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

- The bull market run over the first half of the year took a pause as markets pulled back during the third quarter. The specter of a government shutdown was avoided but that has done little to quell market volatility thus far.
- For the quarter ended September 30, 2023, the Strategy outperformed the Russell 1000 Value Index (the Index) on a net asset value (NAV) basis, due primarily to stock selection. The industrials, communication services, energy and financials sectors contributed the most to performance. Conversely, the selection in health care, utilities and information technology detracted from performance.
- There remains a great deal of uncertainty ahead regarding the prospect of slowing economic growth and whether inflation has truly been tamed by the unprecedented rate cuts over the past year. It appears that the U.S. Federal Reserve is nearing the end of the rate hike cycle. We are cautiously optimistic that we can achieve the soft-landing scenario.

Portfolio review

U.S. equity markets reversed course during the third quarter, weighed down by fears of interest rates remaining higher for longer. The S&P 500 Index fell by –3.27% for the quarter. Energy and information technology stocks led while utilities and consumer staples lagged. Growth stocks modestly outperformed value stocks during the quarter, and large caps beat small caps.

The U.S. bond market remained choppy during the quarter. The Bloomberg U.S. Aggregate Bond Index lost –3.23%, while a surprisingly resilient U.S. economy pushed the 10-year U.S. Treasury yield from 3.86% at the beginning of the quarter to 4.59% by quarter-end. In July, Fed raised rates by 25 basis points, bringing the Fed funds rate to a range of 5.25–5.50%. Rates were held steady at the September meeting, and Fed Chair Powell's remarks maintained a hawkish tone as he reiterated the central bank's strong commitment to returning inflation to its 2% target.

For the quarter ended September 30, 2023, the Strategy outperformed the Index due primarily to favorable stock selection. The industrials, communication services, energy and financials sectors contributed the most to performance.

Owning non-benchmark positions in Apollo Global Management Inc. and BP p.l.c, as well as an overweight position in Valero Energy Corp. added the most to performance.

A non-benchmark position in Apollo Global Management Inc. (APO) contributed to performance. The company reported strong results, even against a high bar, as momentum has been strong across the franchise. APO now meets the criteria for inclusion in the S&P 500.

An overweight position in Valero Energy Corp. (VLO) contributed to performance. The company reported a strong quarter with the focus on the positive outlook, as the VLO remains well-positioned to capitalize on a solid global refining backdrop.

A non-benchmark position in BP p.l.c. (BP) contributed to performance. The company reported weak results during the period, but the focus was on how the second half of the year is setting up, which is significantly better, helped by an expected working capital release, divestment proceeds and progress with start-ups in the upstream business.

Overweight positions in NextEra Energy, Inc. and Bank of America Corp. as well as not owning Exxon Mobil Corp. were the biggest individual detractors.

An overweight position in NextEra Energy, Inc. (NEE) detracted from performance. The company announced it is revising its limited partner distribution growth rate to 5–8% from 15–18% previously, which weighed on the shares.

Not owning a position in Exxon Mobil Corp. (XOM) detracted from performance. Quarterly results were mixed versus expectations, but investor focus has been on stronger-than-expected refining margins and strong demand trends supporting margins in the near term.

An overweight position in Bank of America Corp. (BAC) detracted from performance. The mark-to-market impact of securities portfolios, coupled with concerns about a worsening credit cycle have weighed on the stock.

Current strategy and outlook

The U.S. economy has remained resilient as have corporate earnings, fueling the debate of a hard versus soft landing. We still believe there may be greater volatility to come given uncertainty over Fed rate policy in the second half of the year; mixed business sentiment and slowing economic growth; and whether a recession will actually happen, and if so, the duration and depth. The real story has been the resilience of corporate earnings and rise in equity valuations as interest rates begin to normalize. Using price-to-earnings (P/E) ratio as a proxy, valuations for the S&P 500 Index ended 2022 well below 2019 levels. However, despite elevated rates and tightening financial conditions in the first half of the year, valuations have expanded modestly. P/E ratios are still below 2019 levels, and we believe earnings expectations are reasonable, but this could change as we enter 2024 depending on the state of the U.S. economy.

Holdings detail

Companies mentioned in this report – percentage of Strategy investments, as of 09/30/23: Apollo Global Management Inc. 2.29%, Valero Energy Corp. 2.19%, BP p.l.c. 1.88%, NextEra Energy, Inc. 2.23%, Exxon Mobil Corp. 0% and Bank of America Corp. 3.23%, 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.

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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