High Conviction Active U.S. Equity Strategy

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Strategy overview

Dynamic US All Cap equity strategy that seeks to deliver opportunistic alpha with no static factor or style biases.

Key takeaways

- Large cap equities advanced during the third quarter, while mid and small cap indices declined and value generally outperformed growth. Sector leadership favored energy, technology, and health care, supported by resilient earnings and continued investment in AI-related infrastructure. As the quarter progressed, renewed enthusiasm around AI and the emerging opportunities associated with agentic AI supported select growth-oriented areas of the market, even as broader participation remained uneven.
- The Voya MI US Opportunistic Equity Strategy underperformed its benchmark, the S&P 500 (the Index), on both a gross- and net-of-fees basis.
- Equity markets continue to navigate a mixed backdrop of resilient economic activity and corporate earnings alongside elevated valuations, interest-rate uncertainty, and geopolitical and policy risks. Continued investment in AI infrastructure remains an important source of earnings growth, while increasing focus on agentic AI is broadening attention from the infrastructure buildout toward companies positioned to benefit from AI adoption and monetization. Against this backdrop, we believe a selective approach remains warranted, with opportunities across both secular growth themes and attractively valued areas of the market.

Portfolio review

U.S. equities posted modest gains during the third quarter, although performance was increasingly concentrated in a handful of large cap technology and energy companies. The S&P 500 gained 2.30% on a total return basis and the Nasdaq advanced 2.47% on a price return basis, supported by resilient economic growth, strong corporate earnings, and continued enthusiasm surrounding artificial intelligence. Investors also navigated persistent inflation pressures, the U.S. Federal Reserve's first rate increase since 2023, and sharply higher Treasury yields as expectations for additional policy tightening increased. However, stable labor market conditions and expectations for another quarter of robust earnings growth continued to support investor sentiment. Against this backdrop, large cap stocks significantly outperformed small cap stocks, while value stocks outpaced growth stocks during the quarter. Energy, information technology, and healthcare led market performance, while utilities, industrials, and real estate lagged.

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Sector performance varied significantly during the quarter. Energy was the strongest-performing sector, as rising oil prices and geopolitical tensions supported the outlook for producers. Information technology advanced, driven by ongoing demand for AI infrastructure, software, and cloud computing, while healthcare benefited from strength in medical technology, hospitals, and biotechnology. In contrast, utilities, industrials, and real estate lagged as rising Treasury yields pressured rate-sensitive industries and increased financing costs. Sector performance reflected two competing forces during the quarter: strong demand for AI-related technologies and rising energy prices supported market leaders, while higher interest rates pressured many rate-sensitive areas of the market.

For the quarterly reporting period, the Strategy underperformed the Index on both a gross- and net-of-fees basis. The primary detractor was an overweight allocation and stock selection within the utilities sector. Stock selection within the communication services sector and an overweight allocation to the industrials sector also detracted from performance. The primary contributor to returns was stock selection within the industrials, financials, and to a lesser extent health care sectors. An underweight allocation to the consumer discretionary sectors also contributed.

Key detractors from performance included Microsoft Corp., Corning Inc., and Meta Platforms, Inc.

The underweight position in Microsoft Corp. detracted from performance and was primarily driven by the machine learning models' negative view of the company's liquidity features. Shares advanced during the period amid continued strength in the company's cloud and AI businesses, which supported investor confidence in its growth outlook.

The overweight position in Corning Inc., a leading manufacturer of specialty glass and optical communications products, detracted from performance and was primarily driven by risk management reasons as the stock served to balance factor exposures. The stock declined after the company issued third-quarter sales guidance below market expectations, raising concerns around the pace of near-term growth despite continued strength in AI-related optical communications.

Not owning Meta Platforms, Inc. detracted from performance and was primarily driven by the machine learning models' negative view of the company's performance of value and quality features. Shares advanced during the period as continued strength in the company's advertising business and AI initiatives supported investor sentiment.

The main individual contributors to performance were HP Inc., Intercontinental Exchange, Inc., and Salesforce, Inc.

The overweight position in HP Inc., a provider of personal computing and printing products, had a positive impact on performance and was primarily driven by the machine learning models' positive view of the company's quality (debt, cash conversion cycle) features. The stock rose following stronger-than-expected results and raised guidance, supported by strength in personal systems and AI-enabled personal computers.

The overweight position in Intercontinental Exchange, Inc., an operator of financial exchanges and provider of market data, had a positive impact on performance and was primarily driven by the machine learning models' positive view of the company's technical factors (volatility, dispersion) features. The stock rose following strong operating results and continued growth across the company's exchange and data businesses.

The overweight position in Salesforce, Inc., a provider of cloud-based customer relationship management software, had a positive impact on performance and was primarily driven by the machine learning models' positive view of the company's quality (research and development, governance) features. The stock rose following strong quarterly results, raised guidance, and accelerating demand for the company's Agentforce AI offerings.

Current strategy and outlook

U.S. equities enter the fourth quarter supported by resilient economic growth, stable labor market conditions, strong corporate earnings, and continued investment tied to AI. Demand for technology, software, cloud infrastructure, and AI-related spending remains strong, supporting a favorable backdrop for corporate investment and innovation.

The primary risk to the outlook remains inflation and its impact on interest rates. The Fed raised its target range for the fed funds rate by 25 basis points to 3.75%–4.00% in September, signaling a continued focus on containing inflation. Combined with hawkish policy signals and Treasury yields near multi-decade highs, this suggests financial conditions could remain restrictive. Investors will be closely watching whether inflation moderates without significantly weakening growth or consumer demand.

Ongoing investment in AI infrastructure and the growing adoption of AI tools across industries would remain important drivers of earnings growth. Growing interest in agentic AI and emerging monetization opportunities are also broadening investor focus beyond infrastructure providers toward companies positioned to benefit from implementation and commercial adoption. The path of inflation, interest rates, earnings growth, and the adoption of AI are likely to be a key determinant of equity performance in the months ahead.

The **Standard and Poor's 500 Index** is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index includes 500 leading companies and covers approximately 80% of available market capitalization.Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.** The index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI"), and has been licensed for use by Voya. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Voya or its products or services are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the index.

The principal risks are generally those attributable to stock investing. Holdings are subject to market, issuer, and other risks, and their values may fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security may decline for reasons specific to the issuer, such as changes in its financial condition. More particularly, the Strategy invests in mid to smaller companies, which may be more susceptible to price swings than larger companies because they have fewer resources and more limited products, and many are dependent on a few key managers. The manager's investment style may become out of favor and/or the manager's selection process may prove incorrect, which may have a negative impact on the Strategy performance. The Strategy invests primarily in U.S equity securities—regardless of capitalization. The Strategy uses a concentrated and high turnover investment approach, and generally seeks to invest in what the firm believes are high-quality growth-oriented companies trading at discounts to the manager's assessment of their intrinsic value. The Strategy has no appropriate benchmark for the composite because the Strategy has minimal exposure to a number of sectors and invests across the market capitalization spectrum. Investment Model: A manager's proprietary model may not adequately allow for existing or unforeseen market factors or the interplay between such factors, and even a model that performs in accordance with the manager's intentions may underperform other investment strategies or result in greater losses than other strategies. The proprietary models used by a manager to evaluate securities or securities markets are based on the manager's understanding of the interplay of market factors and do not assure successful investment. The markets, or the prices of individual securities, may be affected by factors not foreseen in developing the models. Strategies that are actively managed, in whole or in part, according to a quantitative investment model, including models using artificial intelligence to select securities, can perform differently from the market as a whole based on the investment model and the factors used in the analysis, the weight placed on each factor, and changes from the factors' historical trends. Mistakes in the construction and implementation of the investment models (including, for example, data problems and/or software issues) may create errors or limitations that might go undetected or are discovered only after the errors or limitations have negatively impacted performance. There is no guarantee that the use of these investment models will result in effective investment decisions for the Strategy.

Artificial intelligence (AI) including natural language processing, machine learning, and other forms of AI may pose inherent risks, including but not limited to: issues with data privacy, intellectual property, consumer protection, and anti-discrimination laws; ethics and transparency concerns; information security issues; the potential for unfair bias and discrimination; quality and accuracy of inputs and outputs; technical failures and potential misuse. Reliance on information produced using AI-based technology and tools should factor in these risks.

The Voya Machine Intelligence (VMI) team employs a proprietary machine learning approach to identify and exploit persistent patterns in company data. The approach leverages (non-linear) machine learning ("ML") models for fundamental analysis. The ML models employed do not utilize generative AI algorithms.

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.

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