

# Quantitative equity strategy with call writing seeks enhanced total return and downside capture

## Strategy overview

Emerging markets equity strategy seeks to maximize total return and generate higher income than the reference Index, using model-driven stock selection call options writing.

## Performance

For the quarter, the Fund provided a total return of 2.85% on a net asset value basis, and a total return of -0.38% on a market price basis. The Fund's reference Index, the MSCI Emerging Markets Index, returned 2.37%.

## Equity portfolio

**The equity sleeve outperformed the reference Index, primarily due strong performance in the proprietary core model.** Within the core model, all five pillars had a positive impact and the sentiment signal was strongest. The sleeve's higher dividend yield also contributed.

On the sector level, stock selection within the industrials, information technology and energy sectors contributed. Conversely, selection in the health care sector detracted. Regionally, selection in the Asia/Pacific excluding Japan contributed the most and selection in Africa/Mideast detracted.

At the individual stock level, the key contributors were not owning a position in Samsung Electronics Co., Ltd. and overweight positions in Indian Oil Corp. Ltd. and Hindustan Petroleum Corp. Ltd. Conversely, the underweight position in Reliance Industries Ltd., and overweight positions in Companhia Siderurgica Nacional and China Medical System Holdings Ltd. detracted.

## Option portfolio

The Fund's covered call strategy seeks to generate premiums and retain some potential for upside appreciation. This strategy detracted from returns during the period, with two out of three months experiencing negative performance. The Fund typically implements this strategy by writing call options on the emerging markets (EM) exchange-traded fund (ETF). The strike prices of the options written are usually at or near the money, with expiration dates around one month at inception.

## Outlook and current strategy

**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 U.S. Federal Reserve's rate cut plans; however, it remained essentially flat in March following favorable comments from Fed Chair Powell.

**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. 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.

**Emerging market equities struggled during the first quarter.** The U.S. dollar rallied during much of the quarter, which contributed to the underperformance. On a positive note, China's economic growth surprised on the upside, beating expectations. Growth drivers have shifted from consumption to investment. Net exports have remained weak. China's real estate sector has not yet bottomed out and is expected to weigh down growth this year.

## Holdings detail

Companies mentioned in this report – percentage of portfolio investments, as of 03/31/24: Samsung Electronics Co., Ltd. 2.80%, Indian Oil Corp. Ltd. 0.13%, Hindustan Petroleum Corp. Ltd. 0%, Reliance Industries Ltd. 0.40%, Companhia Siderurgica Nacional 0% and China Medical System Holdings Ltd. 0.20%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change daily.

## Disclaimer

The **MSCI Emerging Markets (EM)** Index captures large- and mid-cap representation across 24 emerging-market (EM) countries. With 1,387 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country. **Investors cannot invest directly in an index.**

**Past performance is no guarantee of future results.** All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. The performance quoted represents past performance. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

**Total investment return at market share price** measures the change in the market value of your investment assuming reinvestment of dividends, capital gain distributions and return of capital distributions/allocations, if any, in accordance with the provisions of the Fund's dividend reinvestment plan. Total investment return at market share price is not annualized for periods less than one year. Closed-end funds like the Fund do not continuously offer shares for sale and are not required to buy shares back from investors upon request. Shares of closed-end funds trade on national stock exchanges. Therefore, market share prices are not directly affected by Fund expenses or fees, which ordinarily have the effect of lowering total return.

**Total investment return at net asset value** has been calculated assuming a purchase at net asset value at the beginning of the period and a sale at net asset value at the end of the period; and assumes reinvestment of dividends, capital gain distributions and return of capital distributions/allocations, if any, in accordance with the provisions of the dividend reinvestment plan. Net Asset Value is total assets less total liabilities divided by the number of shares outstanding. Net Asset Value is net of all fund expenses, including operating costs and management fees. Total investment return at net asset value is not annualized for periods less than one year.

**Principal risks:** All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. Price volatility, liquidity, and other risks that accompany an investment in equity securities of domestic and foreign companies, and small and mid-sized capitalized companies. International investing does pose special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Risks of foreign investing are generally intensified for investments in emerging markets.

**Options risk:** The Fund may purchase put and call options and may write (sell) put options and call options and is subject to Options Risk. The risk in writing a call option is that the Fund gives up the opportunity for profit if the market price of the security increases and the option is exercised. The risk in buying an option is that the Fund pays a premium whether or not the option is exercised. Risks may also arise from an illiquid secondary market or from the inability of counter-parties to meet the terms of the contract. When an option is exercised or closed out, the Fund may be required to sell portfolio securities or to deliver portfolio securities to satisfy its obligations when it would not otherwise choose to do so, or the Fund may choose to sell portfolio securities to realize gains to offset the losses realized upon option exercise. Such sales or delivery would involve transaction costs borne by the Fund and may also result in realization of taxable capital gains, including short-term capital gains taxed at ordinary income tax rates, and may adversely impact the Fund's after-tax returns.

This Fund has **additional risks** that you should consider, such as market discount risk, investment and market risk, foreign investment and emerging markets risk, foreign (non-US) currency risk, Asia Pacific regional and country risk, issuer risk, equity risk, distribution risk, tax risk, dividend risk, small-cap and mid-cap company risk.

The strategy employs a quantitative investment process. The process is based on a collection of proprietary computer programs, or models, that calculate expected return rankings based on variables such as earnings growth prospects, valuation, and relative strength.

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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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. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

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(800) 992-0180 Individual Investors | (800) 334-3444 Investment Professionals

CEF-COMM-IDE • 033124 • ex033125 • IM3544505

voyainvestments.com

