

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

- The market finished the year on a high note, capping a strong year for equities. Inflation has begun to subside, and unemployment remains under 4% for the 22nd consecutive week. The underlying economy appears to be stronger than most anticipated.
- The Voya Small Company strategy (the Strategy) underperformed its benchmark, the Russell 2000 Index (the Index) on a net asset value (NAV) basis primarily due to negative impact from stock selection. The Strategy benefited from the underweight allocation in energy sector and stock selection in consumer discretionary and financials sectors. Conversely, selection in the health care and industrials sectors detracted.
- Consumer confidence continues to increase, and there is cautious optimism that we can achieve the desired soft-landing scenario and avoid a recession going into the new year. Markets are already anticipating several rate cuts in 2024 which should be good news for equities.

Portfolio review

U.S. equity markets ended the quarter on a high note, bolstered by economic resilience, waning inflation and a pause in the U.S. Federal Reserve's interest rate hiking cycle. The S&P 500 Index rose by 11.69% and the Nasdaq Composite Index advanced by 13.56%. Information technology stocks led while utilities lagged. Growth stocks outperformed value stocks during the quarter, and small caps beat large caps.

The U.S. bond market staged a comeback during the quarter. The Bloomberg U.S. Aggregate Bond Index gained 6.82% on the unexpected strength of the economy. The 10-year U.S. Treasury yield moved from 4.69% at the beginning of the quarter to 3.88% by quarter-end as inflation eased and expectations of interest rate cuts in 2024 grew.

The Strategy underperformed the Index for the quarter ended December 31, 2023, primarily due to negative stock selection. The Strategy benefited from the underweight in the energy sector, but this was offset by negative stock selection. The second largest contributor was selection in the consumer discretionary sector followed by selection in financials sector. Conversely, stock selection in the health care and industrials sectors detracted.

The main individual contributors to performance were Arrow Financial Corp., 8x8, Inc. and HCI Group, Inc.

The overweight to financials company Arrow Financial Corp. (AROW) was driven by the strong rating by the artificial intelligence (AI) models, which view its valuation metrics (earnings before interest, tax, depreciation and amortization (EBITDA), book-to-price and cashflow from operation to enterprise value) combined with very little short interest positively. The stock performed well during the quarter as earnings got back on track after the completion of balance sheet restructuring from management that was accretive to earnings per share (EPS).

The overweight to 8x8, Inc., a technology stock that provides communication solutions to various industries, contributed to relative performance. The AI models have a strong view of the stock driven by its size, quality and technical features. The stock performed well during the quarter, boosted earnings that massively beat consensus expectations.

HCI Group, Inc. is a property and casualty insurance company. The stock performed well during the quarter after a strong EPS beat driven by higher policy premiums. While exposure is small, it is an overweight relative to the benchmark and contributed to returns.

Key detractors from performance included Excelerate Energy, Inc., Shyft Group, Inc. and ProAssurance Corp.

The overweight to Excelerate Energy, Inc. (EE) detracted from relative returns during the quarter. Similar to SHYF, EE also falls into the Diversifiers: Cyclical Special Situations theme. The strong ranking at the start of the quarter was driven by its positive valuation features (book-to-price, EBITDA as well as performance of value and quality) as well as the performance of the oil and gas storage, and transportation sub-industry which was viewed favorably by the AI models. During the quarter, the stock failed to keep pace with the benchmark, which surged

towards the end of the quarter, despite strong third quarter earnings but is positioned well going into 2024. The AI model's maintain conviction.

The overweight position in automobile manufacturing stock Shyft Group, Inc. (SHYF) was driven by the AI model's average ranking of the stock linked to attractive valuation on a book-to-price and EBITDA basis as well as strong capital efficiency and return on invested capital (ROIC). During the quarter, the stock underperformed its industry peers as a result of uncertainty in customer demand and macro weakness. The models' maintained conviction at quarter end and continues to hold the stock which fell into the Diversifiers: Cyclical Special Situations theme.

The overweight to ProAssurance Corp., which operates in the property and casualty insurance division amongst others, detracted from performance. The stock price drastically fell in November after a disappointing earnings announcement due to an overhand from inflation. The AI models find the valuation attractive, and it currently falls into the "Inexpensive, underappreciated quality" theme and represents a contrarian position in the Strategy. The models maintained the positive view at quarter end.

Holdings detail

Companies mentioned in this report – percentage of Strategy investments, as of 12/31/23: were Arrow Financial Corp. 0.50%, 8x8, Inc. 0.60%, HCI Group, Inc. 0%, Excelerate Energy, Inc. 1.02%, Shyft Group, Inc. 0.58% and ProAssurance Corp. 0.38%; 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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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.

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