sense. I think we've had both the '07/'08 global financial crisis, the 2014/15 energy shock, and then obviously the COVID shocks and the last 15, 16 years kind of 3, and maybe you could throw another one in there as well kind of credit shocks. I would say an area to me that interesting to watch, and a lot of the questions that we got here and Matt was talking about was various parts of the private side of our GA, I think that the private and public credit markets, while we talked about them here on the call and they're generally discussed in financial press is very distinct, I think they will come closer together, so we see that. If you look at the middle market, what typically is referred to as private credit, not really the private placement business that we have on the IG side here at Voya, but when people typically talk about private credit, they actually mean middle market lending below investment grade things that compete with the bank loan or so called broadly syndicated loan markets, those markets are converging somewhat. They're still distinct, but issuers have multiple places to go to get financing. And so I think that trend will continue over time. I think from a broad credit perspective, it's important if you're a public market investor to look at private markets. And if you're a private market investor, you can always look at public comps. So I think when you think about where could there be areas of stress or areas of fraud, it's trying to take a more holistic view into broad credit markets across public and private, as opposed to one particular sector.
Jimmy Bhullar (JPM)	And are you seeing the regional banks invest different than what they've done in the past, whether it's on mortgage loans or otherwise? And if there is any change in this behavior, what are the implications of that for Voya and the insurance industry?
Matt Toms (Voya)	Maybe I'll start. I do think the retail banks and a lot of the institutional players are very sensitive to their commercial mortgage loan portfolios, so that's an area that creates opportunity. And it's a classic area for longer term investors to be able to step in and provide the liquidity, be that insurance company regulated balance sheets or private funds spaces. I think, in general, the banking model is interesting, because the absence of bank lending has created the middle market lending space. And now their hesitancy on the commercial real estate side we think will provide opportunities for long term patient capital, be it in regulated balance sheets or private fund form to provide that service. So the banking industry becomes more of a service based industry as opposed to a balance sheet intensive industry, we think that's the direction to travel. And that's clearly going to open up opportunities and risks, both

risks and opportunities, but more opportunities than risks, and that's what's been growing the private market side that Eric has referenced as well.

So, we don't think that trend is over with. And the bank approach to that is certainly a part of that on the commercial real estate, mostly on the mid-sized commercial real estate loans is where the banks would be present.

Jimmy Bhullar (JPM) And I got a question from a client on the line on how much of your private credit investments are investment grade single issuer obligation, private placement versus investment grade data credit enhancements on below investment grade assets?

Matt Toms (Voya) So that's a really good question. Do I have that stat available? I don't know that I can give you a precise number, but I would say that we rate the companies we're lending to, the vast majority of what's on our general account is individual deals that we rate and they don't get an investment grade rating because of a subordination, a note structuring or a rating arbitrage approach. They're rated at the deal level and we have on our balance sheet hundreds and hundreds of individual diversified deals as opposed to vehicles aggregated to create a large amount of investment grade subcomponents of deals. Every insurance company will have some securitized components, A B, C note rate structures. But if you look through our detailed statutory filings, what you'll see is a preponderance of individual loans that are rated investment grade, not aggregation structures to create investment grade from below investment grade rated deals.

While we own a CLO portfolio as part of our ABF and that's the classic, AAA and CLOs because you have 20 plus percent enhancement, that's not what you're seeing on our private side. Those are actual loans to investment grade rated entities.

Jimmy Bhullar (JPM) Okay. Thank you. We'll end the call with that. Thanks to the Voya team for participating and thanks to all the investors for joining. Have a good day, everyone, and we'll send out a blast on email for the other calls we've got scheduled as part of the series, but thanks again to the Voya team for helping organize it. Take care, everyone.

Moderator That concludes today's call. Thank you for your participation. You may now disconnect your lines.