Commentary | 2Q22

Voya Large Cap Value Strategy

Seeking the Potential of High-Dividend Yield and Dividend Growth

Strategy overview

Actively managed portfolio aiming to achieve a dividend yield that exceeds the average dividend yield of the companies included in the Russell 1000® Value index.

Key takeaways

- For the quarter, the Strategy outperformed its benchmark, the Russell 1000 Value index (the "index"), primarily due to stock selection effects.
- Financials, health care and industrials had the greatest selection impact.
- Consumer discretionary, and to a much lesser extent, real estate, were key detractors.
- With the Russia–Ukraine conflict persisting, it could lead to continued tightening of financial conditions and slowing economic growth.

Current strategy and outlook

Russia's war on Ukraine continued to warp market dynamics, pushing a surge of inflation. In response, the Federal Reserve pivoted to raising interest rates aggressively. The Fed policy response prompted worries that rate hikes would overshoot the need to curb inflation and cause a recession. Economic data began to show signs of slowdown in manufacturing and job growth, though prices continued to climb. On average, the number of S&P 500 companies issuing negative earnings per share (EPS) guidance for calendar year 2022 increased, though that number was about the middle of the range for the last ten years. Investors responded to these signals with accelerated stock selling, which pressured prices lower.

At some point, declining financial markets, higher interest rates and a stronger U.S. dollar ought to tighten financial conditions enough to curb inflation and give the Fed room to moderate its policy stance. Hopefully, this would allow the economy to stabilize without slipping into recession. Also, S&P 500 EPS guidance varies by sector: the highest numbers of companies issuing negative guidance occur within the health care, industrial and utility sectors; on the other hand, the highest numbers issuing positive guidance occur within the information technology, health care and industrial sectors. These variations suggest there may be room for equity markets to stabilize as inflation and monetary policy moderate.

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.

Portfolio review

For the quarter ended June 30, 2022, the Strategy outperformed the index, primarily due to stock selection effects. Financials, health care and industrials contributed the most to performance. Overweight positions in AT&T Inc., Bristol-Myers Squibb Company and Eli Lilly and Company added the most to performance.

An overweight to AT&T Inc. (T) contributed to performance. The company delivered 1Q22 results that were better than expected overall, driven by continued momentum in wireless and consumer wireline, with business wireline facing incremental headwinds. The WarnerMedia spinoff is now closed, making T a much simpler story with less cyclicality, an improving balance sheet and an attractive dividend yield. Management reiterated its growth and investment strategy in May, and remains comfortable in their ability to manage inflationary cost pressures. The stock was one of few that increased during the quarter as the broader market dipped into bear territory.

An overweight position in Bristol-Myers Squibb Company (BMY) contributed to performance. Solid growth from in-line products, recently launched new growth drivers and a better understanding of the Revlimid erosion curve post the loss of patent exclusivity, helped drive stock performance in 1Q22. BMY also received Food and Drug Administration (FDA) approval for Camzyos for cardiomyopathy and Breyanzi (cell therapy) for the earlier treatment of diffuse large B-cell lymphoma during the quarter, while continuing to make solid progress on several late-stage pipeline programs. Improving fundamental factors, a strong balance sheet and cash flow profile, solid dividend and an attractive valuation, coupled with a broader macro move into defensive large cap, stable value pharmaceutical makes BMY an attractive stock in a volatile market backdrop.

An overweight position in Eli Lilly and Company (LLY) contributed to performance. In addition to the strong first quarter earnings report, with upside driven by Covid-19-antibody sales, the company received FDA approval for two new drugs during the quarter – Mounjaro (tirzepatide) for the treatment of type 2 diabetes, and Olumiant (baricitnib) for severe alopecia areata. Additional positive data for Mounjaro in obesity was also disclosed, a potentially very large market opportunity, coupled with robust initial script data in type 2 diabetes, drove stock outperformance.

Conversely, consumer discretionary, and to a much lesser extent, real estate, were key detractors. Overweights to Caesars Entertainment Inc., Expedia Group, Inc. and Warner Bros. Discovery, Inc. weighed the most on performance.

An overweight to Caesars Entertainment Inc. (CZR) was a drag on performance. Investors were not impressed with CZR's 1Q22 results, as the stock joined the broader sector and fell sharply during the quarter. Las Vegas room rates have continued to slide on both weekends and weekdays but remain strong year-over-year (YOY).

An overweight position in Expedia Group, Inc. (EXPE) detracted from performance. EXPE's stock has been hit hard of late, dropping approximately 50% during the second quarter. Investor uncertainty around travel expectations due to Covid-19 and inflationary pressures has generated negative sentiment.

An overweight to Warner Bros. Discovery, Inc. (WBD) was a detractor from performance. Despite strong 1Q22 earnings and in-line revenue, shares of the company stock fell steeply during the quarter. The rising interest rate environment helped drop the general market into bear territory and, as a result, risk-on stocks like WBD have been among the harder hit stocks.

Holdings detail

Companies mentioned in this report – percentage of Strategy investments, as of 06/30/22: AT&T Inc. 5.24%, Bristol-Myers Squibb Company 3.38%, Eli Lilly and Company 1.89%, Caesars Entertainment Inc. 0.83%, Expedia Group, Inc. 0.57% and Warner Bros. Discovery, Inc. 0.81%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell 1000 Value index** is an unmanaged index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecast growth values. The index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot directly invest in an index**.

Investment Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. An investment in securities of **larger companies** carries with it the risk that the company (and its earnings) may grow more slowly than the economy as a whole or not at all. **Value investing** securities that appear to be undervalued may never appreciate to the extent expected and are generally more sensitive to changing economic conditions. **Foreign investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. The risks of emerging markets securities may be intensified. Because the Fund may invest in **other investment companies**, you may pay a proportionate share of the expenses of that other investment company, in addition to the expenses of the Fund. Other risks of the Fund include but are not limited to: company, convertible securities; dividend risks; interest rate, investment model, market trends; inability to sell securities; real estate companies and real estate investment trusts ("REITs") and securities lending risks. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks**.

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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