

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 3Q24, equity performance varied as returns broadened. Small- and mid-cap stocks led the way and value outperformed growth, while China helped emerging markets. Falling interest rates boosted bond returns.
- The equity outlook is cautiously optimistic but uncertainties surrounding monetary policy, elections and geopolitical tensions are likely to cause volatility. However, we expect a generally favorable reaction to rate cuts and support from a strong labor market.
- Small cap growth stocks, as measured by the Russell 2000 Growth Index, were positive. The valuation discrepancy of small relative to large cap growth stocks should narrow as investors recognize the impact of easing and lower cost of capital for small caps.

Portfolio review

For the quarter ended September 30, 2024, the Voya Small Cap Growth Fund underperformed the benchmark, the Russell 2000 Growth Index (the Index) on a net asset value (NAV) basis, due to combination of stock selection and allocation.

Key detractors from performance included stock selection in information technology, materials and industrials sectors. Allocation hurt, including an underweight in financials and zero exposure to real estate as well as an overweight to information technology and energy. The largest detractors were Silicon Motion Technology Corp., Simulations Plus, Inc. and Churchill Downs Inc.

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Silicon Motion Technology Corp. (SIMO), a manufacturer of semiconductor products for the electronics market, underperformed on concerns about memory demand for consumer driven products (personal computers and smartphones). The mature growth is not expected to expand until 2H25 as consumers and enterprises await the incorporation of AI into these devices. We continue to hold SIMO and believe it will gain market share and capitalize on new product innovation centered around AI.

Simulations Plus, Inc. (SLP), a provider of modeling and simulation software and consulting services to the pharmaceutical and biotechnology industry, detracted. While investors continued to digest SLP's strategic acquisition of Proficiency, we remain cautiously optimistic of the positive impact of pharma and biotech research and development spending. We continue to hold SLP.

Churchill Downs Inc. (CHDN), an operator of pari-mutuel horse racing and casino gaming, best known for their trophy asset The Kentucky Derby, underperformed despite posting solid 2Q24 results and expected earnings before interest, tax, depreciation and amortization (EBITDA) growth for the remainder of the year. CHDN, in our opinion, is a case of "a good house in a bad neighborhood" resulting from the perceived slowdown in regional gaming and low-end consumer exposure. We continue to hold and monitor this position.

Top contributors to performance were Champion Homes, Inc., SiTime Corp. and Exact Sciences Corp. Champion Homes, Inc. (SKY), a manufacturer and seller of mobile homes and manufactured housing, was the top contributor as order rates are expected to accelerate in the retail and community channels. Deflation may push incremental margin improvement. After adding to the position, and following a move in the stock, we are maintaining our current weighting.

SiTime Corp. (SITM), a producer of micro-electromechanical systems (MEMS) based timing solutions, was another contributor. After buying it back earlier this year on expectations of normalizing inventory levels and anticipated inventory restocking, the stock appreciated significantly (37%), specifically driven by SITM's communication and enterprise datacenter division.

Exact Sciences Corp. (EXAS), a cancer screening and diagnostics company focused on early detection and prevention of colorectal cancer, contributed on increased demand, market share and expected diagnostic capabilities, despite the Centers for Medicare and

Medicaid Services (CMS) not implementing a 25% price increase for EXAS's next generation test, Cologuard Plus.

Current strategy and outlook

We expect mixed economic data and macro news to persist for the remainder of the year. However, the trend appears to point toward declining inflation and moderating unemployment. The initial 50 basis points cut that came late in the quarter, benefitted small caps, especially those reliant on capital markets who immediately saw their cost of capital decline. This economic expansion is unique in that we typically see the Fed ease gradually to get the economy moving. Low-end consumers are under enormous amounts of stress and certain segments of the economy are slowing, but overall corporate profitability and growth, while slowing is solid. We believe the Fed will continue to be cautious in their forward approach and are managing the current environment effectively.

It is in this environment that active management and close detail to fundamental investing is paramount. The strategy's performance has been strong, largely due to past positioning focused on higher growth, strong cash-flow generating companies. We remain cognizant of the risk versus reward balance at the portfolio and company level. Heading into an anticipated lower rate environment, we have added to more cyclical interest rate sensitive plays tied to housing, such as direct homebuilders (Century Communities, Inc.), construction (SiteOne Landscape Supply, Inc. and Installed Building Products, Inc.) and mortgage financing (Western Alliance Bancorp.). Small cap growth stock valuations remain attractive, trading at a sizable discount to large caps (roughly 36% as of 9/30/2024). Although a "higher for longer" environment could delay small cap stocks' outperformance, prudent and disciplined bottom-up stock selection should show strong relative returns.

Holdings detail

Companies mentioned in this report—percentage of portfolio investments, as of 09/30/24: Silicon Motion Technology Corp. 0.81%, Simulations Plus, Inc. 0.59% and Churchill Downs Inc. 2.62%, Champion Homes, Inc. 2.56%, SiTime Corp. 1.70%, Exact Sciences Corp. 1.24%, Century Communities, Inc. 1.68%, SiteOne Landscape Supply, Inc. 1.43%, Installed Building Products, Inc. 0.76%, Western Alliance Bancorp. 1.32%; 0% indicates that the security is no longer in the Fund. Portfolio holdings are subject to daily change.

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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.

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