

Focusing on High-Quality Companies with Sustainable Growth Trends

Strategy overview

Actively managed small cap growth 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.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

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.
- 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.
- Small cap growth stocks performed well during the quarter, despite strong economic data indicating inflationary pressure and the probability of Fed rate cuts being pushed out to later in the year.

Portfolio review

For the quarter ended March 31, 2024, the Voya SmallCap Opportunities Portfolio outperformed the benchmark, the Russell 2000 Growth Index (the Index) on a net asset value (NAV) basis, largely due to individual stock selection within the consumer discretionary, financials and health care sectors.

Top individual contributors to performance included Natera, Inc., CAVA Group, Inc. and Modine Manufacturing Company.

Natera, Inc. (NTRA), a diagnostics company specializing in prenatal genetic testing, was the largest contributor to performance for the quarter. NTRA has seen strong Signatera testing volume growth driving 2023 revenue growth of 32% with better-than-expected gross margins. The company guided to 2024 revenue growth of 23% at the midpoint of its guidance and while we consider these numbers conservative, we are mindful of lofty expectations implied by the elevated valuation.

CAVA Group, Inc. (CAVA), a restaurant operator focused on Mediterranean cuisine, continues to execute their long-term unit growth plan of greater than 15%. Despite expectations for lower restaurant level margins, CAVA is projecting strong revenue and earnings before earnings before interest, tax, depreciation and amortization (EBITDA) growth in 2024. Although CAVA has a limited history as a public company, management has demonstrated a long-term approach to growing the business, exemplified by effectively navigating the increased labor cost pressures from the recent decision to raise the CA minimum wage to U.S. \$20 per hour. We have slightly trimmed the position given its strong move but continue to own the stock.

Modine Manufacturing Co. (MOD), a provider of thermal management products and technology to vehicular, stationary power and industrial applications, outperformed during the quarter. Although currently a small percentage of MOD's overall sales, the data center cooling business is expected to see substantial growth on the heels of the AI ecosystem expansion and could account for as much as 25% of sales within four years. Management continues to exit lower-margin businesses (Internal combustion engine automotive) in favor of high-growth markets (electric vehicle's and data centers). We believe these initiatives will drive strong revenue and EBITDA growth going forward and continue to hold a position in MOD.

Key detractors from performance included MicroStrategy, Inc., Churchill Downs Inc. and Smartsheet, Inc.

MicroStrategy, Inc. (MSTR), an enterprise analytics and mobility software company, was the largest detractor to performance for the quarter. While the company has shown limited revenue growth in their core software business, strong cash flow generation has allowed the company to build a large bitcoin position on their balance sheet. Given its almost 2.0% position in the benchmark during March and our generally constructive view of the supply-demand dynamics of bitcoin with the exchange-traded fund (ETF) proliferation making the asset class more accessible to institutional ownership, we purchased a small position to mitigate the net risk of further upside in the benchmark position. MSTR will likely exit the benchmark in June and thus our small position will be sold during the second quarter.

Churchill Downs Inc. (CHDN), an operator of horse racing, online account wagering and casino gaming, was a top detractor of performance for the quarter. With a strong development pipeline and appropriate expectations in place, CHDN is expected to see an uptick in revenue, EBITDA and earnings per share growth in 2024. Although the recent underperformance of the stock has been frustrating, we continue to believe the stock presents an asymmetric risk reward profile and continue to hold our position.

Smartsheet, Inc. (SMAR), a designer and developer of a cloud-based platform for work management using tables, plans, charts and calendars, underperformed for the quarter. Growth upside in large enterprise accounts is meeting competition from Monday.com and slowing growth and potential upside. In addition, SMAR recently announced a change in their senior sales leadership, which likely creates a period of disruption. With our original thesis broken, we are currently discussing a course of action.

Current strategy and outlook

With elevated inflationary data continuing to persist in 1Q24, expectations for aggressive rate cuts in 2024 have moved to the back half of the year. As a result, the rebound in relative performance for small cap stocks has stalled. In our view, the small cap stocks continue to present strong upside potential and therefore we have been adding new stocks to the portfolio that have higher growth rates and are aggressively reinvesting operating cash flow into their businesses. In turn, we have been reducing positions that have served the portfolio well and are now trading at less favorable risk reward profiles due to (1) less upside potential to revenue, cash flow and earnings growth, (2) historically high valuations, or (3) both. As we have said for several quarters, small cap growth stock valuations are at attractive levels relative to their large cap growth counterparts and continue to trade at a sizable discount on a relative basis (approximately 33% as of 3/31/24). Although a "higher for longer" environment could delay small cap stocks' outperformance, as long as a recession is avoided, small caps should show strong relative returns in a soft-landing scenario. The importance of fundamental analysis and the ability to delineate winners from losers continues to be paramount to the portfolio returns. Voya SmallCap Opportunities Portfolio's proven philosophy of focusing on companies with the ability to generate revenue, cash flow and earnings growth, that are trading at sustainable valuations, is a prudent approach over a full market cycle and should benefit investors in the current environment.

Holdings detail

Companies mentioned in this report — average percentage of Fund and Portfolio investments, as of 03/31/24: Natera, Inc. 2.70%, CAVA Group Inc. 1.67%, Modine Manufacturing Co. 1.99%, MicroStrategy, Inc. 0.78%, Churchill Downs Inc. 2.64% and Smartsheet, Inc. 0.41%; 0% indicates that the security is no longer in the Fund. Portfolio holdings are subject to daily change.

The **Russell 2000® Growth Index** is an unmanaged Index that measures the performance of securities of smaller US companies with greater-than-average growth orientation. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an Index.**

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. In exchange for higher growth potential, investing in stocks of **Smaller Companies** may entail greater price volatility and less liquidity than investing in stocks of larger companies. Other risks of the Portfolio include but are not limited to: **Growth Investing Risks, Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Liquidity Risks, Portfolio Turnover Risks and Securities Lending Risks.** Investors should consult the **Portfolio's Prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio's risks. An investment in the Portfolio is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

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