Voya Senior Loan Group

A Little Warmth Following November Chill

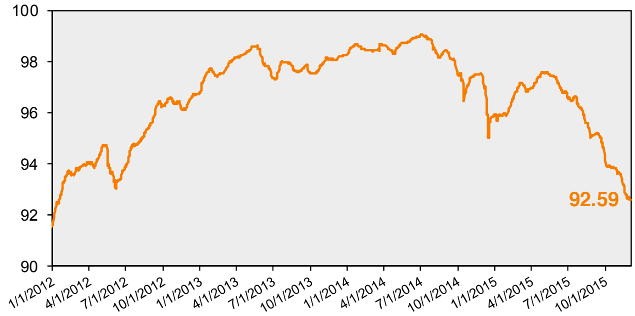
- The S&P/LSTA Leveraged Loan Index (the "Index") returned a flat 0.00% for the week, with a modest decrease in the average bid price of 5 bps (to 92.59).

- The primary market was busy launching 17 deals this week – likely the last hurrah before the typical holiday slowdown later this month. Despite the activity, the forward calendar of visible institutional deals still increased to just under $60 billion, from $55.6 billion last week. While the new issue market remains mostly bifurcated and continues to be engaged in active repricing exercises, there are some signs that the balance of influence between issuers and investors is evening some. For one, if we look at deals in November versus October, the gap between the number of deals for which the credit spread was flexed up vs. flexing down has narrowed. In October, 22 issuers had to increase pricing to clear, while that number was down to 10 in November. As we move into early December, arrangers are simply starting talks at more attractive levels in order to get investors motivated a little earlier and clear what they can in 2015.

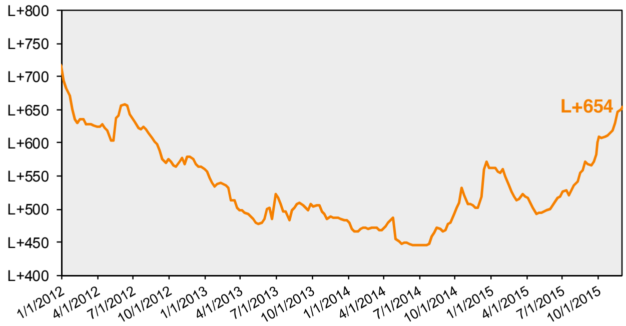
- The secondary market also saw improvements. While traders worked through a round of portfolio bids and offers ("BWIC" and "OWIC", respectively) in a market still very much divided on quality, market technicals did benefit from a large paydown of one loan. This helped to offset continued softer demand and buoy prices on several loans, particularly those in more favorable sectors. CLO issuance stood at $915 million for the week, while S&P/LCD's estimate of retail loan fund outflows totaled $395 million for the five business days ended Dec. 2, versus outflows of $900 million during the five business days ended Nov. 25 (Lipper FMI universe).

- Improved market conditions helped lift the volatile CCC cohort to a return of 0.14% for the week, while BB loans benefited from a continued quality bias, outperforming the Broad Index with a return of 0.07%. Single B loans trailed at -0.06%, primarily a function of being the largest, most actively traded part of the market in a week with higher BWIC/OWIC activity.

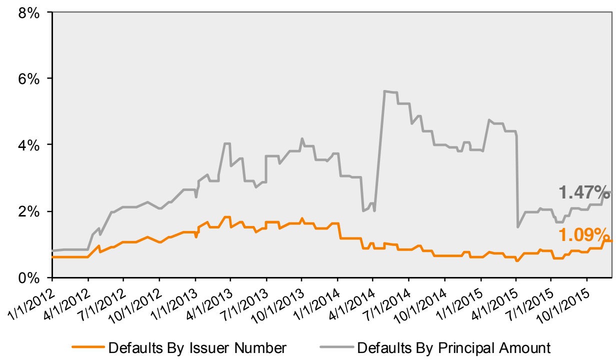
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to December 3, 2015



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

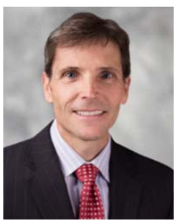


Lagging 12 Month Default Rate[3]
S&P/LSTA Leveraged Loan Index
January 1, 2012 to December 3, 2015



Portfolio Managers

Dan Norman
Group Head



Jeff Bakalar
Group Head

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 28 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.

INVESTMENT MANAGEMENT

November in Review

November was a chilly month for the loan market, as the Index posted a -0.88% return. The YTD number remains in the black at 0.37%, a result of interest accruals which have just outpaced a 3.90% market value decline for the Index YTD. The weighted average price of loans stood at 92.63 as of the end of November, weighed upon heavily – not surprisingly - by the stressed/distressed sectors within the Index.

Uncertain macro conditions drove BB loans to continue their streak of outperformance vs. the broad Index, posting a return of -0.56% for the month and 2.68% for the YTD period. On the other hand, CCC loans sank further in November, following a small lift in October, losing -4.02% for the month and -5.83% YTD. Single B loans settled somewhere in the middle with a -1.03% November return and a 0.54% YTD return.

In addition to sector-specific credit sensitivity, returns continue to be hampered by market technicals – specifically, strong supply against slowing demand. Supply, as indicated by the nearly $20 billion expansion in the universe of Index loans outstanding during November, was a function of increased primary market volume and fewer repayments. In fact, this marks the largest monthly increase in supply since May 2014, when the Index grew by $22.5 billion (albeit a much higher percentage growth back then). The balance of technicals for the month was unsettled by lackluster demand.

CLO issuance was $4.5 billion for the month, down from the monthly average of over $10 billion in the first half of the year. Retail investors further dragged down demand with redemptions of $1.7 billion, as reported by weekly reporters of loan mutual funds to Lipper FMI over the first four weeks of November. We continue to surmise to what extent a likely December Fed rate move will alter that equation.

As is typical at this time of year, the outlook for market technicals over the coming weeks is a bit uncertain. If leading indicators hold, the year-end holiday season will slow new issue activity as deals are cleared and/or pushed into 2016, thereby providing a better balance to technicals. However, as noted, it remains to be seen what a potential lift in short-term rates by the Fed this month could do for the loan market in terms of spurring interest in floating rate alternatives. From a fundamental perspective, default activity continues to remain low and, setting aside a relatively smallish exposure to the direct oil/gas space, is expected to remain that way over the foreseeable horizon. There were three defaults in the Index for the month, putting the calculation of default by principal amount to 1.47%. By issuer count, the default rate increased to 1.09%.

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 November 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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