

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 6.42% on a net asset value (NAV) basis, and a total return of 9.41% on a market price basis. The Fund's reference Index, the MSCI Emerging Markets Index, returned 8.72%.

Equity portfolio

The equity sleeve underperformed the reference Index, primarily due to allocation and stock selection effects. Within the core model, three of the five pillars had a negative impact, and the sentiment signal was the weakest. The sleeve's higher dividend yield also detracted. Additionally, allocation effects also detracted. A relative underweight in the consumer discretionary sector was a major detractor.

On the sector level, stock selection within the financials, materials and communication services sectors contributed. Conversely, selection in the health care, consumer discretionary and consumer staples sectors detracted. Regionally, selection in the United States contributed the most and selection in Asia excluding Japan detracted.

At the individual stock level, the key contributors were the overweight positions in CIMB Group Holdings Bhd. and People's Insurance Co. (Group) of China Ltd. Class H as well as not owning Nu Holdings Ltd. Class A. Conversely, the underweight position in Meituan Class B, not owning Xiaomi Corp. Class B and the overweight position in MediaTek Inc. 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 one out of three months experiencing positive 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

EM assets have benefited from the U.S. Federal Reserve's pivot to easier monetary policy and a subsequent weakening of the U.S. dollar. We expect this trend to continue as developed market central banks are early in their monetary easing cycle.

China is another highly influential factor on board EM

performance. Consistently dismal returns for the better part of the last three years have reduced the country's weight in EM equity indexes, but it remains the largest component. China has a long history of disappointing investors, and the latest drawdown has been painful. However, following such steep falls, recoveries can be swift and explosive. This is exactly what occurred in the back half of September after authorities rolled out a substantial, wide-ranging stimulus package, causing stocks to rally over 20% in a couple of weeks. Key monetary actions included cutting the mortgage repurchase rate, lowering the required reserve ratio, reducing the minimum downpayment for second home mortgages and instituting stock market purchase facilities. Additionally, swap lines were opened for government-sponsored enterprises to purchase unsold housing from real estate developers. On top of this, the Politburo committed to more fiscal measures aimed at consumer spending. These policies are designed to help stabilize the housing market and prevent further declines in share prices, thereby trimming one tail-risk from global markets. Despite this relief rally, we are skeptical that these are

sustainable solutions to underlying structural problems, and their effect on consumer demand and investor risk appetite is still uncertain. The country will continue to contend with geopolitical tensions, declining western foreign direct investment and potential tariffs. These issues, along with challenges in the real estate market and the need for sustainable growth, contribute to our hesitancy in boosting investment stakes in EM. As a result, we remain neutral.

Holdings detail

Companies mentioned in this report—percentage of portfolio investments, as of 09/28/24: CIMB Group Holdings Bhd. 0.05%, People's Insurance Co. (Group) of China Ltd. Class H 0.46%, Nu Holdings Ltd. Class A 0.00%, Meituan Class B 0.96%, Xiaomi Corp. Class B 0.00% and MediaTek Inc. 1.08%; 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.

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.

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: China Investing Risks - Investing through Bond Connect; China Investing Risks - Investing through Stock Connect; China Investing Risks - Variable Interest Entities; Company; Currency; Derivative Instruments; Dividend; Environmental, Social, and Governance; Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Investment Model; Liquidity; Manager; Market; Market Capitalization; Market Disruption and Geopolitical; Operational; Option Writing; Other Investment Companies; Securities Lending. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks. The prospectus should be read carefully before investing. Consider the Fund's investment objective, risks, and charges and expenses carefully before investing.**

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.