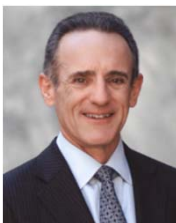


# Voya Senior Loan Group

## Looking for Direction

- With most capital markets still moving lower, the loan market looked inward this week to focus on fundamental credit as new issue and secondary markets both offered fairly light activity. The S&P/LSTA Leveraged Loan Index (the "Index") was down slightly on the week at -0.01%, with average bid prices at 90.13, eight bps lower than the week prior.
- Against a backdrop of lackluster new issue flow, developments surrounding the in-market deal for Keurig Green Mountain dominated market talk. The large transaction is seen as a pricing exercise in the BB cohort, an area of the market heavily in demand from investors, particularly banks. The visible forward calendar remained relatively flat, with 39 deals totaling \$47.8 billion, down from just under \$50 billion the week before. M&A business continues to represent the bulk of the announced pipeline.
- Secondary market volume also remained modest as investors continued to differentiate between higher quality, well-performing credits exhibiting stronger liquidity versus those credits with inherently higher credit and liquidity risk. As a result, the bifurcated market that existed at the end of 2015 has become even more segmented. Attention did center around a few rating agency warnings and downgrades for troublesome credits, with energy feeling the brunt of this activity.
- A function of the many external headwinds facing virtually all risk markets, overall demand was also quite subdued this week. No new CLO transactions were priced and retail outflows, while slowing from the pace seen earlier in the year, came in at \$534 million for the week. We do note, however, that inquiries from institutional investors, typically asset allocation specialists with a longer-term investment horizon, seem to be picking up some.
- Mixed signals across rating cohorts left BBs ending the week up 0.05%, though the average bid slipped six bps to 96.64. Single Bs were 18 bps lower, their average bid closing at 90.04. In a minor course correction, CCCs were up 0.08% with their average bid ending the week ten bps higher at 73.32.

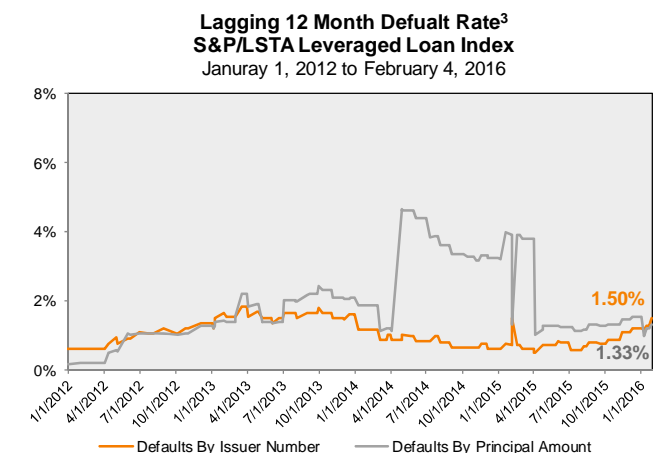
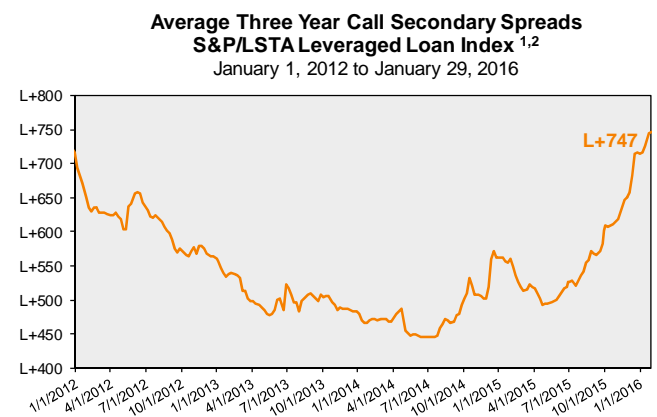
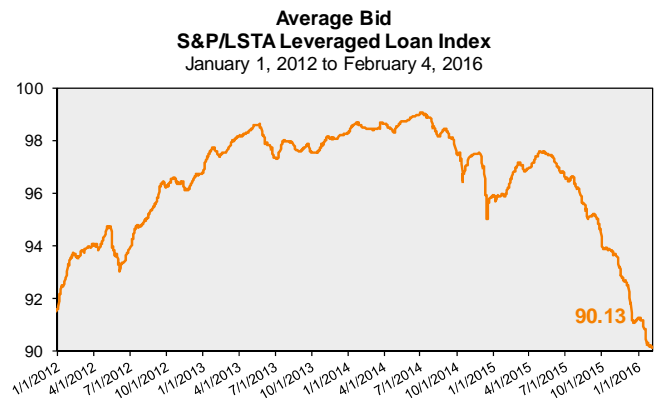
## Portfolio Managers



**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 29 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.

## January in Review

Old news by now, the first month of 2016 proved difficult for investors across capital markets, as equities and bonds fell victim to volatility that significantly surpassed that seen in recent selloffs. While loans remained more stable than most other risk asset classes, market turbulence did take its toll: the Index ended January down -0.65% as credit investors remained generally gloomy and loan technicals demonstrated fragility. While the steepness of the 2008 record-breaking liquidity crisis, which created a total return rout of -28.32% for that six-month period, far outpaces the -4.45% aggregate decline between May 2015 and January 2016, this current market value pullback has led to a recession-like, four-year low average Index bid of 90.22.

Investor appreciation of sturdier credits was noticeable in January, with higher rated loan values down perceptibly less than their lower rated counterparts. BBs ended the month with a 96.64 average bid, with cohort value down only slightly at -0.24%. Single Bs drifted lower more sharply, losing 0.71% with an average bid of 90.24. CCCs' 73.49 bid average was evidence of investors souring on the riskiness of credits.

**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.

Lower loan prices are, at this point, having a predictably negative impact on demand. Investors are analyzing both the potential downside and upside catalysts as retail flows remain negative and the CLO new issue calendar looks for an opening. Structured investors frightened by declining market valuations remain reluctant. CLO mezzanine and equity investors have, understandably, been the hardest hit, as global market turmoil has sent values to cyclical lows, creating a pricing mismatch between new issue and the secondary. In a year where risk retention concerns were set to take center stage, market dislocation has started to change the focus of investor analysis.

The common investor theme is that, for January, and potentially all of 2016, investment style matters. Loan level asset selection, in terms of both credit and liquidity, will drive investment returns. We continue to believe that – through this spate of instability and volatility - investors will find value in the “safer harbor” aspect of loans provided by seniority and security in the borrower's capital structure. We also firmly reiterate the need for those investors to approach new and existing allocations from a longer-term strategic perspective.

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 January 29, 2016.]*

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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