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

- Market performance was mixed during the quarter as investors navigated macro uncertainties. U.S. large cap growth was up while international, small caps and value lagged. The rally in U.S. growth was dominated by semiconductors, technology hardware and media and entertainment industries as the artificial intelligence (AI) trade once again led markets.
- 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.
- Despite challenges, the U.S. economy remains resilient. Inflation remains a key focus, with the U.S. Federal Reserve holding interest rates steady to curb its impacts. Economic and Fed data continue to call for “status quo” equity positioning. However, we anticipate a regime shift as the market gains confidence in the next phase of Fed policy.

Portfolio review

U.S. stocks advanced during the second quarter on continued strength in the labor market and in several key economic measures. The S&P 500 Index rose by 4.28% during the quarter and the Nasdaq Composite grew by 8.26%. The information technology and communication services sectors led, while energy and materials lagged. Large-cap stocks outperformed small caps and growth significantly beat value. The Federal Open Market Committee held interest rates steady throughout the quarter and is now expected to cut rates only once in 2024. While Fed Chair Powell acknowledged modest progress on taming inflation at the central bank’s June meeting, he emphasized the need for more confidence about the inflation situation before making any changes to rates.

U.S. bond performance was essentially flat during the quarter. The Bloomberg U.S. Aggregate Bond Index inched up 0.07%, and the 10-year U.S. Treasury yield rose from 4.33% at the start of April to 4.36% by quarter end.

For the quarter ended June 30, 2024, the Strategy underperformed the Index on a NAV basis primarily due to unfavorable stock selection. The underperformance was namely driven by negative stock selection, most notably within the information technology, communication services and consumer staples sectors. While overweight allocations to the health care and industrials sectors detracted from performance, positive stock selection within the sectors added the most value. Strong stock selection within financials and consumer discretionary sectors also contributed to performance.

Key contributors to performance were Home Depot, Inc., Mastercard Inc. and NVIDIA Corp.

Not owning The Home Depot, Inc. (HD) generated positive results during the period. HD and its home improvement peers have struggled amid continued inflationary pressures and a struggling housing market. With expectations that these concerns will persist throughout the remainder of 2024, the stock price declined.

Not owning Mastercard Inc. (MA) proved favorable during the quarter. While MA's earning report exceeded expectations, shares traded off on management's lowered 2024 outlook. Unfavorable foreign exchange (FX) and implied rebates and incentives growth headwinds are expected to weigh on results.

Our overweight position in NVIDIA Corp. (NVDA) contributed to performance during the quarter. NVDA shares advanced throughout the period driven by its dominance in the semiconductor industry as a forerunner in and beneficiary of AI technology. As a result, the stock reached a U.S. $3+ trillion market cap company, making it the world's 3rd largest company by market cap, only surpassed by Microsoft and Apple.

Key detractors from performance were Apple Inc., Alphabet Inc. and Repligen Corp.

Our underweight in Apple Inc. (AAPL) was a headwind during the period. Relative underperformance was driven by AAPL's strong quarterly results. The company's announcement regarding its AI investments further fueled favorable investor sentiment.

Our underweight in Alphabet Inc. (GOOGL) detracted from results. Shares advanced following the company's strong quarterly results. The company's announcement regarding its AI investments further fueled favorable investor sentiment.

Our overweight position in Repligen Corp. (RGEN) proved unfavorable during the period. In addition to an earnings report that fell below expectations largely driven by continued weakness in China, concerns regarding the company's overspend on research and development weighed on the stock.

Current strategy and outlook

The resilience of the U.S. economy persists. Despite the effects from continued monetary tightness, economic growth remains strong, driven by gains in payrolls and productivity. Consumer spending is stable, supported by a significant increase in household net worth. However, consumer confidence remains below average due to the lasting impact of higher prices. While inflation has fallen to more manageable levels, concerns about overheating persist. While core inflation has declined for 14 consecutive months, core services prices are still rising. A downshift in growth and loosening of the labor market may be necessary to maintain inflation near the Fed's 2% target. This does not imply significant economic weakness, but it may keep rates higher for longer than expected.

Strong earnings momentum — which could continue through the year — has supported U.S. stocks. The growth and quality of earnings have justified expensive stock valuations, particularly in mega-cap technology stocks. However, we expect the rally to broaden, with value-oriented and smaller cap segments taking the lead. The economic soft landing and anticipated rate cuts should create favorable conditions for U.S. stocks, despite potential near-term pullbacks.

Holdings detail

Companies mentioned in this report — percentage of Strategy investments, as of 06/30/24: Home Depot, Inc. 0%, Mastercard Inc. 0%, NVIDIA Corp. 11.29%, Apple Inc. 9.68%, Alphabet Inc. 3.08% and Repligen Corp. 0.56%; 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.

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