

Focusing on High-Quality Companies with Sustainable Growth Trends

Strategy overview

Actively managed small cap core strategy driven by bottom-up fundamental research seeking high-quality companies with strong balance sheets and cash flow characteristics that are beneficiaries of sustainable growth trends.

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Key takeaways

- Markets are off to a good start to the year, as the underlying fundamental factors of the economy remain strong. Inflation is still above the U.S. Federal Reserve targeted mandate but has fallen sharply from its 2022 highs, and U.S. gross domestic product (GDP) has significantly outpaced that of other developed economies.
- The Voya Small Company Strategy (the Strategy) underperformed its benchmark, the Russell 2000 Index (the Index) on a net asset value (NAV) basis primarily due to negative impact from stock selection. The Strategy benefited from stock selection in industrials sector as well as the underweight and selection in the utilities sector. Conversely, stock selection in the information technology and healthcare sectors detracted.
- Markets have thus far shrugged off any uncertainty brought on by it being an election year, although it remains to be seen if that will continue. Artificial intelligence (AI) continues to be a catalyst for growth, and markets are anticipating rate cuts to begin before year-end, which is all good news for equities.

Portfolio review

U.S. stocks enjoyed a strong first quarter as inflation's downward trend continued and U.S. economic growth beat expectations. The S&P 500 Index reached a new high and advanced by 10.56% on a total return basis during the quarter and the Nasdaq Composite had a price return of 9.11%. The communication services, energy and information technology sectors led, while real estate and utilities lagged. Large-cap stocks outperformed small caps and growth beat value. The Federal Open Market Committee voted to hold interest rates steady for the fifth consecutive time at its March meeting; however, three rate cuts are still expected this year, with the first likely to happen in June.

U.S. bonds slipped during the quarter amid persistently tight credit spreads and a rising U.S. Treasury yield curve. The Bloomberg U.S. Aggregate Bond Index fell -0.78%. The 10-year U.S. Treasury yield rose from 3.95% in January to 4.20% by quarter end on early concerns that lingering high inflation could change the Fed's rate cut plans; however, it remained essentially flat in March following favorable comments from Fed Chair Powell.

The Strategy underperformed the Index on a NAV basis for the quarter March 31, 2024, primarily due to negative stock selection. The Strategy benefited from stock selection in industrials sector as well as the underweight and selection in the utilities sectors. Conversely, stock selection in the information technology and healthcare sectors detracted.

The main individual contributors to performance were Viking Therapeutics, Inc., Allison Transmission Holdings, Inc. and nVent Electric PLC.

The position in biopharmaceutical company Viking

Therapeutics, Inc. (“VKTX”) had a significantly positive impact on relative returns. VKTX experienced a remarkable surge of over 300% during the quarter, driven by the release of positive top-line results from a Phase II study of its glucagon-like peptide (GLP-1) drug. The Strategy’s benchmark weight in VKTX contributed to this strong performance.

The position in industrials company Allison Transmission Holdings, Inc. (“ALSN”) also contributed to relative returns.

The model had a favorable view of ALSN due to its strong quality, attractive valuation and volatility characteristics. In terms of quality, ALSN stands out with its robust research and development (R&D) investment compared to its sector and a strong capital efficiency ratio. The company, which specializes in manufacturing components for commercial and defense vehicles, delivered solid fourth-quarter earnings and experienced increased demand, further boosting its stock performance.

nVent Electric PLC, an industrials company specializing in enclosures, thermal management and electrical and fastening solutions, was viewed positively by the models at the beginning of the quarter. It falls into the High Quality Cyclical Peer Leaders category, driven by strong valuation metrics (earnings before interest, tax, depreciation and amortization (EBITDA) and operating cash flow to price), quality indicators (ROE/Efficient use of equity capital and earnings yield), and volatility factors.

The primary detractors from performance were Super Micro Computer, Inc. and MicroStrategy Inc., which made up nearly 50% of the underperformance. The third largest detractor was Clean Energy Fuels Corp.

Super Micro Computers, Inc. (“SMCI”), a technology stock specializing in technology solutions distribution and manufacturing, continued its upward trajectory in 1Q24, benefiting from the AI trade. However, the AI models hold a negative view of the stock due to its relatively large market cap in the small cap universe, as well as its quality and valuation features. Consequently, the Strategy opted not to include the stock in its portfolio, which had a negative impact on performance.

The decision to not own MicroStrategy Inc. (“MSTR”), a technology stock focused on analytics and mobility software, was the second largest detractor. MSTR’s stock price has experienced significant growth as it is a large owner of bitcoin and has benefited from the resurgence of cryptocurrency, in addition to its software business. Similar to SMCI, the AI models have a negative view of MSTR due to its size, quality and valuation features.

The overweight position in Clean Energy Fuels Corp. (“CLNE”) had a negative impact on performance. The stock declined during the quarter after management revised future guidance downward. The models had a modest view of the stock resulting in a small overweight which detracted from relative returns.

Holdings detail

Companies mentioned in this report — percentage of Strategy investments, as of 03/31/24: were Viking Therapeutics, Inc., 0%, Allison Transmission Holdings, Inc. 0.84%, nVent Electric PLC, 1.30% ; Super Micro Computer, Inc. 0%, MicroStrategy Inc. 0%, Clean Energy Fuels Corp. 0.40%, 0.00% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change on a daily basis.

The Russell 2000 Index is an unmanaged index that measures the performance of securities of small U.S. companies. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

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The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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