Voya SmallCap Opportunities Strategy

Focusing on High-Quality Companies with Sustainable Growth Trends

Strategy Overview

The strategy seeks capital appreciation through actively managed investment in the stocks of smaller-sized U.S. companies that potentially may benefit from long-term growth trends

Expected Contribution to Returns

High

Security Selection Purchase candidates are beneficiaries of an investment thesis; have accelerating sales, earnings and cash flow; and attractive valuations

Sell Discipline Stocks may be sold if valuations exceeds expectations, our thesis changes, or if industry or company fundamentals deteriorate

Sector Allocation Portfolios are diversified across sectors and kept within ± 5% of each sector's index weight

Low

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

- We continue to monitor changes occurring globally, actions at central banks and overall economic data
- Our portfolio positioning has not changed significantly
- For the quarter, the strategy underperformed its benchmark, the Russell 2000 Growth index

Current Strategy and Outlook

We continue to monitor changes occurring globally, actions at central banks and overall economic data. Our portfolio positioning has not changed significantly. We seek to remain nimble and continue to focus on quality companies, such as those that, in our opinion, have strong managements, solid balance sheets and good cash flow generation capabilities. Going forward, we believe the portfolio is well positioned, as we think that investors will continue to focus on companies' fundamentals due to ongoing economic uncertainty.

Portfolio Review

For the quarter ended June 30, 2019, the strategy underperformed its benchmark, the Russell 2000 Growth index. Stock selection within the consumer services and energy sectors detracted the most from results. Stock selection within the capital goods and hardware and equipment sectors contributed the most to performance.

Key detractors from performance were Benefitfocus, Inc., Boingo Wireless, Inc., and TherapeuticsMD, Inc.

An overweight position in packaged software company Benefitfocus, Inc. (BNFT) detracted from performance during the period. Although the company beat their guidance on revenue and earnings during the first quarter, adjustments to their second quarter guidance were well below expectations. Shareholders feared that the company's restrained outlook could be serving as a warning for future headwinds. Dampened investor sentiment, alongside two key executive departures during the quarter, sent the stock price lower.

An overweight position in wireless connectivity provider Boingo Wireless, Inc. detracted from results during the period. Despite reporting in-line first quarter revenue in early May, lower than expected earnings disappointed investors. Furthermore, announcements of Heathrow and John Wayne Airport contracts were not enough for investors to overlook the company's full-year revenue and earnings guidance that were maintained at below analyst expectations.

[1] Performance discussed in this commentary is intended to reflect the strategy and may not represent the net of fee results of all share classes.

Within the pharmaceutical and biotechnology sector, an overweight position in TherapeuticsMD, Inc. (TXMD), which focuses on developing and commercializing products for women, detracted from results. Its shares declined following management's update in 2019 revenue guidance which came in below expectations. In particular, the company cited near-term payor reimbursement challenges. While the company is expected to overcome these headwinds in the second half of the year, investor concerns weighed on the stock.

The main individual contributors to performance were Generac, Inc., Cray, Inc. and Repligen Corp.

Within the electrical products sector, an overweight position in Generac Holdings, Inc. (GNRC) generated favorable results. Investors rewarded the stock following strong first quarter earnings that exceeded expectations and solid second quarter guidance. Furthermore, recent acquisitions of energy management businesses, Pika Energy and Neurio Technology, were well received by investors. Additionally, as a result of the wildfires that have taken place over the past several years in California, the state's utilities companies have increasingly employed GNRC's services as a fire precaution. These acquisitions and opportunities have demonstrated to investors the company's desire for diversification and alternative sources of long-term growth.

Within the hardware and equipment sector, an overweight in Cray, Inc. (CRAY), a company that designs, develops, manufactures and markets supercomputers, was additive for results. Its shares advanced following the announcement that Hewlett Packard Enterprise Co. would be acquiring Cray, Inc. at a 17% premium for $1.3 billion ($35/per share) in an all-cash deal. Cray also announced a large Exascale system win from the Department of Energy.

An overweight position in Repligen Corp. (RGEN), a provider of advanced bioprocessing technologies and solutions used in the manufacturing of biological drugs, generated positive results during the period. Investors rewarded the stock following strong first quarter earnings that exceeded expectations and favorable 2019 guidance. Management cited a significant increase in orders for the company's chromatography, filtration and original equipment manufacturer (OEM) products in the first quarter. Furthermore, the stock surged with the announcement of its C Technologies acquisition, a deal that establishes Repligen Corp. as a major player in the process analytics segment of bioprocessing.

Holdings Detail

Companies mentioned in this report – percentage of portfolio investments, as of 06/30/19: Generac, Inc. 1.49%, Cray, Inc. 0.40%, Repligen Corp. 1.00%, Benefitfocus, Inc. 0.36%, Boingo Wireless, Inc. 0.81%, TherapeuticsMD, Inc. 0.08%.; 0.00% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change on a daily basis.[1]

[1] Average of Fund and Portfolio holdings

The Russell 2000 Growth Index is an unmanaged index that measures the performance of securities of smaller U.S. 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.

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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