

# Voya SMID Cap Growth Strategy

## Strategy-At-A-Glance

<b>Objective<sup>1</sup></b>	To outperform the Russell 2500 Growth Index by 2.5-3.5% annualized before management fees over full market cycles with expected annualized tracking error of 3-6%
<b>Inception Date</b>	06/01/12
<b>Strategy Assets<sup>2</sup></b>	\$432 Million
<b>Benchmark</b>	Russell 2500 Growth Index
<b>Vehicles</b>	Separate Accounts Mutual Fund

<sup>1</sup> There is no guarantee that this objective will be achieved.

<sup>2</sup> AUM as of 09/30/18

## Strategy Overview

The SMID Growth strategy seeks to outperform its benchmark over a full market cycle via an actively managed approach relying on fundamental research and analysis to identify high-quality companies with strong balance-sheet and cash-flow characteristics for sustainable growth trends.

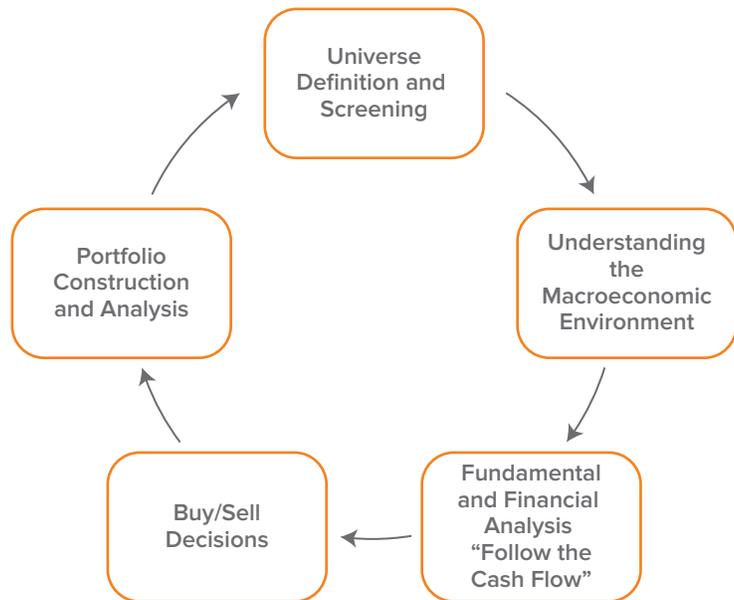
## Investment Philosophy

We believe consistent and durable alpha is best achieved over the long term via a sector-neutral, research-centric investment process driven by a diverse team of career sector analysts. Our key beliefs:

- Bottom-up stock selection is the key driver of alpha
- Specialized sector and industry experience are crucial to value-added fundamental research
- Positive cash-flow generation and deployment drive earnings per share, and ultimately stock prices

## Investment Process

Our disciplined, bottom-up investment process focuses on high-conviction stock selection. The process begins by identifying companies within the Russell 2500 Growth Index, plus opportunities outside of the index with similar market capitalizations to that of the index. Next, a quantitative evaluation ranks the investment universe and focuses the analysts' attention on the most attractive stocks within each sector. The analysts conduct fundamental research to identify companies with solid balance sheets and strong cash flow generation capabilities. Portfolio construction is based on the attractiveness of each stock, given benchmark weight, expected return, perceived risk, and liquidity.

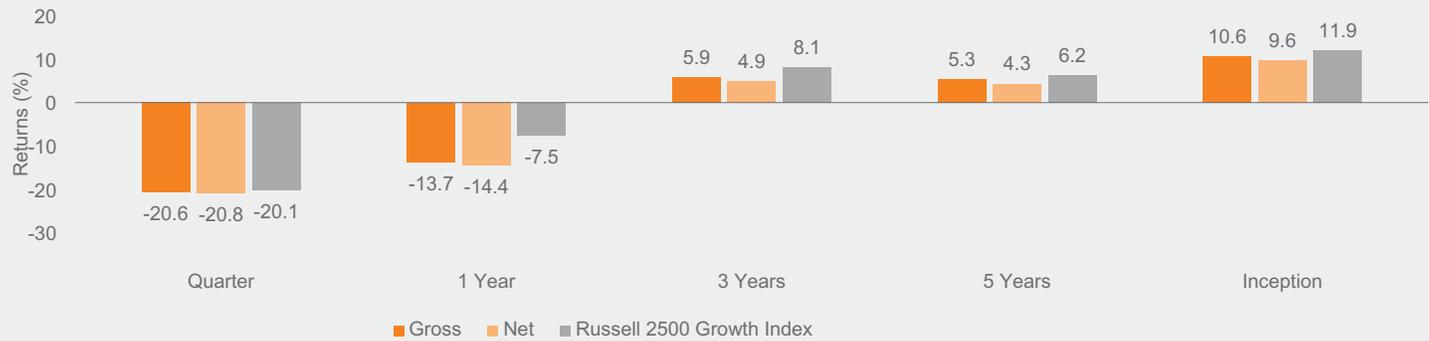


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## Performance

### Voya SMID Cap Growth Composite



## Investment Commentary

### Key Takeaways

- We continue to monitor changes occurring globally, actions at central banks and overall economic data
- We seek to remain nimble and continue to focus on quality companies, such as those that, in our opinion, have strong managements, solid balance sheets and good cash flow generation capabilities
- Going forward, we believe the portfolio is well positioned, as we think that investors will continue to focus on companies' fundamentals due to ongoing economic uncertainty

### Portfolio Review

For the quarter ended December 31, 2018, the strategy underperformed its benchmark, the Russell 2500 Growth index primarily due to unfavorable stock selection effects. Stock selection within the capital goods and industrial materials sectors detracted the greatest value during the period. In aggregate, an allocation to cash, while within the typical range, contributed the most to performance. Stock selection within the health care equipment and services and pharmaceutical and biotechnology sectors also added value.

Key detractors from performance were CIRCOR International, Inc., GrubHub, Inc. and Capri Holdings Limited.

Within the industrials sector, owning a non-benchmark position in CIRCOR International, Inc. (CIR) detracted from results. Shares traded down in response to the recently contracted debt CIR used to fund their acquisition of Colfax Corporation's Fluid Handling business. While actively paying down the balance, concerns regarding CIR's heightened debt levels in a rising rate environment weighed on the stock. In addition, as many of CIR's products are sold into the oil and gas industry, a recent slowdown in E&P completion activity, particularly within the Permian, called into question how such a slowdown would impact orders and the overall business.

An overweight position in online and mobile restaurant pick-up and delivery platform, GrubHub, Inc. (GRUB), detracted from performance over the holding period. Despite revenue beating expectations for the third quarter, stock prices fell due to marketing and operational costs that were higher than expected, contributing to a lower than expected earnings figure. In addition to the completion of its acquisition of Tapingo, the

company announced that it would also acquire OrderUp Inc. for an undisclosed amount.

Owning an initial overweight position in Capri Holdings Ltd. (CPRI), a designer and distributor of apparel and accessories, detracted from performance during the quarter. Stock prices fell early in the quarter as the TFC cleared the company to acquire Versace. Additionally, after the company released Michael Kors revenues, comparables sales, and a weaker than expected guidance, the stock continued its downward trend.

Key contributors to performance were Burlington Stores, Inc., MarketAxess Holdings Inc. and Americold Realty Trust.

An overweight position in Burlington Stores, Inc. (BURL) generated favorable results during the period. As market fears over a slowing global economy and trade war pressure grew, the stock saw multiple expansion given its entirely domestic store base and the off-price sector's ability to capitalize from any broader trade disruption. As a result, with the U.S. consumer benefiting from continued strong wage and job growth, we believe BURL was well-positioned above its peers for strong sales growth and ongoing share gains during the 2018 holidays.

An overweight position in MarketAxess Holdings (MKTX) contributed to performance during the period. The company released above expectation earnings results during the quarter driven by higher revenues and lower expenses. Additionally, the company reported a better market backdrop. We believe strong market share gains, particularly in U.S High Yield, will continue into the fourth quarter.

An overweight position in Americold Realty Trust (COLD), the world's largest owner and operator of temperature-controlled warehouses, contributed to performance during the period. While shares were impacted by the market sell-off, the stock rebounded due to well-received third quarter 2018 earnings results. The company's operational efficiencies and cost control measures gave investors greater confidence in COLD's ability to grow margins and boost occupancy gains into 2020.

### Current Strategy and Outlook

We continue to monitor changes occurring globally, actions at central banks and overall economic data. Our portfolio positioning has not changed significantly. We seek to remain nimble and continue to focus on quality companies, such as those that, in our opinion, have strong managements, solid balance sheets and good cash flow generation capabilities. Going forward, we believe the portfolio is well positioned, as we think that investors will continue to focus on companies' fundamentals due to ongoing economic uncertainty.

**Past performance does not guarantee future results. There is no guarantee that any forecasts or opinions in this material will be realized.** Manager commentary is for informational purposes only and does not constitute investment advice and is not a recommendation to purchase or sell any of the securities referenced.

The Composite performance information represents the investment results of a group of fully discretionary accounts managed with the investment objective of outperforming the benchmark. Information is subject to change at any time. Gross returns are presented after all transaction costs, but before management fees. Returns include the reinvestment of income. Net performance is shown after the deduction of a model management fee equal to the highest fee charged. Benchmark source: Russell Investments

**The Russell 2500 Growth Index** measures the performance of the small to mid-cap growth segment of the U.S. equity universe. It includes those Russell 2500 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2500 Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics. **Investors cannot directly invest in an index.**

**Indexes do not reflect fees, brokerage commissions, taxes or other expenses of investing, and investors cannot directly invest in an index.** Source: Russell Investments and Voya Investment Management.

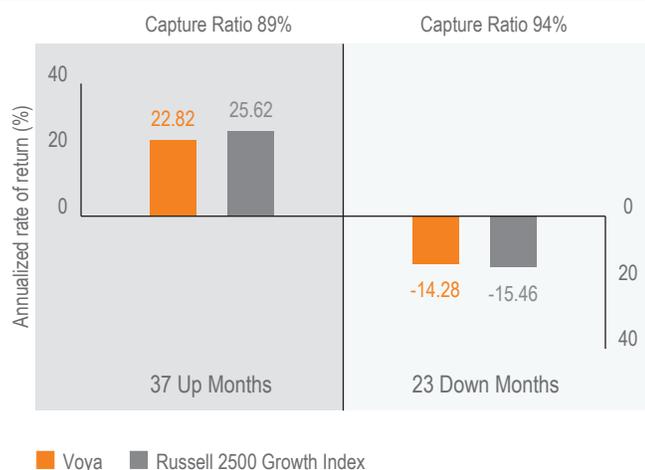
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## Portfolio Highlights

Sector Weightings <sup>3</sup> and Attribution	Sector Weights (%) <sup>3</sup>			Trailing 1-Year Attribution Analysis		
	Portfolio	Russell 2500 Growth Index	Overweight/ Underweight	Allocation Effect	Selection Effect	Total Effect
Communication Services	1.75	3.42	-1.67	-0.03	-0.33	-0.36
Consumer Discretionary	13.62	15.07	-1.45	0.06	-2.05	-1.99
Consumer Staples	0.90	2.09	-1.19	-0.13	0.07	-0.06
Energy	1.21	1.15	0.06	-0.07	0.00	-0.07
Financials	7.45	7.11	0.34	-0.08	-0.44	-0.52
Health Care	22.27	22.12	0.15	-0.11	-0.10	-0.22
Industrials	18.43	16.86	1.57	-0.01	-0.40	-0.41
Information Technology	25.76	24.70	1.06	-0.34	-2.05	-2.39
Materials	5.29	4.41	0.88	-0.20	-0.23	-0.42
Real Estate	3.31	2.81	0.50	-0.08	-0.04	-0.12
Utilities	0.00	0.26	-0.26	-0.02	0.01	-0.01
Cash	NA	NA	NA	0.43	0.00	0.43
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>	<b>-0.57</b>	<b>-5.57</b>	<b>-6.13</b>

Returns-Based Statistics (5 years ending 12/31/18)	Composite	Russell 2500 Growth Index
Standard Deviation (%)	14.40	14.69
Tracking Error (%)	3.72	NA
Information Ratio	-0.25	NA
Alpha (annualized %)	-0.63	NA
Beta	0.95	1.00
R-Squared (%)	0.94	1.00
Sharpe Ratio	0.32	0.38

## Up / Down Capture Ratio



Security Characteristics	Composite	Russell 2500 Growth Index
Weighted Avg. Cap (\$ Millions)	5,749	4,677
Active Share	77	NA
P/E (next 12 mos.)	22.27	22.19
EPS Growth (3-5 Year Estimate)	16.86	16.86
Price to Cash Flow	19.08	19.99
ROA (%)	4.26	4.09
Dividend yield	1.00	0.88
PEG Ratio (next 12 mos.)	1.36	1.44

Top Ten Holdings (%)	Portfolio
Burlington Stores, Inc.	1.66
Ultimate Software Group, Inc.	1.51
PTC Inc.	1.46
Fair Isaac Corp.	1.46
Booz Allen Hamilton Holding Corp.	1.39
SS&C Technologies Holdings Inc.	1.37
EPAM Systems, Inc.	1.36
WellCare Health Plans, Inc.	1.33
Vail Resorts Inc.	1.33
Avery Dennison Corp.	1.32

Top Ten Active Weights (%)	Portfolio
Fair Isaac Corp.	1.17
Euronet Worldwide, Inc.	1.16
Merit Medical Systems, Inc.	1.11
Ultimate Software Group, Inc.	1.11
Total System Services, Inc.	1.08
Booz Allen Hamilton Holding Corp.	1.07
Burlington Stores, Inc.	1.07
Proofpoint, Inc.	1.04
EPAM Systems, Inc.	1.04
Hubbell, Inc.	1.00

<sup>3</sup> Ex-cash and other

Attribution results over long periods are not guaranteed to be accurate relative to the sum of a series of shorter periods. The sector, security, and holdings information is based on a sample account in the Composite that we believe best represents this investment management style. It should not be assumed that the adviser continues to hold the securities listed. Other accounts in the Composite might have slightly different portfolio characteristics. Returns-Based Characteristics are based on the Composite returns. **Please see next page for other important disclosures.**

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## Voya Investment Management

Voya Investment Management (Voya IM) is the asset management business of Voya Financial, a Fortune 500 company with over 6,000 employees seeking to help clients plan, invest and protect their savings. As of 09/30/18, Voya IM manages approximately \$212 billion\* in assets across Fixed Income, Senior Loans, Equities, Multi-Asset Strategies & Solutions, Private Equity, and Real Assets. Drawing on over 40 years of experience and the expertise of 250+ investment professionals, Voya IM's capabilities span traditional products and solutions as well as those that cannot be easily replicated by an index.

Voya IM's award-winning culture is deeply rooted in a client-centric approach to helping investors meet their goals — from insurance companies, corporate and public pension funds, sovereign wealth funds, endowments and foundations, and consultants to intermediaries, and individual investors. Reliability is why our clients hire us and it is why they trust us to navigate the path ahead.

\*As of 09/30/18. Voya IM assets are calculated on a market value basis and include proprietary insurance general account assets of \$59 billion.

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. The strategy may use derivatives such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on performance. Mid-cap stocks generally have higher risk characteristics than large-cap stocks. 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. More particularly, growth-oriented stocks typically sell at higher valuations than other stocks. If a growth-oriented stock does not exhibit the level of growth expected, its price may drop sharply. Additionally, growth-oriented stocks have been more volatile than value-oriented stocks. Other risks include but are not limited to other investment companies' risks, price volatility risks, securities lending risks and portfolio turnover risks.

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## Portfolio Managers



### James Hasso

Head of Small Cap and Portfolio Manager

Years of experience: 24

Years with firm: 13



### Joseph Basset, CFA

Equity Analyst and Portfolio Manager

Years of experience: 22

Years with firm: 14