

# Seeking the Potential of High-Dividend Yield and Dividend Growth

## Strategy overview

Actively managed portfolio aiming to achieve a dividend yield that exceeds the average dividend yield of the companies included in the Russell 1000® Value index.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered 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) 992-0180. Please read the information carefully before investing.

## 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 ended June 30, 2024, the Strategy outperformed the Russell 1000 Value Index (the Index) on net asset value (NAV) basis, due to strong stock selection. Stock selection within in the communication services, and health care sectors contributed the most to performance. Conversely, the selection in consumer staples, industrials and consumer discretionary detracted from performance.
- Markets have thus far shrugged off any uncertainty brought on by it being an election year, although it remains to be seen if that will continue. AI continues to be a catalyst for growth, and markets are anticipating rate cuts to begin before year-end, which is all good news for equities.

## 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 U.S. Federal Reserve 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 outperformed the Index on a NAV basis due to favorable stock selection.** Stock selection within in the communication services, and health care sectors contributed the most to performance. Conversely, the selection in consumer staples, industrials and consumer discretionary detracted from performance.

**At the individual stock level, overweight positions in AT&T Inc., Welltower Inc. and Philip Morris International Inc. added the most to performance.**

Owning an overweight position in AT&T Inc. (T) proved favorable. T generated strong free cash flow (FCF) in the quarter, a key investor metric with which the company can reduce debt and reinstate its buyback program.

An overweight position in health care real estate investment trust (REIT), Welltower Inc. (WELL), contributed to performance during the period. WELL reported strong quarterly results and raised forward guidance driven by continued strong growth in senior housing.

An overweight position in Philip Morris International Inc. (PM) generated positive results during the quarter. Shares advanced throughout the period due to its strong earnings report, citing solid gains in its IQOS product, and raised guidance. PM continues to realize growth in its smoke-free business, further increasing investor confidence.

**An overweight position in Kenvue, Inc., Las Vegas Sands Corp. and Saia, Inc. were the biggest individual detractors.**

Our overweight position in Kenvue, Inc. (KVUE) detracted from results. KVUE underperformed as investor confidence in longer-term financial targets has weakened.

An overweight position in Las Vegas Sands Corp. (LVS) was a headwind during the period. LVS underperformed due to investor concern about market share losses in Macau.

An overweight position in Saia, Inc. (SAIA) proved unfavorable during the period. The share price declined following the company's disappointing earnings results, which fell below expectations due to lower shipment volumes.

## 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: AT&T, Inc. 3.80%, Welltower, Inc. 3.02%, Philip Morris International Inc. 3.46%, Kenvue, Inc. 2.03%, Las Vegas Sands Corp. 1.55%, Saia, Inc. 1.16%. 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell 1000 Value index** is an unmanaged index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecast growth values. The index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot directly invest in an index.**

**Investment Risks:** All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. An investment in securities of **larger companies** carries with it the risk that the company (and its earnings) may grow more slowly than the economy as a whole or not at all. **Value investing** securities that appear to be undervalued may never appreciate to the extent expected and are generally more sensitive to changing economic conditions. **Foreign investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. The risks of emerging markets securities may be intensified. Because the Fund may invest in **other investment companies**, you may pay a proportionate share of the expenses of that other investment company, in addition to the expenses of the Fund. Other risks of the Fund include but are not limited to: company, convertible securities; dividend risks; interest rate, investment model, market trends; inability to sell securities; real estate companies and real estate investment trusts ("REITs") and securities lending risks. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

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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