Commentary | 1Q23

Voya Large Cap Growth Strategy

# Seeking the Growth Potential and Stability of Large Caps

## Strategy overview

Actively managed large cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

## Key takeaways

- Markets bounced back in March after retreating in February, finishing off a mostly positive quarter. The banking crisis triggered fears of global banking contagion which caused a flight to safety, with Mega Cap stocks leading the overall market for the quarter.
- For the quarter, the Strategy underperformed its benchmark, the Russell 1000 Growth Index (the Index), on a net asset value (NAV) basis, due to unfavorable stock selection and allocation effects.
- Although the US Federal Reserve hiked another quarter point in March, the market seems to be weighing if that could be the final rate hike of the year. The unprecedented rise in yields over the last year contributed to the recent bank failures, making a soft landing less likely, and increasing the likelihood of a recession.

## Portfolio review

**The financial markets were positive in the first quarter, but volatile as concerns with inflation and interest rates tugged asset prices up and down.** At its first 2023 policy meeting, the Fed raised interest rates by 25 basis points (bp), driving market rates higher while pulling down bond prices and crimping the values of rate-sensitive technology stocks. Market focus shifted dramatically in March as the sudden failure of several US regional banks and the collapse of Credit Suisse shook the banking sector. Markets regrouped after the government intervened to protect depositors. The Fed, seeking to avoid further "accidents" tied to higher rates, took a restrained step and increased the Fed funds rate by just another 25 bp at its March policy meeting.

**The 10-year US Treasury yield fell from nearly 3.9% in early January to less than 3.5% by quarter-end.** Falling rates helped both stocks and bonds. The S&P 500 Index gained 7.50% and the Bloomberg US Aggregate Bond Index gained 2.96%. Easing rates also gave growth stocks an advantage over value stocks – across the capitalization spectrum, growth styles posted gains significantly greater than those of value styles.

**For the quarter ended March 31, 2023, the Strategy underperformed the Index on a NAV basis due to unfavorable stock selection and allocation effects.** Stock selection in the financials and energy sectors contributed the most to performance. Unfavorable stock selection in the consumer discretionary, and to a lesser extent, communication services and health care sectors, detracted the most. An allocation to cash and unfavorable allocation to health care also weighed on performance.

**Key contributors to performance were Palo Alto Networks Inc., NVIDIA Corp. and AbbVie Inc.**

An overweight position in Palo Alto Networks Inc. (PANW) contributed to performance. The company reported strong results during the period, balancing top-line growth with strong margin performance. Results were driven by strong execution and the continued expansion of next-gen security in a challenging macro environment.

An aggregate overweight position in NVIDIA Corp. (NVDA) contributed to performance. The company reported solid quarterly results and provided higher than expected guidance. Strong gaming results offset some of the softness in China demand. Management also announced DGX Cloud, which is an artificial intelligence-as-a-service offering, partnering with Oracle, Microsoft Azure and Google Cloud Platform.

Not owning AbbVie Inc. (ABBV) contributed to performance. The company reported a mixed quarter during the period with the focus on 2023 guidance below consensus estimates. Humira sales are expected to be the primary driver of 2023 sales erosion.

**Key detractors from performance were Tesla Inc., Eli Lilly and Co. and Enphase Energy Inc.**

An underweight position in Tesla Inc. (TSLA) detracted from performance. The company reported better-than-expected earnings during the period and management is projecting around 40% growth for 2023. The electric vehicle tax credit in the Inflation Reduction act will also likely increase demand in the US.

An overweight position in Eli Lilly and Co. (LLY) detracted from performance. The company reported strong Verzenio sales but those were offset by lower-than-expected Mounjaro sales. The US Food and Drug Administration also issued a CRL (complete response letter), putting the brakes on the accelerated approval of Alzheimer's drug donanemab.

An overweight position in Enphase Energy Inc. (ENPH) detracted from performance. Although ENPH reported strong quarterly results, demand within the US is becoming more uncertain as macroeconomic concerns are causing installers to pull in demand for future purchases. The unclear demand visibility has weighed on the share price.

## Current strategy and outlook

**Strains in parts of the financial system have prompted the Fed to trim its tightening plans.** We believe quick action by regulators has largely addressed concerns of systemic risk in the banking system. In our view, bank balance sheets are healthy, and the lack of fundamental consumer and corporate imbalances should limit the severity of any sort of economic downturn that may materialize.

**The long game still needs to play out: a higher cost of capital for banks will raise borrowing costs for companies and consumers, increasing the potential for a longer but still shallow recession.** Since the challenges to the banking system are likely to be disinflationary, further Fed rate hikes may not be necessary. The focus now shifts to when the Fed might begin lowering rates. For that to happen, we believe labor markets and economic growth would need to weaken substantially — and that is not happening yet. Employment data remain vibrant despite an uptick in the unemployment rate, and the economy has remained remarkably resilient, supported by strong consumer spending.

## Holdings detail

Companies mentioned in this report – percentage of Strategy investments, as of 03/31/23: Palo Alto Networks Inc. 1.85%, NVIDIA Corp. 4.31%, AbbVie Inc. 0%, Tesla Inc. 0.47%, Eli Lilly and Co. 2.75% and Enphase Energy Inc. 1.07% ; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

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 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.

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.

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.

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. All companies are members of Voya Financial.

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. **Past performance does not guarantee future results.**

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.



Not FDIC Insured | May Lose Value | No Bank Guarantee
CMFC-LCGSTRAT 033123 • ex033124 • IM2840782 • WLT250006930