

Focusing on High-Quality Companies with Sustainable Growth Trends

Strategy overview

Actively managed small cap core strategy driven by bottom-up fundamental research seeking high-quality companies with strong balance sheets and cash flow characteristics that are beneficiaries of sustainable growth trends.

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Key takeaways

- In the third quarter of 2024, equity markets showed varied performance, with a notable broadening of returns. Small- and mid-cap stocks led the way, while emerging markets benefited from a strong rebound in China. Falling interest rates boosted bond returns, and value stocks outperformed growth stocks, driven by defensives, cyclicals and banks. Although technology saw a slight uptick in September, its sector returns were muted compared to the first half of the year. Artificial intelligence (AI) continued to be a significant driver, with companies involved in AI development and integration being rewarded.
- The Voya Small Company Fund outperformed its benchmark, the Russell 2000 Index (the Index) on a net asset value (NAV) basis primarily due to a positive impact from both stock selection and active allocation bets. The Fund benefited from selection in the information technology and health care sectors. Conversely, selection in the industrials and communication services sectors detracted.
- Looking ahead to the remainder of 2024, the equity market outlook is cautiously optimistic despite expected volatility. Uncertainties surrounding U.S. Federal Reserve policies, upcoming elections and rising geopolitical tensions are likely to cause continued market fluctuations. However, positive signals include potential buying opportunities in large-cap stocks and a generally favorable reaction to recent rate cuts. Additionally, a strong labor market could further support equities.

Portfolio review

U.S. stocks advanced during the third quarter following the Fed implementing a larger-than-expected 50 basis points interest rate cut. The S&P 500 Index rose by 5.89% and the Nasdaq Composite grew by 2.57% during the quarter. The utilities and real estate sectors led, while information technology and communications services lagged. Small cap stocks outperformed large caps and value significantly beat growth.

U.S. bonds logged their first positive quarterly performance of 2024 in the past three months. The Bloomberg U.S. Aggregate Bond Index rose by 5.20%. The 10-year U.S. Treasury yield fell from 4.48% at the beginning of July to 3.81% by quarter end (declines in the 10-year yield generally signal investor pessimism).

The Fund outperformed the Index on a NAV basis for the quarter September 30, 2024, primarily due a positive impact from both stock selection and the active allocation bets. The Fund benefited from selection in the information technology and health care sectors. Conversely, selection in the industrials and communication services sectors detracted.

The main individual contributors to performance were Clear Secure, Inc., Rayonier Advanced Materials Inc. and Zeta Global Holdings Corp.

The overweight position in Clear Secure, Inc. (YOU) had a notably positive impact on relative returns. YOU's stock appreciated during the quarter following strong second-quarter earnings and an upward revision of its 2024 revenue outlook. The company is benefiting from the expansion of its PreCheck presence in airports and pricing increases across its product line. The machine learning models assigned a high rank to the stock, driven by its strong quality features, particularly research and development and research and development intensity (relative to sector), Return on Invested Capital (ROIC) and operating margin. The positive view of ROIC was further supported by favorable metrics, such as Earnings Before Interest and Taxes (EBIT) to fixed assets and smoothed ROIC.

Rayonier Advanced Materials Inc. (RYN) was the second-largest contributor to performance. The overweight position stemmed from the model's strong ranking, driven primarily by the stock's size and value factors. In particular, its favorable book-to-price ratio (relative to its sector) and the strong performance of value plus quality features were key factors behind the high rank. Tailwinds from rising interest in North American timberlands and heightened activity in the Florida region further supported RYN's stock performance during the quarter.

The overweight position in Zeta Global Holdings Corp. (ZETA) was a positive contributor to relative returns. While the model had a moderate assessment of ZETA's fundamental factors, its factor exposures—particularly momentum, volatility and earnings variability—offered valuable diversification within the portfolio, justifying the overweight stance. ZETA, a leader in marketing technology software, delivered a strong quarterly performance, with investor sentiment further boosted by the successful launch of five new AI agents in September.

The primary detractors from performance were Murphy Oil Corp., GEO Group Inc. and Permian Resources Corp.

The overweight position in Murphy Oil Corp. (MUR) detracted from relative returns. The stock declined during the quarter, mirroring the performance of its energy sector peers as

geopolitical tensions in the Middle East intensified and global demand for oil softened. MUR was held as a contrarian position, with a moderate positive score driven by quality, valuation and volatility factors, alongside some momentum in its fundamental factors. Key quality drivers included the company's cash conversion cycle, research and development spend and cash flow stability. In terms of valuation, MUR appeared attractive based on Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and book-to-price metrics.

The overweight position in GEO Group Inc. (GEO) also detracted from relative returns. At the start of the quarter, the machine learning models ranked GEO highly due to a positive outlook for its security sub-industry, combined with favorable size, quality (research and development, operating margin, Return on Equity (ROE) and effective capital use) and valuation features, primarily based on EBITDA. GEO, an industrials company focused on security services, underperformed after its second-quarter earnings missed consensus estimates and management lowered its 2024 guidance.

Additionally, exposure to non-benchmark stock Permian Resources Corp. was the third-largest detractor. The stock's modestly positive view at the beginning of the quarter was driven by its valuation, size and quality features, with valuation being the primary driver—particularly EBITDA and book-to-price metrics, as well as the performance of its value plus quality feature. However, the stock declined in line with energy peers due to heightened Middle East tensions and weaker global oil demand. The position was subsequently trimmed in favor of more attractive opportunities.

Holdings detail

Companies mentioned in this report—percentage of Fund investments, as of 09/30/24: Clear Secure, Inc. 0.99%, Rayonier Advanced Materials Inc. 0.77%, Zeta Global Holdings Corp. 0.96%, Murphy Oil Corp. 1.39%, GEO Group Inc. 1.04% and Permian Resources Corp. 0.68%, 0.00% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change on a daily basis.

The Russell 2000 Index is an unmanaged index that measures the performance of securities of small U.S. companies. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

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