Portfolio Manager Quarterly Commentary | September 30, 2018

Voya Large Cap Growth Strategy

> Investment Objective

The Portfolio seeks long-term capital growth through active portfolio management. The strategy seeks to identify companies with strong business momentum, increasing market acceptance and attractive valuations.

> Expected Contribution to Returns

High

Security Selection — In-depth fundamental research identifies attractive stocks using a proprietary quantitative scoring system

Sell Discipline — Continuously review fundamentals and relative positions of securities

Sector Allocation — Sector weighting decisions directly result from bottom-up investment process

Low

Key Takeaways

- Massive flows into passive equity investments are fueling a rally that is significantly disconnected from underlying fundamentals
- Investors should be cautious, as previous momentum rallies have ended in sharp downturns
- Voya's investment process seeks to avoid the momentum biases inherent in equity market indexing
- The Voya Large Cap Growth strategy underperformed its benchmark, the Russell 1000 Growth index, for the quarter[1]

Outlook and Current Strategy

We believe unprecedented, post-financial crisis quantitative easing measures and massive inflows to passive investments are fueling a momentum rally that is significantly disconnected from underlying equity fundamentals. We urge investors to be cautious in this environment, as previous momentum rallies have ended with sharp downside moves. Our disciplined process for identifying stocks with strong fundamentals and attractive relative value seeks to avoid the momentum biases that are inherent in equity market indexes. We believe our approach will help us steer a consistent course through the markets' twists and turns.

Portfolio Review

For the quarter, the portfolio underperformed the benchmark primarily due to stock selection. Stock selection within the information technology sector, and to a lesser extent the healthcare sector, detracted the most from performance. By contrast, stock selection within the consumer discretionary and industrials sectors contributed the most value.

Key detractors from performance were Microchip Technology Incorporated, Apple Inc. and Broadcom Inc.

An overweight position in semiconductor company, Microchip Technology (MCHP), detracted from performance during the period. Shares traded down as negative sentiment regarding trade tensions and slowing growth pressured the sector as a whole. Though MCHP had exceeded earnings and forward guidance expectations, outsized below-the-line benefits and a substantial inventory overhang at recently acquired Microsemi Corporation outweighed upside to consensus estimates.

An underweight position in Apple (AAPL) detracted value during the period. Shares advanced following June quarter results in which the company reported better than expected iPhone revenue. Better average selling prices (ASP) offset weaker unit growth. September quarterly guidance also exceeded Wall Street expectations. We remain concerned that the Street underappreciates the demand elasticity corresponding with AAPL pushing ASPs higher. We believe this will elongate replacement cycles and dampen unit sales. We believe fiscal year 2019 units will suffer from the demand pull-forward driven by the iPhoneX launch in fiscal year 2018. In our view, this will ultimately pressure iPhone revenue as ASP increases won't sufficiently offset the unit downside.

An underweight position in Broadcom (AVGO) detracted value during the period. Shares declined following the announced intention to acquire software maker CA Technologies for $18 billion without

providing further detail or hosting an investor call. This sparked immediate concerns about the long-term mergers and acquisition strategy and the sustainability of the core business. It also introduced significant skepticism towards a management team which heretofore had been viewed as best-in-class operators and acquirers. The move contradicted recent communications regarding future deal sizes, and ran contrary to management's commitment to a renewed focus on organic growth and shareholder returns after the failed Qualcomm hostile takeover.

Key contributors to performance were Facebook, Inc., Netflix, Inc. and Progressive Corporation.

An underweight position in Facebook (FB) generated favorable results during the period. FB started the quarter down on concerns of slowing user growth in light of the negative press surrounding Cambridge Analytica. Shares were also negatively impacted by a quarterly revenue and earnings-per-share miss. The miss was attributed to sequentially decelerated revenues, driven in part by privacy concerns as well as European GDPR compliance. Furthermore, FB guided to operating margins substantially lower than consensus. The declining operating margin as well as the decelerating revenues implies a significant 25–30% earnings reduction over the next few years.

Not owning benchmark stock, Netflix (NFLX), contributed to performance during the period. NFLX stock witnessed a sharp decline following a reported

[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.

second-quarter earnings miss, which indicated weaker than expected subscriber growth and lowered third-quarter guidance. Both of these call into question the long-term subscriber growth forecasts that Wall Street had been using to justify the stock's high valuation.

An overweight position in Progressive Corp. (PGR) contributed to performance. The stock price advanced following better than expected second-quarter 2018 earnings along with a well-received monthly update indicating lower than expected combined ratios.

Holdings Detail

Companies mentioned in this report – percentage of portfolio investments, as of 9/30/18: Microchip Technology Incorporated 0.96%, Apple Inc. 5.62%, Broadcom Inc. 0.00%, Facebook, Inc. 1.78%, Netflix, Inc. 0.00%, Progressive Corporation 2.01%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change on a daily basis.

The **Russell 1000 Growth Index** is an unmanaged index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted directly in an index. 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. **Growth Investing** Prices of growth stocks typically reflect high expectations for future company growth, and may fall quickly and significantly if investors suspect that actual growth may be less than expected. Growth companies typically lack any dividends that might cushion price declines. Growth stocks tend to be more volatile than value stocks, and may underperform the market as a whole over any given time period. **Derivative Instruments** Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect which may increase the volatility of the Portfolio and reduce its returns. Other risks of the Portfolio include, but are not limited to**: Liquidity, Company, Currency, Foreign Investments, Market, Other Investment Companies and Securities Lending. Investors should consider the Portfolio's prospectus and statements 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 or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds off ered 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) 386-3799. Please read the information carefully.

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