Voya Senior Loan Group

Better Tone Lifts Average Bids, Weekly Return

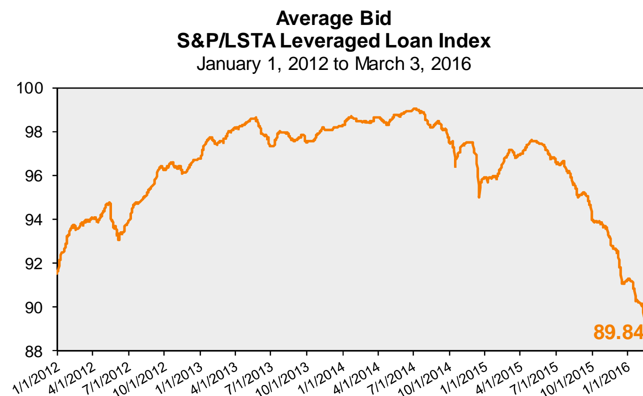
- Consistent with the reduction in downside volatility in oil and other capital markets, loans maintained this week a minor course correction. The S&P Leveraged Loan Index (the "Index") rose 0.76%, as the average bid across all loans increased 58 bps, to 89.84.

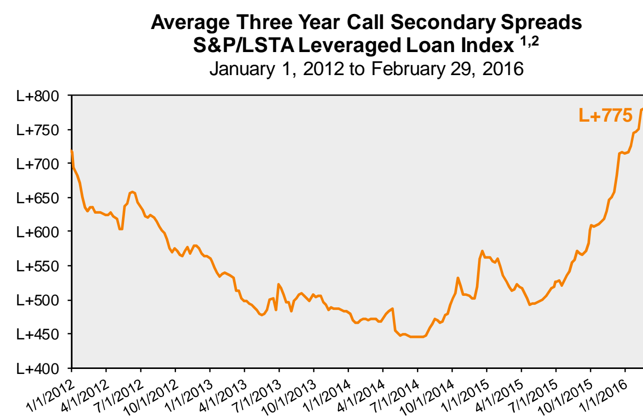
- The mini rally also showed signs of better breadth as the percentage of loans bid above 98 (the current approximate equivalent of par given prevailing average new issue discounts) rose to 42%, up significantly from last week's 35.8%.

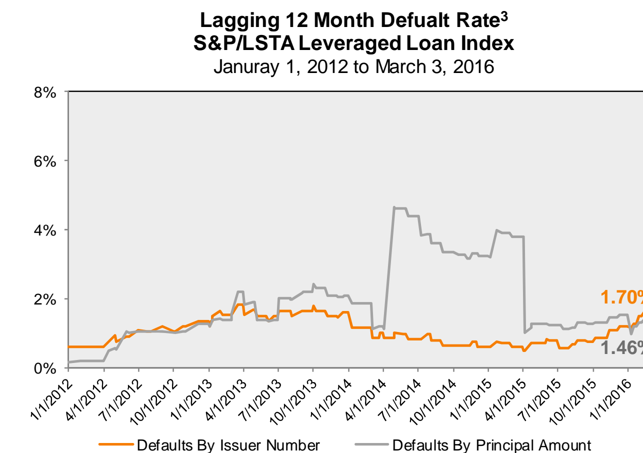
- In addition to riding a wave of better overall sentiment, loan prices were buoyed by a moderately better turn in what has been a challenging technical backdrop. On the supply side, the new issue pipeline remained sparse. Three transactions were brought to market this week, further reducing the visible net forward calendar (i.e., announced deals less all known repayments) to $10.6 billion, from just under $14 billion at the last weekly reading. Demand activity was notable only in that loan fund redemptions continued to slow. On the CLO front, coming off last's week tally of four new pricings, a single transaction – at $359 million – was brought forth this week, bringing the year to date total to $2.9 billion. Although loan prices have showed signs of stabilization, and while CLO marketing activity is heating up some, valuation differentials between primary and secondary CLO mezz and equity tranches continue to make new CLO creation a challenging task.

- Rolling 30-day new issue yields came in this week. The BB average yield to maturity slipped to 4.58%, versus 4.95% last week. Single Bs also tightened, to 6.59%, compared to the week prior's 6.68%.

- Not surprisingly, the lowest priced spectrum of the Index enjoyed the largest market value boost. CCCs experienced a 1.91% increase, with average bids rising 95 bps to 70.27. Single Bs' 90.26 average bid was up 54 bps week over week, and their values increased 0.72%. BBs rose 0.81%, with average bids adding 71 bps to end the week at 96.86.







Portfolio Managers

Dan Norman
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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.

INVESTMENT MANAGEMENT

February in Review

Though the loan market ended February on a relative high note, the Index nonetheless lost 0.53% over the course of the month, still a slightly better picture than January's volatility-driven -0.65% return. February marked the ninth consecutive down monthly return, the longest on record for the asset class.

The catalyst behind the rough patch of late has been well documented: the impact of the rout in oil/commodities and the follow-on effect on growth expectations. Adding to the loan market's most recent challenge has been a very slow start to CLO creation. As noted earlier, we're hopeful that recent signs of renewed new issuance can be sustained.

February's weak technicals and greater underwriting scrutiny resulting from macro malaise prompted managers to flock to higher rated credits, while distressed names continued to remain generally out of favor. While this is to be expected in bearish markets, the particular focus by CLO managers to minimize CCC/below exposure in order to limit potential harm to collateralization ratios is an indication that credit sensitivity will remain high in the near term, even if oil is truly reaching a bottom.

There were two defaults in the Index for the month, putting the calculation of default by principal amount to 1.45%. By issuer count, the default rate increased to 1.70%.

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 February 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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