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PRESENTATION

Operator

Good morning, and welcome to the Voya Financial first quarter 2016 earnings conference call.

(Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Darin Arita, Senior Vice President of Investor Relations. Please go ahead.

Darin Arita - *Voya Financial Inc - SVP of IR*

Thank you, Emily, and good morning, everyone. Welcome to Voya Financial's first quarter 2016 conference call. A slide presentation for this call is available on our website at investors.voya.com or via the webcast.

Turning to slide 2. On today's call, we will be making forward-looking statements. Except with respect to historical information, statements made in this conference call constitute forward-looking statements within the meaning of Federal Securities Laws including statements relating to trends in the Company's operations and financial results and the business and the products of the Company and its subsidiaries. Voya Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties including those from time to time in Voya Financial's filings with the US Securities and Exchange Commission.

Slide 2 also notes that the call today includes non-GAAP financial measures. In particular, all references on this call to ROE, return on equity, ROC, return on capital or other measures containing those terms or to Ongoing Business adjusted operating return on equity, or return on capital as applicable, which are each non-GAAP financial measures. An explanation of how we calculate these and other non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures can be found in the press release and quarterly investor supplement available on our website at investors.voya.com.

Joining me this morning on the call are Rod Martin, Voya Financial's Chairman and Chief Executive Officer; Alain Karaoglan, Voya Financial's Chief Operating Officer and Chief Executive Officer of Retirement and Investment Solutions; and Ewout Steenbergen, Voya Financial's Chief Financial Officer. After their prepared remarks, we will take your questions. Also here with us today to participate in the Q&A session are other Senior members of Management, Charlie Nelson, Chief Executive Officer of Retirement; Jeff Becker, Chief Executive Officer of Investment Management; and Mike Smith, Chief Executive Officer of Insurance Solutions. With that, let's go to slide 3, and I will turn the call over to Rod.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Good morning, and thank you for joining us today. Let's begin on slide 4. During the quarter, we continued to execute on our initiatives to drive greater returns and to achieve our 2018 financial targets. Despite challenges from the capital markets during the first quarter, our ROE was stable at 12.1% for the 12-month period ended March 31, excluding items that we don't expect to recur. This is relatively unchanged from the 12.2% for the full-year 2015. On a reported basis, our ROE was 11.4%

Results in the quarter were negatively impacted by performance in alternative assets, which reduced operating earnings by roughly $0.17 per share. While we're disappointed with this quarter's alternative asset performance, it's important to note that this portfolio has historically generated strong performance and represents only 1% of our invested assets.

Moving to our growth initiatives. We are off to a good start in 2016. In our Ongoing Business, we demonstrated strong sales, deposits and in-force premium growth in the first quarter. We're confident that our strong focus on execution will enable us to achieve our 2018 ROE target of 13.5% to 14.5%. As you know, there was significant volatility in the equity markets this quarter. Despite this, our closed block variable annuity hedge program protected regulatory and rating agency capital from market movements. We're confident that the block remains well-positioned as demonstrated by our updated cash flow scenarios, which Ewout will cover shortly.

We also continued to focus on accelerating the runoff of the block and plan to launch our third enhanced annuitization offer this month. Based on the learnings from the first and second offers, we've decided to offer a 10% enhancement to the benefit base to policy holders of the 2006 and 2009 series. More than 27,000 policy holders, representing approximately $2.6 billion of account value, or roughly 22% of our income benefit block, will receive the offer.

We expect to provide you with a preliminary update on the response to the offer during our second quarter earnings call in August. As we consider ways to reduce the size of the block, we will continue to take actions that are good for our customers, for our shareholders and for Voya.

During the quarter, we continued to return capital to shareholders. We repurchased $220 million of our common stock at a weighted average price of $29.07 per share. And we have $500 million remaining on our current repurchase authorization. Since 2014, we have returned $2.5 billion to our shareholders through share repurchases and reduced our shares outstanding by approximately 22%. Share buybacks, combined with our investments in Voya's future growth, demonstrate our commitment to driving shareholder value.

And finally in March, we were recognized as one of the world's most ethical companies by the Ethisphere Institute for the third consecutive year. We have been consistently recognized by Ethisphere since becoming a stand-alone company. This year, Voya was one of only 131 companies and one of just seven companies in the financial services category to earn this global distinction. As you know, our business is built on trust and we're committed to ensuring that we continue to earn our customers' confidence in Voya's ability to help them get ready to retire better.

Moving to slide 5, you will see an overview of our first quarter results. For the quarter, we generated $115 million or $0.55 per diluted share in after tax operating earnings. Excluding DAC, VOBA and other intangibles unlocking, results were also $0.55 per diluted share due to minimal DAC unlocking during the quarter.

On slide 6, you will see our other key sources of value. Our Ongoing Business positions us well to help Americans get ready to retire better. It also makes Voya an attractive investment opportunity. Tax benefits, excess capital and the potential value in our closed block variable annuity segment continue to be additional value drivers.

Before I turn it over to Alain, I would like to note that we are closely reviewing the Department of Labor's rule on expanding the definition of fiduciary under ERISA. And as we discussed when the DOL's proposal was introduced last year, our concern was that it was excessively broad, complicated and could have unintended consequences on consumers.

The final rule is improved in many ways though it still may make it more difficult for some consumers to receive advice from advisors with respect to certain situations such as IRA rollovers. Also, the rule could have implications for certain of our distribution partners, such as possibly requiring advisors to partner with larger firms or cease to sell certain products. We continue to believe that the overall impact on Voya as an enterprise will be manageable.

As the final implications become clear, we believe we have significant resources available to adapt as needed. We also feel there may be opportunities that emerge to deliver more value to our customers and we remain confident in our ability to achieve our 2018 ROE target. With that, let me turn it over to Alain, to provide more details on our performance of our Ongoing Business.

Alain Karaoglan - *Voya Financial Inc - COO & CEO of Retirement and Investment Solutions*

Good morning. Let's begin on slide 8. Our return on equity and return on capital for the 12 months ended March 31, were 11.4% and 9.5%, respectively. The decline from the full-year 2015, was partly due to the negative performance and alternative assets that Rod mentioned. Excluding items we do not expect to recur at the same level, our return on equity was 12.1% and our return on capital was 10.0%. During the first quarter, we continued to execute on our more than 20 margin growth and capital initiatives to achieve our 2018 targets.

On slide 9, we have provided an update on the 2016 growth metrics. We are off to a good start for the year. In retirement, first quarter deposits for Small/Mid-Corporate were at the high-end of the guidance that we provided in February, and deposits for Tax-Exempt were within the guidance that we provided. We expect deposit growth to accelerate in the second half of 2016, as a result of our expanded distribution, our increased proposal volume and our improved sales force productivity.

In Annuities, we are targeting a 10% to 15% sales growth for 2016. During the first quarter, sales of index annuities increased 67% over the year ago period and very importantly, they increased at our targeted rates of return. This increase was largely due to our success in expanding our product line and increasing our presence with banks and our top-10 broker-dealer distribution partners, and Q1 2015, had shown less favorable trends.

Our sales of investment only products, however, were down 19% compared with the first quarter of 2015. This was largely driven by equity market volatility. For the rest of 2016, we expect our annuity sales may be affected by the reaction of distributors to the fiduciary rule and the level of interest rates. While it is too early to predict the outcome, we are actively working with our distribution partners to fully assess the impact of the fiduciary rule. We believe we are well-positioned given our expanded product portfolio, our strong distribution relationships and our technology solutions.

In Investment Management, we continued our expansion in the Institutional channel by generating further growth across a variety of asset classes and with our distribution globally and in insurance asset management. Institutional sales in the quarter, increased by 14% from a year ago, and that compares with our full-year growth target of 10% to 15%. Our retail intermediary sales were down 15% from a year ago, however, we believe our strong investment performance, our well-managed portfolios and our increased focus on serving retirement focused financial advisors will enable us to grow.

Finally, affiliate sourced sales increased 12% from year ago and that was in line with our full-year growth target of 10% to 15%.

In Employee Benefits, we grew our in-force premiums by 9% over the first quarter of 2015, in line with our target. This reflects robust sales and strong retention while maintaining our disciplined underwriting approach. In summary, we are focused on executing on the growth initiatives that we have previously shared with you and 2016 is off to a solid start.

Now, I will provide an update on the return on capital performance in our Ongoing Business as well as briefly highlight some examples of how our growth initiatives are taking hold.

Beginning with Retirement on slide 10. The return on capital was 8.5% when you exclude items that we do not expect to recur at the same level. We remain focused on executing our growth and margin initiatives to improve Retirement's return on capital. As we simplify our IT infrastructure and digitize processes, cost savings will improve margins.

In addition, we expect our growth initiatives to increase our revenues at a faster pace than expenses as we attract more assets to manage and to administer. For example, during the 12 month ended March 31, we increased the number of Small/Mid-Corporate advisors that are selling through us by 10%. This growth reflects deepening and broadening existing broker-dealer relationships supported by our expanded sales and service teams.

We have also retained business at our targeted rates of return. For example, in Small/Mid-Corporate, the strong retention that we had in 2015, continued into the first quarter of 2016, where we would typically see higher withdrawals. Furthermore, the first quarter of 2016 surrender rate for both plans and participants, was the lowest Q1 surrender rate over the last five years. This contributed to our 10th straight quarter of positive net flows in Small/Mid-Corporate. By leveraging our expanded distribution and our investment in new digital capabilities, we are confident that we can win more business and retain business at our targeted rates of return.

Moving to slide 11. The return on capital for Annuities was 9.0% when you exclude items that we do not expect to recur at the same level. We continue to benefit from our success in expanding our capital efficient product portfolio and in broadening and deepening our distribution reach. During the first quarter, we launched and began to pilot our new retirement income product. This is a customized retirement solution developed by our Annuities and Investment Management businesses that combines guaranteed income, flexible liquidity and capital appreciation. We also continued to improve efficiencies through the innovative digital tools we introduced last year. These tools have enabled us to streamline the new business process and deliver an improved distributor experience.

Moving to slide 12, the operating margin in Investment Management excluding investment capital was relatively unchanged at 29.0%. Investment capital was negatively impacted in the first quarter by the reversal of carried interest on a private equity fund where we are also the general partner. Our investment performance continues to be strong across our broad platform of fixed income, equities and multi-asset strategies.

During the first quarter, we received recognition for our investment performance with the Voya Ginnie Mae income fund, winning Lipper's five-year category award for funds that invest in government mortgage backed securities. Buying at interest levels remain high for our products and our solutions and we continue to win several new mandates during the quarter across a diverse set of strategies. We expect these mandates to fund in the coming quarters.

Turning to slide 13. The return on capital for Employee Benefits was 23.4% when you exclude items we do not expect to recur at the same levels. The progression of the returns since 2014 reflects loss ratios migrating towards our annual target. Over that period, we increased our in-force premiums by 32% and achieved these attractive returns. Our growth initiatives have helped us expand into the mid-market where sales increased 13% over the year ago quarter. In addition, voluntary sales more than doubled to $30 million over the first quarter o.2015, due primarily to a substantial increase in participation rates. Finally, we received 15% more requests for proposals in the first quarter versus a year ago. This reflects increased productivity from the new sales representative that we added in 2015.

Turning to slide 14. The return on capital for Individual Life improved by 80 basis points to 6.8% when you exclude items that we do not expect to recur at the same level. Our focus on reducing capital usage and improving margins, including the most recent transaction that we executed in late 2015, will continue to benefit Individual Life's return on capital. In addition, we continue to evaluate opportunities to further reduce capital usage to improve the return on capital and achieve our 2018 target. At the same time, sales of less capital intensive index universal life products represented 74% of total sales during the quarter and grew 20% over the first quarter of 2015.

In summary, our initiatives to improve our returns are performing well and we are encouraged by our new business growth in the first quarter. We will continue to execute on our plans to provide more value to our customers, achieve our financial targets and drive greater value for our shareholders. Now, I will turn it over to Ewout, who will provide more detail on our financial results. Ewout.

Ewout Steenbergen - *Voya Financial Inc - CFO*

Today, I will discuss our financial performance for the first quarter of 2016. Slide 16. We will highlight several key items that occurred during the quarter and other items to consider. Fee income, particularly in retirement and Investment Management, was affected by market declines in the first two months of 2016. Alternative investment income was also unfavorable while our prepayment fee income was in line with our long-term expectations. We identified the impact by each business segment on this slide.

In Investment Management, as Rod and Alain mentioned, our investment capital results were significantly impacted by a reversal of carried interest in one of our private equity funds resulting in a net loss of $16 million. The price decline of a publicly traded company in this private equity fund pushed returns downwards toward the fund's hurdle rate, thereby effecting a portion of carried interest already accrued.

Looking ahead to the second quarter, this private equity fund has another $15 million of accrued carried interest remaining, which is the maximum that could be reversed. If the share price of this holding recovers or valuations of other holdings in the fund improve, we would re-earn the carried interest. In the corporate segment, we expect to incur $30 million to $40 million of expenses related to our strategic investment program.

Slide 17. You will see that our $1.1 billion alternatives portfolio has a track record of exceeding 9% returns in recent calendar years and is diversified by asset class. We have an experienced team selecting and managing the assets in this portfolio. Regarding the first quarter 2016 performance, the three main drivers in order of magnitude were negative mark-to-market valuation on our private equity energy holdings, which also was a drag on returns in 2015.

At March 31, the remaining private equity energy exposure in our general account alternatives portfolio was approximately $125 million. The second main performance driver during the quarter was the price decline of a publicly traded company discussed earlier. And finally, volatility in underlying hedge funds returns also affected performance.

On slide 18, our quarterly Retirement net flows were positive across all markets. In Corporate Markets, we have now generated inflows for 18 of the last 19 quarters. We also had a $354 million pension risk transfer win and attracted positive Stable Value flows for the fifth consecutive quarter.

As shown on slide 19, we had a strong quarter for Fixed Indexed Annuities net flows which was supported by our recent investments in expanding our product line and institutional distribution. We also generated our 25th consecutive quarter of investment only inflows while continuing to run off capital intensive less profitable business.

Slide 20. First quarter Investment Management sourced net inflows were $517 million, primarily reflecting third-party insurance asset management wins, the closing of a new CLO and higher institutional sales. We are encouraged by the continued client demand across a broad range of our products and solutions.

Slide 21. We experienced unfavorable mortality in Individual Life due to elevated severity. The graph on the right shows that our first quarter actual to expected mortality ratio was 98.5% and this is relative to expected mortality ratio of 90%.

Then moving to slide 22. The loss ratio for Stop Loss continued to be better than our expected annual range of 77% to 80%. The loss ratio for Group Life was impacted by higher severity along with a typical seasonal rise in frequency. The loss ratio tends to be the highest in the first quarter. We have seen this quarter's seasonal trend materialize in other years, except in the first quarter of last year when results were unusually favorable.

Slide 23. In the closed block variable annuity segment, our hedge program continued to protect regulatory and rating agency capital. Our hedge program is designed for markets such as those experienced during the quarter. The living benefit net amount at risk increased to $6.6 billion during the quarter, primarily driven by declining interest rates. We have estimated available resources of $6.6 billion, and these are all hard assets. We did not have a letter of credit need at March 31, and no LOCs were issued.

Slide 24 updates the impact of various market sensitivity scenarios on CBVA's 50-year cash flows on a present value basis. The net present value of cash flows consists of two components; the available resources backing the block and the resources needed. And the latter includes the present value of fees, claims and the cash flow impact of our hedges. The updated net present values are generally in line with those calculated last year.

Higher values for scenario one reflect changes to our hedging program to further protect the block in sharply depressed market scenarios. Lower values for scenario four, result from lower modeled long-term interest rates adjusted as part of our annual assumptions review that we discussed on our third quarter 2015 earnings call.

Slide 25 puts the four deterministic 50-year cash flow scenarios in perspective as we did last year. The graph illustrates the distribution of net present values of cash flows using 1,000 stochastic scenarios and discounted at swap rates. The X axis represents the net present values of cash flows and the Y axis represents the distribution of results. We overlaid the four deterministic scenarios on this graph to provide some perspective about where those scenarios would fall on the distribution. Please note, that the distribution of results does not represent the probability of outcomes.

As seen on the far left of the graph, deterministic scenario one is an outlier as it aligns with a very small distribution of results under the stochastic scenarios. There are only four stochastic scenarios worse than scenario one. The other three deterministic scenarios are closer to the center of the distribution. The distribution of stochastic scenarios is generally comparable to that of last year.

Slide 26. We are managing our energy fixed income holdings carefully, ending the first quarter with $6.9 billion of fair value exposure and this figure came down from $7.3 billion at year-end 2015. On a book value basis, our holdings were reduced by about $700 million and we took $9 million of energy-related intent impairments during the quarter.

The combination of our portfolio actions and a rebound in energy bond prices during the quarter helped reduce our unrealized losses to $286 million in the first quarter of this year, from $540 million in the fourth quarter of last year. We will continue to actively manage our holdings to optimize risk and capital adjusted returns.

On slide 27, you can see that credit migration within our energy portfolio in the first quarter did not have a major impact on our estimated combined risk-based capital ratio. RBC increased to 491% at quarter end driven primarily by statutory net income. On the right side of the slide, our debt-to-capital ratio as of the end of the first quarter, was unchanged at 22.4%. Our regulatory and financial leverage ratios remain better than our targets.

And then slide 28, our capital position remains strong. Holding company liquidity stood at $556 million at the end of the first quarter. The middle chart shows our first quarter ending excess capital position at $817 million, which consists of estimated statutory surplus and holding company liquidity above target. The chart on the right shows we repurchased shares totaling $220 million in the first quarter, leaving $500 million of remaining capacity on our current share repurchase authorization at March 31.

In summary, we continued to make progress on our various initiatives amongst a volatile market environment. Our closed block veritable annuity segment hedges continued to protect regulatory and rating agency capital. Finally, our capital position remains strong as we actively repurchased shares in the first quarter. With that, I will turn the call back to the operator Emily, so we can take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Suneet Kamath, UBS.

Suneet Kamath - *UBS - Analyst*

Good morning. I wanted to start with Retirement. When I look at the return on capital on slide 10, we have seen that come down pretty consistently since the FY14. And with this being your biggest business, I'm trying to understand maybe when should we start to expect to see some improvement in the ROC of this segment?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Suneet, Charlie will take that question.

Charlie Nelson - *Voya Financial Inc - CEO of Retirement*

Thank you. I think we remained obviously very focused on the execution of our Investor Day goals. I think we said at the beginning, it was not going to be linear and certainly, there has been some headwinds that we remain determined to manage our way through. Having said that, the recordkeeping business and the challenges we have had there and our exit from the defined benefit market, as well as the general interest rate environment, has created some of those headwinds for our journey forward.

However, what we're very optimistic on is our competitiveness and our strong growth in the RFP opportunities that we are seeing in our recordkeeping business and across all of our lines of segments. But in particular, our growth in the recordkeeping and our fee-based businesses, we think is going to grow and help us move forward with our ROC growth later this year and in 2017. So I think the repositioning of our recordkeeping business, the exiting of our defined benefit business later this year, and just the overall growth will focus us on our Investor Day objectives of really focusing on the growth of margin initiatives and expanding our distribution and focusing on the margin initiatives of less capital intensive products as well as IT simplification.

Alain Karaoglan - *Voya Financial Inc - COO & CEO of Retirement and Investment Solutions*

Suneet, just to add to that. As you have seen in the first quarter, we are seeing growth opportunities and we're able to grow our business nicely and we expect that growth to come through. As these businesses come through on the books and it generates the revenue, we also expect to control our expenses. As you know, we are investing in IT simplification and digitization of our processes. That's going to lead to a lower cost structure, but as well, a better customer experience for both our distributors and our ultimate customers. That's going to help our return on capital between now and 2018 to achieve our targets.

Suneet Kamath - *UBS - Analyst*

I guess for Ewout on this CBVA cash flow scenarios, just looking at that slide 24. The update is based on year-end 2015 levels and if I think about macro and where we are today, equity markets are pretty close. But we've seen a pretty significant decline in interest rates. So just wondering if we were to mark this cash flow scenario schedule to current interest rates, how significant of a change would we see particularly in that scenario one?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Suneet. Let me answer your question in two different ways. The first part of the answer is we are not updating the 50-year cash flows every quarter. There are markets that go up and down by quarter. These are very long cash flow projections. So one quarter difference is not going to have a meaningful change in the outcome of the results.

The second part of my answer is I think what will give you a good indication of sensitivity around interest rates, if I will tell you what a very low interest rate scenario would do relative to the distribution of results. So if you would for example, take a scenario where interest rates would fall from where they are today, but equity markets behaving in line with long-term market averages, the outcome of such a scenario would be better than what you see as the outcome of deterministic scenario one. So in other words, it would be more on the right-hand side of the outcome of scenario one. That would be the outcome of such a scenario. So just to give you an indication about an interest rate scenario and where that would fall on the distribution.

Suneet Kamath - *UBS - Analyst*

That is helpful. Thank you.

Operator

Ryan Krueger, KBW.

Ryan Krueger - *Keefe, Bruyette & Woods, Inc. - Analyst*

Good morning. If I could just follow up on your answer you just gave, Ewout? In that scenario you just provided, and you said it would be on the right, but would it be a positive number?

Ewout Steenbergen - *Voya Financial Inc - CFO*

I wouldn't be able to give you a specific answer on that. But I would say it is better than scenario one. It wouldn't be a very high scenario obviously, so don't expect that there would be a scenario where the outcome would be a large positive number. I think that's probably the best direction I can give you with respect to the outcome of such a scenario. Of course, it is very path dependent so therefore, it's very hard to give a precise answer.

Ryan Krueger - *Keefe, Bruyette & Woods, Inc. - Analyst*

And then I had a question on excess capital. Excess capital is a little over $300 million above the remaining $500 million authorization. How are you thinking about that buffer at this point given that we have seen some recovery in equity markets as well as credit spreads?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Ryan, we feel very good about the buffer in excess capital. To go back to year-end, you recall that we had an excess capital position of $1.068 billion and we had $700 million buyback authorization. So therefore, $368 million of excess capital rounded to that $400 million number that we mentioned during the call. Now, we have $817 million excess capital. We have still $500 million of buyback authorization left. So you could say $317 million above.

And that $50 million drop is more related to timing matters with respect to the holding company liquidity, usually the financing cost runs a little bit higher. On a cash basis in the first quarter, there was a tax payment related to the second RGA transaction. So we would call that more timing related. Therefore materially, we feel we have still the same excess capital position over and above our authorization that we set at year-end.

I told you a quarter ago that there was nothing particular we were concerned about with respect to the overall risk position of the Company. What we are planning to do is to work through the remaining $500 million authorization over the next period and somewhere during the course of this year, decide on the best purpose of the remaining excess capital. And obviously, what we will do with that will be a deployment in the most value enhancing way for our shareholders.

Ryan Krueger - *Keefe, Bruyette & Woods, Inc. - Analyst*

Than you.

Operator

Eric Berg, RBC Capital Markets.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you very much. Rod, a number of companies and now Voya, have used exactly the same word to describe the expected impact of the DOL. It is going to be manageable they have said. That is helpful, but it would be more helpful if we could go to the next step. Because to me, manageable implies it won't be especially burdensome, but it does not really tell equity holders what they really need to know, which is how earnings and the long-term value of the Company is going to be affected. So perhaps you could take us to the next step and let us know what this is going to cost you and as best as you possibly can, how the earnings power and ultimately, the value of the Company will be affected? Thanks.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

You bet. Eric, good morning. Let me start at just summarizing what we have been discussing frankly, since it was proposed and then we will attempt to get down to some very specifics with Charlie or Charlie and Alain here. As you may recall, Eric, and as we've previously discussed more broadly at these sessions, the Large Corporate space for us and others is principally exempt as the Tax-Exempt market is. So we're relatively unaffected in that space. The Small/Mid space, we have been operating within a framework or with a framework that is largely in line with what the proposed regulations are.

And the piece that we felt was going to be in scope and is, is the IRA rollover business. We'll come back to that in just a moment. And the piece that we did not anticipate and I think the industry did not anticipate was the indexed annuities included in that. Given we're one of the largest players in the retirement space in both the small, mid and large corporate place, we felt it would be manageable then and we very much do now. But let's try to drill down in terms of some of the specifics and perhaps some of the opportunities that we see. And with that, I will hand it to Charlie.

Charlie Nelson - *Voya Financial Inc - CEO of Retirement*

Thanks, Rod. The fiduciary regs present certainly some challenges but a lot of opportunities as well, especially for the products and the businesses that we have. As Rod indicated, the Large Corporate market, Tax-Exempt largely unimpacted, as well as our Small/Mid. We are a little bit different than some of our competitors in the marketplace because our products are really structured and positioned where we utilize a MorningStar service for the plan sponsors to select the underlying funds. This really makes us very well-positioned for future growth in that Small/Mid-size market.

But the rollovers is certainly going to be a challenge for all companies in the industry and the growth of the IRA business. In particular, just to give you that kind of extra layer of granularity. Why is it that rollovers are going to be more challenged I think for IRA business, is that under the new regs, when you rollover, you have to do that in the best interest of the client. And that needs to be documented in terms of what form, what amount and the destination. You have got to look at the expenses, both in the plan that they have, where they're going, you have got to look at the services, you've got to look at the fee structures across that and you have to document that down. And if you're taking any compensation difference as an advisor, you've got to document and be able to explain why the compensation is different.

So as I gave you that clarity and depth, hopefully you can see that why a lot of people in the industry believe that that may actually leave a lot of money to stay in plan in the future and may potentially slow the growth of IRAs. There will certainly be IRA growth and a lot of people that will need that because that will be in their best interest. But we believe that some advisors are going to probably, just for the effort involved, may not focus on it quite as much as they focused in the past.

Secondly, in the retail wealth management business, I anticipate it that there's going to be a challenge for smaller advisory practices. So, smaller advisor firms, maybe 5, 10 or smaller firms and there's lots of these RIA type firms around the country. The additional compliance cost, the supervisory cost, the documentation, the websites, the contracting costs that each of them are going to have to do now that they may not have had to have done in the past, will probably lead them to larger scale providers like ourselves and our Voya Financial Advisors. So we think that, that well positions our Voya Financial Advisors and the growth of our overall retail wealth management franchise. That just gives you a flavor inside of Retirement. Alain, would you like to cover off on the annuities?

Alain Karaoglan - *Voya Financial Inc - COO & CEO of Retirement and Investment Solutions*

As Rod mentioned, one of the unexpected item of the rule was the fact that the fixed indexed annuities would be subject to BIC. And maybe I can answer the question Eric, first focus on the industry impact and then tell you why we believe we are well-positioned in that framework. First, we would expect to see annuity products offered by the industry to evolve in reaction to the rule as distributors are going to seek products that satisfy disclosure requirements and compensation limits.

One of the challenges of the BIC exemption is the definition of financial institution. Because in order to take advantage of the big exemption, the selling agent needs to be affiliated with either a bank, a broker-dealer, an insurance company or a registered advisor. And there is a significant population today that is not affiliated with a financial institution and these independent agents, they are seemingly disenfranchised by the rule absent some future relief from the DOL. Now, that's from an industry point of view.

Now, let me tell you why we are well-positioned within that industry. Because first, 60% of our sales are through financial institutions that we feel are well-positioned to comply with the BIC rules. In addition, 85% of our sales are through registered reps that if they need to find or affiliate with a financial institution, they will be able to do so.

The fiduciary regs also require that the compensation paid be a reasonable compensation along with some new disclosures and warranties. And at Voya, we have consistently applied an approach of designing products that have highlighted the customers with reasonable compensation.

Also, we don't engage in non-monetary sales incentives that are prohibited by the rule. So in summary on the annuities side, there is continued demand for the products like that, there might be some choppiness as distributors figure out what they're going to do and might shrink the shelf of products they have and we are well-positioned in this marketplace given the products that we sell, the compensation that we pay and the mindset of our business.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Let me add one more piece. As an industry, we have been through changes like this previously. And this particular product is solving the need that it does for the customers in terms of assisting them and helping retire better, not just for Voya, but frankly, from an industry perspective.

My experience is that the products will adjust and modify, the compensation will become appropriate for the current environment and we and the industry will find a way to both comply and I think to continue to flourish in this space. We have been through this before and I think we're very well-positioned to adjust and adapt as we push forward. Eric, I'm sorry I interrupted you.

Eric Berg - *RBC Capital Markets - Analyst*

I have a follow-up. Because your response has been really helpful and really long, I am going to do my follow-up later. I will re-queue so others can ask their questions.

Operator

Jimmy Bhullar, JPMorgan.

Jimmy Bhullar - *JPMorgan - Analyst*

I had a question first on your trading losses that you suffered in the fixed income portfolio. It's a pretty high amount, I think around $57 million. Can you comment on what these were related to and what type of portfolio repositioning you are doing in the current environment?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Jimmy. We would say that those are normal losses. We have been running much more favorable in the past given the very positive credit cycle we have seen over the last few years. Trading losses like that or credit losses like that in a quarter like we have seen in the first quarter of this year, we would consider more normal part of business.

So let me give you some perspective on that. With respect to impairments on a GAAP basis, those two impairments were $27 million during the quarter. Of that, credit impairments were $2 million. $9 million were intent impairments and credit losses related to some disposals were $17 million. So overall, the credit losses in relation to some of the disposals were in other words, very minimal. Otherwise, this was normal trading activity that happened during the quarter.

Jimmy Bhullar - *JPMorgan - Analyst*

And they were related to energy investments, commodity investments or any specific type of a security?

Ewout Steenbergen - *Voya Financial Inc - CFO*

All of the above. But clearly, if you look at the energy holdings, they are as we told you during the prepared remarks, we reduced our exposure on the book value basis by $700 million. So a part of those losses, trading losses and credit losses, were related to energy. But there were also other industries and sectors that drove that result.

Jimmy Bhullar - *JPMorgan - Analyst*

And then on the closed block, the net amount at risk increased by about $1.4 billion, more than the change in the equity market would have suggested. So how much of this is because just weak subaccount investment performance versus maybe the drop in interest rates?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Jimmy, the net amount at risk increase from last quarter to this quarter is almost fully attributable to a decline in interest rates. The net amount at risk is calculated on the basis of swap rates, discounted at swap rates and of course, we have seen very large declines. So the net amount at risk is very sensitive for swap rates. It is just one way to express liabilities of the Closed Block Variable Annuity. We have stated before, we think this is a very simplistic way to express the liabilities. There are much more sophisticated ways to look at liabilities. Think about our statutory requirements. Think about rating agencies requirements.

To give you a feel for that, relative to the statutory requirements, we have approximately $800 million of excess assets over and above the liabilities on the statutory basis. And we also have significant excess assets over the rating agency requirements. Those you would consider more sophisticated expressions of liability. So overall, we are very comfortable where we are with the closed block and what you have seen during the quarter. It has behaved as expected. The hedges have worked and the risk profile is very similar to what you have seen before.

Jimmy Bhullar - *JPMorgan - Analyst*

Thank you. Lastly, on the corporate segment, the other income was very high. It was $18.1 million, about $5 million to $10 million higher than it's been running in recent quarters. And I think the last time it was this high, you had a recovery on your Lehman Securities. Anything that drove that? I recognize the number bounces around, but really what drove the uptick this quarter?

Ewout Steenbergen - *Voya Financial Inc - CFO*

There's always a few matters and moving parts impacting our corporate segment. This particular item that you see on that line has to do with an insurance recovery on the legal matter that happened during the quarter. So it was very specific on this particular matter and not something you should expect to recur in the future.

Jimmy Bhullar - *JPMorgan - Analyst*

And the magnitude, was it around $5 million to $10 million more or less?

Ewout Steenbergen - *Voya Financial Inc - CFO*

It was approximately $7 million.

Jimmy Bhullar - *JPMorgan - Analyst*

Thank you.

Operator

Yaron Kinar, Deutsche Bank.

Yaron Kinar - *Deutsche Bank - Analyst*

Most of my questions have been answered, but I do want to circle back to the fee-based margins, which compressed by about $30 million year-over-year. And I think even if we take out the recordkeeping portion of it, it's still at $22 million, $23 million compression. How does that square off with the previous statements or of your guidance or sensitivity that you had provided, which I think was something along the lines of $3 million to $4 million of earnings impact from a 1% move in the market? Can you maybe help us think through the overall impact from the market this quarter?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Good morning, Yaron. This is Ewout. Those numbers are still very much in line with the sensitivities we have provided to you before. You have to look at the daily average performance of the equities markets during the quarter. We know point to point, the S&P was up just over 0%, just somewhere between 0% and 1%. The daily average performance was more negative at the level of 4.5%.

That is of a course affecting fee income. But there are offsets to lower fee income, trail commissions will be lower, there is some expense offsets to that as well as there is a DAC offset. So if you would take all of those elements into account, then the impact during the quarter on earnings from a 4.5% average equity market decline is very much in line with that approximately $4 million per percent point equity market impact.

Yaron Kinar - *Deutsche Bank - Analyst*

In other words, once I factor in the reduced costs or related expenses in DAC, we are really talking about roughly $4 million --?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Correct. And that is still the sensitivity we have and also the guidance we would like to provide going forward with respect to equity market sensitivity.

Yaron Kinar - *Deutsche Bank - Analyst*

That is helpful. On the expense side. I was surprised a little bit even when trying to factor in for seasonality that the administrative expenses, both in Annuities and Employee Benefits, were tracking a bit higher than I would have expected. Is that simply the continued ramp up of investments in the platform and how should we think of the run rate going forward in those two segments?

Ewout Steenbergen - *Voya Financial Inc - CFO*

Overall, you may expect us to be very disciplined with expenses and just to see expenses being very much flat period over period. So if you look back to the last few years, you see that our administrative expenses are materially the same for the last few years. So we're very tight on expenses and use that as having operating leverage with running more revenues and more sales through the same infrastructure expenses.

The first quarter expenses were impacted by three matters. First, we had seasonal expenses of approximately $15 million. These were mostly payroll taxes and other matters that always run high in the first quarter. The second reason is there were sales related, commercial related expenses. Those are of course, very positive. And thirdly, there were some IT project spends that was a bit higher in the first quarter. That had purely to do with the timing when some IT projects were finished. This was mostly impacted Retirement and Employee Benefits and we don't expect those higher IT project spend to recur during the next quarters.

So both the seasonal expenses as well as some timing of IT expenses, you should see coming down in the future. And again, period-over-period, 2015, 2016, we expect our administrative expenses to be more or less materially in line with the previous year and the years before.

Yaron Kinar - *Deutsche Bank - Analyst*

Thank you very much. That's very helpful.

Operator

Erik Bass, Citigroup.

Erik Bass - *Citigroup - Analyst*

Thank you. I wanted to ask a question on Investment Management similar to what Suneet asked about with Retirement, which is that -- adjusted margins have been relatively flat in the 29% to 30% range since 2014. So I was hoping you could discuss some of the underlying dynamics and what needs to happen for you to get to your 33% to 35% target for 2018?

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Jeff Becker will take that.

Jeff Becker - *Voya Financial Inc - CEO of Investment Management*

Good morning. As you've noted, the pretax margin for investment management has remained flat for a few quarters now. If you look at the first quarter of 2016, it was 17.1%. This was down from about 29% in Q4 2015, and similarly in Q1 2015. As Ewout mentioned, a lot of that in the first quarter was due to the unwind of some carried interest in a private equity fund.

If you look at some of the other drivers of that, we also had lower investment management fees in the first quarter that was market driven. Also as Ewout mentioned, point-to-point was relatively flat, but average assets through the quarter were down. In addition, you saw in the previous couple of quarters, we had negative net cash flow. So again, if you look at the overall asset base, we opened the year with lower assets and therefore, you're seeing lower fee income as a result of that. We did also have some seasonality in expenses, also mentioned by Ewout in terms of payroll taxes related to first quarter compensation payments.

That said, we've seen some very encouraging trends in terms of our sales, net flows and pipeline activity. As you can see in the prepared deck, investment management source net flows turned positive for $500 million in the first quarter. Affiliate sourced were flat essentially, but that was also an increasing trend and we have a number of initiatives underway that we think will keep that trend progressing. We have strong pipeline of sales across our various channels.

We've talked about the success, early success, we are seeing in our insurance asset management channel, where we have a very strong pipe. Similarly, in our institutional channel. And it's again, it's a diverse array of strategies. So to answer your question succinctly, we see growth in assets, the initiatives we have underway in our third-party channels as well as our affiliate activities with our Retirement business really driving the growth in assets and ultimately, the growth in margin.

Erik Bass - *Citigroup - Analyst*

Basically, it sounds like it's a top line growth and AUM growth is what you need you get to the target. Anything on the expense side that we should think about as well?

Jeff Becker - *Voya Financial Inc - CEO of Investment Management*

On the expense side, we think we have the infrastructure in place that is very leveragable. In other words, we don't need a large investments in either technology or platform to achieve the AUM growth. We continue to obviously invest in those areas and renew, but we're able to offset that in many respects with efficiencies in the process. So we will have investment in the infrastructure but it should be at a level that still allows the asset growth to fall largely to the bottom line.

Erik Bass - *Citigroup - Analyst*

Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Rod Martin, for any closing remarks.

Rod Martin - *Voya Financial Inc - Chairman & CEO*

Thank you, Emily. We have made progress on a number of our growth initiatives this quarter as seen in the sales performance and several of our businesses. We are solid self-help story. We continue to expand distribution, increase productivity and offer new customer solutions and reach new client segments. We also have a strong capital position that provides the foundation to deliver greater value to our customers and shareholders and we remain well-positioned to achieve our 2018 ROE targets of 13.5% to 14.5%. Thank you and good day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
