Portfolio Manager Quarterly Commentary | September 30, 2018

# Voya Small Company Strategy

## > Strategy Overview

The strategy seeks growth of capital primarily through investment in a diversified portfolio of common stocks and securities of companies with smaller market capitalizations.

## > Expected Contribution to Returns

High

**Security Selection —** Purchase candidates are beneficiaries of an investment thesis; have accelerating sales, earnings and cash flow; and attractive valuations

**Sell Discipline —** Stocks may be sold if valuations exceeds expectations, our thesis changes, or if industry or company fundamentals deteriorate

**Sector Allocation —** Portfolios are diversified across sectors and kept within ± 5% of each sector's index weight

Low

## Key Takeaways

- We believe unprecedented, post-financial crisis quantitative easing measures and massive inflows to passive investments are fueling a momentum rally that is 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
- Our approach aims to provide consistency regardless of the markets' twists and turns
- The strategy underperformed its benchmark, the Russell 2000 index, for the quarter[1]

## Current Strategy and Outlook

We continue to monitor changes occurring globally, actions at central banks and overall economic data. Our portfolio positioning has not changed significantly. We seek to remain nimble and continue to focus on quality companies, such as those that, in our opinion, have strong managements, solid balance sheets and good cash flow generation capabilities. Going forward, we believe the portfolio is well positioned, as we think that investors will continue to focus on companies' fundamentals due to ongoing economic uncertainty.

## Portfolio Review

For the quarter ended September 30, 2018, the strategy underperformed its benchmark, the Russell 2000 index due to unfavorable stock selection. Stock selection within consumer services and hardware and equipment sectors detracted the most from performance. By contrast, stock selection within the insurance and consumer durables sectors contributed the greatest value.

Key detractors from performance were Granite construction Incorporated, Houlihan Lokey, Inc., and Entegris, Inc.

An overweight position in infrastructure solutions company, Granite Construction (GVA), detracted from results during the period. Despite noted acceleration anticipated into 2019 and 2020, particularly because of an increase in infrastructure spending in California, the stock was under pressure following a disappointing second-quarter earnings report. The report cited greater than anticipated project losses, which will weigh on margins in the near term. Additionally, heightened concerns that California's spending program could be cut short as a result of midterm election outcomes fueled further uncertainty.

An overweight position in investment banking services company, Houlihan Lokey (HLI), detracted value during the period. While new business, corporate finance activity and outlook remain strong, the stock was impacted by a fiscal first-quarter 2019 earnings miss due to restructuring and a modestly higher tax rate.

An overweight position in Entegris (ENTG) within the semiconductor sector, detracted from results during the period. Shares traded down as negative sentiment regarding trade tensions and slowing growth pressured the sector as a whole. Investors feared that the deterioration of memory pricing could weigh on industry capital expenditure for the next several quarters.

Key contributors to performance were Amedisys, Inc., Core-Mark Holding Company, Inc. and Helen of Troy Limited.

An overweight position in Amedisys (AMED), contributed to performance during the period. Shares advanced throughout the month following the company's solid second-quarter 2018 earnings report largely due to continued strength in its home, health and hospice segments and margin expansion across all business lines. In addition to anticipated organic growth through its traditional Medicare business, AMED is expected to complete an accretive acquisition to build out its hospice segment.

An overweight position in consumer goods distributor, Core-Mark Holding Co. (CORE), generated favorable results during the period. Shares advanced following strong reported quarterly earnings results indicating better than projected topline growth coupled with a marked improvement within the

[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.

industry overall. CORE is also reaping the benefits of improved operational efficiencies.

An overweight position in consumer brand housewares, health, home, and beauty products company, Helen of Troy Limited (HELE), added value. Shares advanced following the company's solid fiscal first-quarter earnings beat and raised guidance, which indicated a significant acceleration in sales.

## Holdings Detail

Companies mentioned in this report – percentage of portfolio investments, as of 9/30/18: Granite Construction Incorporated, 0.98%; Houlihan Lokey, Inc., 1.05%; Entegris, Inc., 0.83%; Amedisys, Inc., 0.84%; Core-Mark Holding Company, Inc., 0.43%; Helen of Troy Limited, 0.56%; 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.

**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 Smaller-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: **Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Liquidity Risks, Portfolio Turnover Risks and Securities Lending 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 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.**

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.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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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. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.





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