Voya SmallCap Opportunities Strategy

Focusing on High-Quality Companies with Sustainable Growth Trends

Strategy Overview

Actively managed small cap growth strategy driven by bottom-up fundamental research seeking high-quality companies with strong balance sheets and cash flow characteristics that are beneficiaries of sustainable growth trends.

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.

Portfolio Review

For the quarter ended March 31, 2022, the Strategy outperformed its benchmark, the Russell 2000 Growth index (the "index"), driven by strong stock selection, most notably within the industrials and information technology sectors. Stock selection within the energy and financials sectors detracted the most from performance.

The strongest individual contributors to performance were Tower Semiconductor Ltd., LHC Group, Inc. and Pacira Biosciences, Inc.

The largest contributor to the Strategy during the first quarter was Tower Semiconductor Ltd. (TSEM). Shares advanced on the news that Intel Corporation (INTC) will acquire TSEM at a 60% premium for $5.4 billion in cash ($53 per share). The acquisition of TSEM's best-in-class specialty technologies will further expand INTC's manufacturing capacity as a globally diverse end-to-end foundry service provider.

Our overweight position in LHC Group, Inc. (LHCG), a company that provides post-acute health care services through home nursing agencies, hospices and long-term acute care hospitals, also added value. While LHCG and its home health peers experienced significant Covid-19-related headwinds and labor pressures during 2021, the stock witnessed a gradual recovery as demand and the labor environment began to improve. Shares advanced further at the end of the quarter on the news that LHCG will be acquired by UnitedHealth at an 8% premium for $5.4 billion in cash ($170 per share).

Another strong contributor to performance was Pacira Biosciences, Inc. (PCRX), a company that provides non-opioid pain management and regenerative health solutions. Despite significant Covid-19 Omicron variant headwinds at the end of 2021, the company's positive 4Q21 earnings results gave investors greater confidence in PCRX's long-term growth trajectory, as the company witnessed elective surgeries returning to pre-pandemic levels. Management cited record operating margins and record sales for its post-procedural pain control drug, EXPAREL, highlighting the significant increase in global demand. We continue to maintain our position in PCRX and believe that as the opioid epidemic continues, PCRX stands to benefit from its non-opioid pain management drugs.

Key detractors from performance were Natera, Inc., indie Semiconductor, Inc. and Focus Financial Partners, Inc.

The top detractor from performance for the first quarter was genetic testing services company, Natera, Inc. (NTRA). Shares traded down following the release of a short report by Hindenburg Research which highlighted a number of allegations regarding the company's relationship with the non-profit entity My Genome My Life (MGML), as well as issues related to litigation, billing practices, microdeletion testing and non-invasive prenatal testing (NIPT) leadership. While we believe the allegations in the Hindenburg report were overblown, we exited our position given the associated risks.

Another detractor was automotive semiconductor and software solutions innovator, indie Semiconductor, Inc. (INDI). Despite strong 4Q21 results and 1Q22 guidance, with gross margins above expectations, as well as solid backlog, the stock remained under pressure along with other longer duration assets. The sell-off was further exacerbated by investor concerns regarding the industry nearing its peak cycle growth and expected deceleration. While we continue to monitor our exposures within the higher duration cohort, we continue to hold our position as we appreciate the strength of INDI's balance sheet and the long-term growth prospects of the company.

Lastly, our overweight position in wealth management services company, Focus Financial Partners, Inc. (FOCS), proved unfavorable during the period. While 4Q21 results highlighted continued strength and consistent revenue growth, as well as a healthy secular outlook, FOCS and its peers traded off due to investor concerns regarding the rising interest rate environment. FOCS remains a core holding in the portfolio as we believe FOCS is poised to benefit as a leader in the consolidation of the registered investment advisor (RIA) industry. At its current attractive relative valuation, we see meaningful upside potential.

Current Strategy and Outlook

Should the Russia-Ukraine conflict persist, it could lead to further tightening of financial conditions via elevated energy prices, marginally slowing economic growth. Should conditions tighten further, it could limit the Fed's desire to hike rates at the accelerated pace the market is currently projecting; this would be mildly positive for bonds and neutral for equities. Meanwhile, fundamentals continue to advance — as of April 1, estimates of year-over-year S&P 500 earnings growth stood at about 6.4%. The comparison of 2022 to 2021 earnings will be difficult but expectations continue to be positive each quarter. In our view, the key to sustained growth will be a transition from accommodative fiscal and monetary policies to a period of increased private sector investment.

Holdings Detail

Companies mentioned in this report – average percentage of Fund and Portfolio investments, as of 03/31/22: Tower Semiconductor Ltd. 1.67%, LHC Group, Inc. 1.61%, Pacira Biosciences, Inc. 1.93%, Natera, Inc. 0%, indie Semiconductor, Inc. 0.83% and Focus Financial Partners, Inc. 2.04%; 0% indicates that the security is no longer in the Fund. Portfolio holdings are subject to daily change.

The Russell 2000 Growth Index is an unmanaged index that measures the performance of securities of smaller U.S. companies with greater-than-average growth orientation. 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. In exchange for higher growth potential, investing in stocks of **Smaller Companies** may entail greater price volatility and less liquidity than investing in stocks of larger companies. Other risks of the Portfolio include but are not limited to: **Growth Investing Risks, Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Liquidity Risks, Portfolio Turnover Risks and Securities Lending Risks. Investors should consult the Portfolio's Prospectus and Statement 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 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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Past performance is no guarantee of future results.

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