

# 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

- Markets are off to a good start to the year, as the underlying fundamental factors of the economy remain strong. Inflation is still above the U.S. Federal Reserve targeted mandate but has fallen sharply from its 2022 highs, and U.S. gross domestic product (GDP) has significantly outpaced that of other developed economies.
- For the quarter ended March 31, 2024, the Strategy outperformed the Russell 1000 Value Index (the Index) on net asset value (NAV) basis, due to strong stock selection. The health care, information technology and industrials sectors contributed the most to performance. Conversely, the selection in consumer staples, materials and communication services sectors 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. Artificial intelligence 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 enjoyed a strong first quarter as inflation's downward trend continued and U.S. economic growth beat expectations.** The S&P 500 Index reached a new high and advanced by 10.56% on a total return basis during the quarter and the Nasdaq Composite had a price return of 9.11%. The communication services, energy and information technology sectors led, while real estate and utilities lagged. Large-cap stocks outperformed small caps and growth beat value. The Federal Open Market Committee voted to hold interest rates steady for the fifth consecutive time at its March meeting; however, three rate cuts are still expected this year, with the first likely to happen in June.

**U.S. bonds slipped during the quarter amid persistently tight credit spreads and a rising U.S. Treasury yield curve.** The Bloomberg U.S. Aggregate Bond Index fell -0.78%. The 10-year U.S. Treasury yield rose from 3.95% in January to 4.20% by quarter end on early concerns that lingering high inflation could change the Fed's rate cut plans; however, it remained essentially flat in March following favorable comments from Fed Chair Powell.

**For the quarter ended March 31, 2024, the Strategy outperformed the Index due to favorable stock selection.** The health care, information technology and industrials sectors contributed the most to performance.

**At the individual stock level, overweight positions in Hartford Financial Services Group, Inc., Valero Energy Corp. and Saia, Inc. added the most to performance.**

An overweight position in Hartford Financial Services Group, Inc. (HIG) contributed to performance. The company reported better-than-expected results during the period and management provided a strong 2024 outlook, including underwriting tailwinds that support a return on equity (ROE) floor of 15%.

An overweight position in Valero Energy Corp. (VLO) contributed to performance. The company reported strong earnings during the period, exceeding even the highest expectations, driven by outperformance across every business segment.

An overweight position in Saia, Inc. (SAIA) contributed to performance. The company reported another strong quarter with a big increase in shipments and relatively good cost control. Net capital expenditures are expected to double in 2024, setting the stage for continued growth.

**Not owning a position in Berkshire Hathaway Inc. and overweight positions in Philip Morris International Inc. and Dropbox, Inc. were the biggest individual detractors.**

Not owning Berkshire Hathaway Inc. B (BRK.B) detracted from performance. The property and casualty (P&C) stocks outperformed during the period due to lower catastrophe losses along with increased premiums industrywide.

An overweight position in Philip Morris International Inc. (PM) detracted from performance. The company reported strong earnings during the period, including over 8% organic revenue and operating income growth.

An overweight position in Dropbox, Inc. (DBX) detracted from performance as the company reported a challenging quarter and reset expectations. Ongoing economic challenges, strategic decisions and mixed execution led to declines in customer contract value and new customer additions.

## Current strategy and outlook

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**The U.S. economy remains strong, with positive gains in payrolls and productivity.** Consumer spending momentum appears soft but stable. Household net worth has increased significantly since the pandemic, but consumer confidence remains below long-term averages due to the lasting negative impact of higher prices on consumers' psyches. The U.S. labor market remains robust but shows signs of softening. While inflation has fallen to more manageable levels, concerns about overheating persist. Interest rates may remain higher for longer than some participants expect.

**The economic soft landing and easier financial conditions, coupled with anticipated rate cuts, should create favorable conditions for U.S. stocks.** Although a lot of price appreciation has already taken place and a near-term pullback is possible, there is significant potential for further rally once the Fed starts cutting rates.

## Holdings detail

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Companies mentioned in this report – percentage of Strategy investments, as of 03/31/24: Hartford Financial Services Group, Inc. 1.69%, Valero Energy Corp. 1.02%, Saia, Inc. 0.79%, Berkshire Hathaway Inc. 0%, Philip Morris International Inc. 3.13% and Dropbox, Inc. 0.99%, 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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