Commentary | 4Q24

Voya Small Cap Growth Fund

Focusing on High-Quality Companies with Sustainable Growth Trends

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Strategy overview

Actively managed small cap growth strategy driven by bottom-up fundamental research seeking stocks with superior revenue and earnings potential and sustainable valuations..

Key takeaways

- In the fourth quarter of 2024, the equity markets experienced mixed returns. Domestic large- and small-cap stocks delivered positive returns, while value indices and international markets saw declines. Cyclical sectors, such as consumer discretionary, financials and technology, outperformed defensive sectors.
- The outlook for equities in 2025 is cautiously optimistic as the U.S. economy remains strong and the Trump administration is expected to implement favorable policies in terms of deregulation and taxes. However, risks such as tariffs, inflation and geopolitics may result in volatility.
- Small-cap growth stocks, measured by the Russell 2000 Growth Index, rose nearly 1000 basis points (bp) in October and November but lost ground in December, ending slightly positive. Following the September 2024 rate cut, anticipation of future U.S. Federal Reserve policy easing and a Trump victory led to early quarter exuberance, later reversed as stronger inflation and employment data reduced 2025 rate cut expectations from four to two, enforcing the “higher for longer” narrative.

Portfolio review

For the quarter ended December 31, 2024, the Voya Small Cap Growth Fund underperformed the Russell 2000 Growth Index (the Index) on a net asset value (NAV) basis, due to stock selection. Negative stock selection in the consumer discretionary, health care and information technology sectors were partially offset by contributions from stock selection in the materials sector and overall sector allocation effect.

Top individual detractors to performance included Century Communities, Inc., Exact Sciences Corp. and PACS Group, Inc.

Century Communities, Inc. (CCS), a national home builder of single-family homes, was the largest detractor to performance for the quarter. With the expected magnitude and trajectory of the Fed rate cuts now being pushed out, CCS’s future growth prospects are now more subdued. Accordingly, we have trimmed our position yet maintain a small position in the stock.

Exact Sciences Corp. (EXAS), a cancer screening company focused on early detection and prevention, underperformed for the quarter. Following a 3Q24 miss and guide down due to weaker than expected Cologuard volumes and the delayed rollout of new Cologuard-Plus colorectal screening product, we exited the position given the opaque outlook.

PACS Group, Inc. (PACS), a home healthcare provider of skilled nursing care, declined dramatically following a short report alleging fraudulent billing and referral practices. In addition, delayed quarterly filings by the company added to the uncertainty and weakness in the stock. Given the accusations were not immediately refuted which creates a lack of clarity on fundamental factors, we chose to exit the position during the quarter.

Top individual contributors included Astera Labs, Inc., Construction Partners, Inc. and Summit Materials, Inc.

Astera Labs, Inc. (ALAB), a semiconductor manufacturing company poised to benefit from the artificial intelligence (AI) infrastructure boom, was the leading positive contributor for the quarter. ALAB chips power over 80% of AI servers, providing connectivity between central processing units (CPUs), graphics processing units (GPUs), memory and storage systems and is well positioned for future growth within a developing industry. We are mindful of the significant appreciation during the quarter (100%) and its' U.S. $14 billion market cap, but maintained our current position as of the end of the quarter.

Construction Partners, Inc. (ROAD), an infrastructure company specializing in the construction and maintenance of roadways, highways, bridges and airports predominantly in the Southeastern United States, also contributed. Following its' acquisition of Lone Star Paving and Overland Corp., ROAD significantly added to its' growth potential by accessing the sizable Texas and Oklahoma markets. We took this positive news and resulting price appreciation to take profits during the quarter, but continue to own the stock.

Summit Materials, Inc. (SUM), a construction materials company, was a top contributor for the quarter. In November, SUM announced an agreement to be acquired by Quikrete, a specialty concrete company, for $52.50 per share. We currently maintain our position and will use the stock as a source of funds when needed.

Current strategy and outlook

Over the past six months, our investment philosophy and process has resulted in a portfolio more tilted to cyclical and interest rate sensitive areas of the market given revenue, cashflow and earnings growth prospects and relative valuations. The market reacted positively to the possibility of several Fed rate cuts starting in September 2024 and continuing into 2025. In addition, quick closure of what was a highly contested election was quickly resolved with a clear winner in favor of deregulation and lower taxes and was positively received. However, since late November the overall market tone has changed and the reality of strong economic growth and a robust labor market has reminded investors that the Fed is still focused on controlling inflationary trends and continues targeting their previously stated 2% level. Given this pivot, our previous positioning within the portfolio has adjusted to a more balanced stance and we continue to look for companies with strong growth prospects. Negatively, Trump's tariff initiatives are being viewed as inflationary by the market, creating further uncertainty in the investment environment. We are continuing to monitor any developments related to policy that could impact our portfolio holdings.

We expect mixed economic data and macro news to persist. However, the trend appears to point toward declining inflation and moderating unemployment. We believe the Fed will continue to be cautious in their forward approach and are managing the current environment effectively. The Voya Small Cap Growth Fund has a long history of managing through various cycles. We remain cognizant of the risk versus reward balance within the portfolio and at the individual company level. As we have said for several quarters, small cap growth stock valuations are at attractive levels relative to their large cap growth counterparts and continue to trade at a sizable discount on a relative basis (roughly 38% as of 12/31/2024). Although a "higher for longer" environment could delay small cap stocks' outperformance, prudent and disciplined bottom-up stock selection should produce strong relative and absolute returns over a full market cycle.

Holdings detail

Companies mentioned in this report—percentage of portfolio investments, as of 12/31/24: Century Communities, Inc. 0.72%, Exact Sciences Corp. 0.00%, PACS Group, Inc. 0.00%, Astera Labs, Inc. 1.28%, Construction Partners, Inc. 1.25% and Summit Materials, Inc. 1.27%; 0% indicates that the security is no longer in the Fund. Portfolio holdings are subject to daily change.

Read our Fund Fact Sheet

The **Russell 2000 Growth Index** is an unmanaged index that measures the performance of smaller U.S. companies with greater-than-average growth orientation. It is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

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: Company; Currency; Environmental, Social, and Governance (Equity); Focused Investing; Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Growth Investing; Health Care Sector (Focused Investing); Investment Model; Liquidity; Market; Market Disruption and Geopolitical; Other Investment Companies; Securities Lending; Small-Capitalization Company; Technology Sector (Focused Investing). **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

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.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. 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. Insurance products, annuities and funding agreements issued by Voya Retirement Insurance and Annuity Company ("VRIAC"), One Orange Way, Windsor, CT 06095, which is solely responsible for meeting its obligations. Plan administrative services provided by VRIAC or Voya Institutional Plan Services, LLC ("VIPS"). Securities distributed by or offered through Voya Financial Partners, LLC ("VFP") (member SIPC) or other broker-dealers with which it has a selling agreement. Only Voya Retirement Insurance and Annuity Company is admitted and can issue products in the state of New York.

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