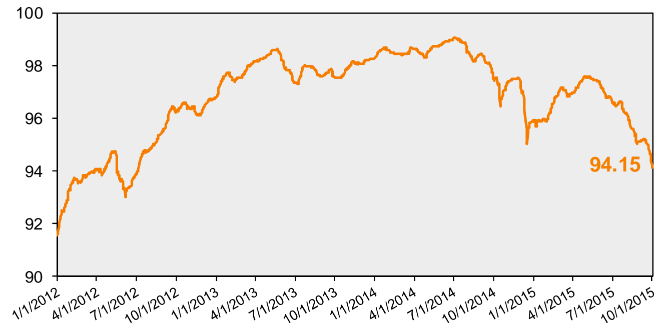
Voya Senior Loan Group

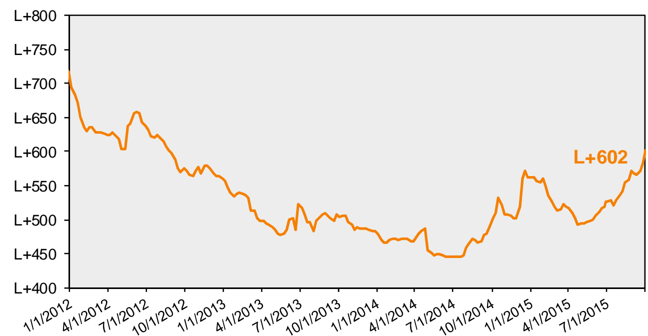
Pass the Dramamine, Please

- Rough seas in equities and the high yield bond market continued to spray over the loan market, as the S&P/LSTA Leveraged Loan Index (the "Index") returned -0.53% during the week. The average Index bid price declined 58 bps, to 94.15.
- Despite the chop, activity in the new issue market held steady, although perhaps not as robust as hoped for following the annual Labor Day slow-down. The forward calendar of visible institutional deals decreased slightly, to $59.3 billion from $59.9 billion last week, with the majority of that total still comprised of new M&A. The real story, however, is not what the forward calendar holds, but the time with which it may take to move through the market. With macro volatility trickling into loans, the new issue market has been moved into price discovery mode. Particularly as it pertains to more opportunistic deals, this process may prove challenging, and the current conditions will likely prompt some issuers to put their plans on hold.
- As volatility continued this week, even higher quality "par" loans came under some pressure. The average bid of LCD's flow name composite fell 70 bps for the week, to 97.52. The bulk of the losses (approx. 50 bps) came from Monday's slide, with the week-over-week decline the largest experienced in the loan market since December's "oil spill."
- Having said all of that, demand was still net positive for the week. CLO issuance came in at $2.1 billion, while retail loan fund outflows totaled $786 million for the week ended Sept. 30th. We do note, however, the net number (approximately $1.3 billion) is much skinnier than what we've seen in recent readings.
- BB loans are continuing to outperform the broad Index, though not as dramatically this week, with a return of -0.42%. A function of being the largest and often most traded part of the Index, single Bs trailed the broad Index with a return of -0.57%, while CCCs continue their fall from favor at -1.02%.

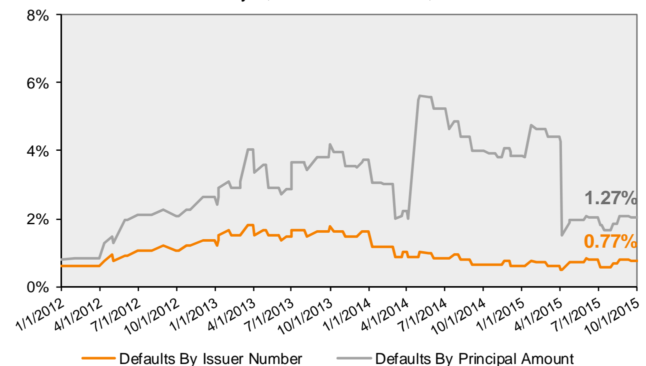
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to October 1, 2015



Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to September 30, 2015



Lagging 12 Month Default Rate [3]
S&P/LSTA Leveraged Loan Index
January 1, 2012 to October 1, 2015

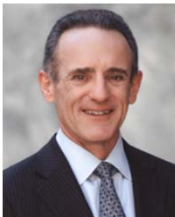


Voya Senior Loan Strategy

The Voya Senior Loan Group is a part of Voya Investment Management. The team is comprised of 28 investment professionals and 27 dedicated support staff. There are five portfolio management teams in Scottsdale, each of which is responsible for particular industries, and a team located in London that is responsible for sourcing overseas loans.

The Voya Senior Loan Strategy is an actively managed, ultra-short duration floating rate income strategy that invests primarily in privately syndicated, below investment grade senior secured corporate loans. Senior loans are floating rate instruments that can provide a natural hedge against rising interest rates. They are typically secured by a first priority lien on a borrower's assets, resulting in historically higher recoveries than unsecured corporate bonds.

Portfolio Managers



Dan Norman
Group Head

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Group Head

INVESTMENT MANAGEMENT

September in Review

Facing a choppy technical environment amid highly volatile conditions across almost all traditional capital markets, the S&P/LSTA Leveraged Loan Index ("Index") lost 65 bps for September, bringing the YTD return down to 1.44%. The weighted average price of loans ended the month at 94.21.

The BB-rated component of the Index continued to outperform the broad Index in September, although all cohorts were in the red for the second month in a row. The same trend holds on a YTD basis: BBs at the top with a return of 3.21%; Bs in the middle at 1.72%; and the once high-flying CCC cluster bringing up the "performing" rear at -2.05%. Defaults, while few from an issuer count perspective, have been a very unfriendly place to be, losing over 30% over the same period.

Importantly, although loans have slipped into the red recently from an absolute return perspective, they continue to hold up better than most of the other major asset classes. The BAML High Yield Master Index lost 2.59% for the month, and the S&P 500 Index was down 2.47%. Of course, part of the reason loans have outperformed high yield so far this year is due to a lower overall exposure to the broad Energy and Metals/Mining sectors. Reasonably balanced supply/demand conditions in loans has also provided a bit of ballast. Demand was slightly positive for the month, with just under $5 billion in CLO issuance covering the $1.4 billion in redemptions from loan mutual funds (per Lipper FMI).

New issue supply has been a net positive, but not overly so, with the universe of Index loans expanding to $844 billion as of the end of September (versus $828 billion at the end of August). As one would expect, opportunistic repricings have come to a complete halt.

Looking ahead, bifurcation in both the secondary market and the primary market are expected to persist in line with overall market volatility. The divergence seen in September, particularly in the secondary market, was a result not only of general instability, but of the different motivations behind investors. First, retail loan funds continue to be net sellers, while other non-CLO accounts, such as mandates for pension funds, have remained buyers but have moderated their inflows in the face of greater headwinds (at least anecdotally, as this part of the investor market is less transparent to tracking). On the flip side, CLO issuance carries on, albeit at reduced levels, and managers remained eager to source better-rated assets at a growing discount for those vehicles. Distressed and downgrade-sensitive issues are less attractive to CLOs, and this has contributed to the growing wedge in returns between ratings cohorts.

From a fundamental perspective, default activity remained low. There were no defaults in the Index for the month, lowering the calculation of default by principal amount to 1.27% for September. By issuer count, the default rate decreased to 0.77%.

General Risks for Floating Rate Senior Bank Loans: Floating rate senior bank loans involve certain risks. Below investment grade assets carry a higher than normal risk that borrowers may default in the timely payment of principal and interest on their loans, which would likely cause the value of the investment to decrease. Changes in short-term market interest rates will directly affect the yield on investments in floating rate senior bank loans. If such rates fall, the investment's yield will also fall. If interest rate spreads on loans decline in general, the yield on such loans will fall and the value of such loans may decrease. When short-term market interest rates rise, because of the lag between changes in such short term rates and the resetting of the floating rates on senior loans, the impact of rising rates will be delayed to the extent of such lag. Because of the limited secondary market for floating rate senior bank loans, the ability to sell these loans in a timely fashion and/or at a favorable price may be limited. An increase or decrease in the demand for loans may adversely affect the loans.

Unless otherwise noted, the source for all data in this report is Standard & Poor's/LCD. S&P/LCD does not make any representations or warranties as to the completeness, accuracy or sufficiency of the data in this report.

1 – Assumes 3 Year Maturity. Three year maturity assumption: (i) all loans pay off at par in 3 years, (ii) discount from par is amortized evenly over the 3 years as additional spread, and (iii) no other principal payments during the 3 years. Discounted spread is calculated based upon the current bid price, not on par. *[Please note that Index yield data is only available on a lagging basis, thus the data demonstrated is as of September 30, 2015.]*

2 – Excludes facilities that are currently in default.

3 – Comprises all loans, including those not tracked in the LSTA/LPC mark-to-market service. Vast majority are institutional tranches. Issuer default rate is calculated as the number of defaults over the last twelve months divided by the number of issuers in the Index at the beginning of the twelve-month period. Principal default rate is calculated as the amount defaulted over the last twelve months divided by the amount outstanding at the beginning of the twelve-month period.

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