Voya MidCap Opportunities Strategy

Seeking a More Favorable Risk/Return Trade-off

Strategy overview

Actively managed mid-cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

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.
- For the quarter, the Strategy outperformed its benchmark, the Russell Midcap Growth Index (the Index), on a net asset value (NAV) basis due to favorable stock selection, particularly within the health care, consumer staples and industrials sectors.
- 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 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.

For the quarter, the Strategy outperformed the Index due to strong stock selection. Stock selection within the health care, consumer staples and industrials sectors contributed the most to performance. The consumer discretionary and communication services sectors were the greatest detractors.

Key contributors to the quarter's performance were Viking Therapeutics, Inc., Saia, Inc. and CrowdStrike Holdings, Inc.

A non-benchmark position in Viking Therapeutics, Inc. (VKTX) contributed to performance. The company announced Phase II results for weight loss drug VK2735 that outperformed expectations, demonstrating a potential best in class profile in obesity, while maintaining a favorable safety profile.

An overweight position in Saia, Inc. (SAIA) contributed to performance. The company reported another strong quarter with a big increase in shipments and relatively good cost control. Net capital expenditures are expected to double in 2024, setting the stage for continued growth.

An overweight position in CrowdStrike Holdings, Inc. (CRWD) contributed to performance. The company reported a strong quarter with earnings and revenue coming in above consensus estimates and annual recurring revenue (ARR) up 34% year over year.

Key detractors for the quarter were Lululemon Athletica Inc., Inari Medical, Inc. and Spotify Technology SA.

A non-benchmark position in Lululemon Athletica Inc. (LULU) detracted from performance. Lulu reported strong results during the period but softer than expected trends quarter to date led to disappointing FY2024 guidance.

A non-benchmark position in Inari Medical, Inc. (NARI) detracted from performance. The company reported a solid quarter but venous thromboembolism (VTE) growth decelerated year over year and concerns around competition saw share prices fall sharply during the period.

Not owning a position in Spotify Technology SA (SPOT) detracted from performance. The company reported a strong quarter and provided guidance that implies higher-than-expected free cash flow (FCF), while still producing solid new monthly active users (MAU).

Current strategy and outlook

The U.S. economy remains strong, with positive gains in payrolls and productivity. Consumer spending momentum appears soft but stable. Household net worth has increased significantly since the pandemic, but consumer confidence remains below long-term averages due to the lasting negative impact of higher prices on consumers' psyches. The U.S. labor market remains robust but shows signs of softening. While inflation has fallen to more manageable levels, concerns about overheating persist. Interest rates may remain higher for longer than some participants expect.

The economic soft landing and easier financial conditions, coupled with anticipated rate cuts, should create favorable conditions for U.S. stocks. Although a lot of price appreciation has already taken place and a near-term pullback is possible, there is significant potential for further rally once the Fed starts cutting rates.

Holdings detail

Companies mentioned in this report – percentage of portfolio investments, as of 03/31/24: Viking Therapeutics, Inc. 1.29%, Saia, Inc. 1.85%, CrowdStrike Holdings, Inc. 3.15%, Lululemon Athletica Inc. 1.29%, Inari Medical, Inc. 0.96% and Spotify Technology SA 0%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell Midcap Growth Index** is an unmanaged Index that measures the performance of those companies included in the Russell Midcap Index with relatively higher price-to-book ratios and higher forecasted growth values. 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. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Investing in stocks of **Mid-Sized Companies** may entail greater volatility and less liquidity than larger companies. The Portfolio may use **Derivatives**, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Portfolio performance. 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, Securities Lending Risks and Portfolio Turnover 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.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

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