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

- Market performance was mixed during the quarter as investors navigated macro uncertainties. U.S. large cap growth was up while international, small caps and value lagged. The rally in U.S. growth was dominated by semiconductors, technology hardware, as well as media and entertainment industries as the artificial intelligence (AI) trade once again led markets.
- For the quarter, the Strategy underperformed its benchmark, Russell Midcap Growth Index (the Index), on net asset value (NAV) basis due to unfavorable allocation and stock selection.
- Despite challenges, the U.S. economy remains resilient. Inflation remains a key focus, with the U.S. Federal Reserve holding interest rates steady to curb its impacts. Economic and Fed data continue to call for "status quo" equity positioning. However, we anticipate a regime shift as the market gains confidence in the next phase of Fed policy.

Portfolio review

U.S. stocks advanced during the second quarter on continued strength in the labor market and in several key economic measures. The S&P 500 Index rose by 4.28% during the quarter and the Nasdaq Composite grew by 8.26%. The information technology and communication services sectors led, while energy and materials lagged. Large-cap stocks outperformed small caps and growth significantly beat value. The Federal Open Market Committee held interest rates steady throughout the quarter and is now expected to cut rates only once in 2024. While Fed Chair Powell acknowledged modest progress on taming inflation at the central bank's June meeting, he emphasized the need for more confidence about the inflation situation before making any changes to rates.

U.S. bond performance was essentially flat during the quarter. The Bloomberg U.S. Aggregate Bond Index inched up 0.07%, and the 10-year U.S. Treasury yield rose from 4.33% at the start of April to 4.36% by quarter end.

For the quarter, the Strategy underperformed the Index on a NAV basis due to unfavorable allocation and selection effect. Stock selection within the industrials, financials and real estate sectors contributed the most to performance. The health care, information technology and consumer discretionary sectors were the greatest detractors.

Key contributors to the quarter's performance were Tenet Healthcare Corp., Monolithic Power Systems, Inc. and Pinterest, Inc.

Within healthcare services, owning a non-benchmark position in Tenet Healthcare Corp. (THC) proved favorable during the quarter. Shares advanced following a strong 1Q24 earnings report at the beginning of the quarter, highlighting an earnings per share and revenue beat well above expectations.

An overweight position in Monolithic Power Systems, Inc. (MWPR) generated strong results. Shares advanced throughout the period following its strong 1Q24 earnings beat and solid guidance driven by its AI exposure and the diversification of its customer base.

An overweight position in Pinterest, Inc. (PINS) added value during the period. The stock price advanced following the company's impressive quarterly results with its core platform business accelerating.

Key detractors for the quarter were Charles River Laboratories International, Inc., Builders FirstSource, Inc. and Viking Therapeutics, Inc.

Owning a non-benchmark position in Charles River Laboratories International, Inc. (CRL) detracted from results. The CRL share price declined due to a continued deceleration in revenue, tight profit margins and higher taxes.

Owning a non-benchmark position in Builders FirstSource, Inc. (BLDR) weighed on performance during the period. While BLDR had a strong start to 2024, the market for multi-family housing remains weak. Higher mortgage rates, increased competition and expectation for these headwinds to persist also caused investors to take pause.

A non-benchmark position in Viking Therapeutics, Inc. (VKTX) detracted from performance during the quarter. Despite significant positive data coming from its Phase 2 VOYAGE study for its drug, Rezdiffra to treat nonalcoholic steatohepatitis (NASH), and its strong competitive position within the NASH market, shares traded off due to concerns regarding the timing of its partnerships in the large Obesity and NASH markets.

Current strategy and outlook

The resilience of the U.S. economy persists. Despite the effects from continued monetary tightness, economic growth remains strong, driven by gains in payrolls and productivity. Consumer spending is stable, supported by a significant increase in household net worth. However, consumer confidence remains below average due to the lasting impact of higher prices. While inflation has fallen to more manageable levels, concerns about overheating persist. While core inflation has declined for 14 consecutive months, core services prices are still rising. A downshift in growth and loosening of the labor market may be necessary to maintain inflation near the Fed's 2% target. This does not imply significant economic weakness, but it may keep rates higher for longer than expected.

Strong earnings momentum — which could continue through the year — has supported U.S. stocks. The growth and quality of earnings have justified expensive stock valuations, particularly in mega-cap technology stocks. However, we expect the rally to broaden, with value-oriented and smaller cap segments taking the lead. The economic soft landing and anticipated rate cuts should create favorable conditions for U.S. stocks, despite potential near-term pullbacks.

Holdings detail

Companies mentioned in this report – percentage of portfolio investments, as of 06/30/24: Tenet Healthcare Corp. 1.59%, Monolithic Power Systems, Inc. 2.66%, Pinterest, Inc. 2.05%, Charles River Laboratories International, Inc. 1.62%, Builders FirstSource, Inc. 0.92% and Viking Therapeutics, Inc. 0.48%; 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.

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