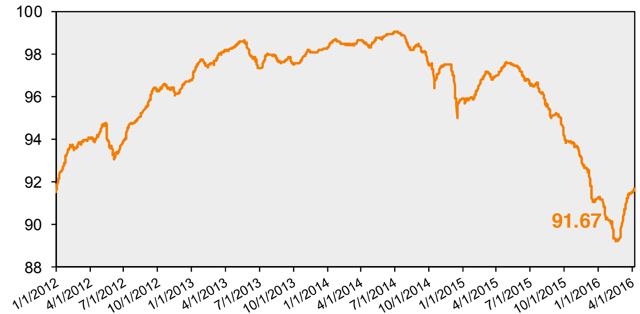
Voya Senior Loan Group

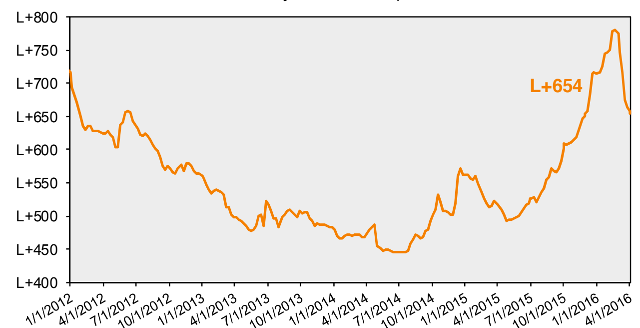
Hitting a Higher Note

- Well-rated and highly regarded new issue made the headlines this week as the bumpy first quarter ended on a better note relative to where it started. The S&P/LSTA Leveraged Loan Index (the "Index") was up 0.25% on the week, with average bids moving to 91.67, a 16 bps increase over last week.
- New issue bids strengthened noticeably, as a coterie of deals that included established issuers with higher ratings made their way into the market. The visible forward pipeline also expanded, as the amount of net new supply expected to come to market (net of unassociated anticipated repayments) grew to $10.9 billion, from $3.9 billion a week ago.
- The secondary market this week also found itself generally well-bid, despite sizeable allocations and an active primary market. Cash inflows from several notable M&A-related repayments that closed at the start of the second quarter lent their support to this bidding strength, while quarter-end amortization and excess cash flow payments provided an assist as well.
- CLO creation remained underwhelming this past week, although several deals hit the announcement wires. Only one transaction was priced, at $451 million in size, bringing YTD issuance to $7.1 billion. On the retail front, outflows were relatively modest, at $133 million for the five days ended April 6 (Lipper FMI universe). On a daily basis, retail flows seem to be bouncing between a modest in and out.
- Broken down by ratings cohorts, distressed issuers fared best this week, with CCCs gaining 0.89% on the heels of a 51 bps in the average bid, to 73.88. Single Bs' were up a more modest 0.29% as the average bid in this area increased 16 bps 92.81. BBs posted a 0.23% gain, up 16 bps, to end the week at 98.21 on average.
- There were no defaults in the Index for the week. The trailing twelve month default rate stands at 1.55% by amount outstanding and 1.82% by issuer count.

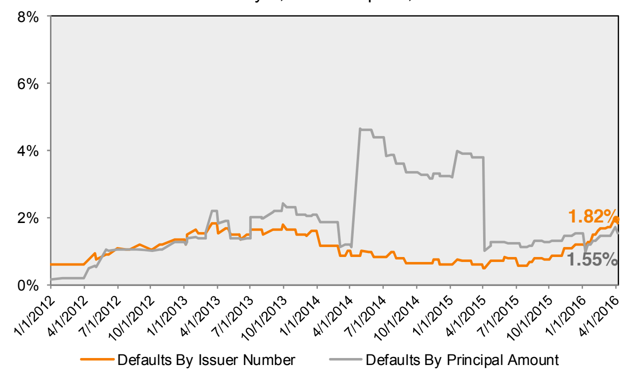
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to April 7, 2016



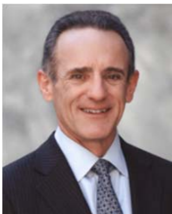
Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to April 1, 2016



Lagging 12 Month Defualt Rate[3]
S&P/LSTA Leveraged Loan Index
Januray 1, 2012 to April 7, 2016



Portfolio Managers



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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 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.

March in Review

After the volatile first two months of 2016, March stayed true to the old adage of coming in like a lion and out like a lamb. The Index posted its biggest one-month gain since October 2011, a 2.76% increase. These gains were strong enough to offset January and February losses, pushing the Index into the black for 2016, at 1.55%. Larger, more actively traded loans experienced an even greater positive move, with the largest 100 issuers boasting a 3.15% gain on the month, or a robust 2.49% for the quarter.

As is typical after a swoon on market values, the riskier part of the market outperformed. CCCs posted the strongest monthly returns, jumping 5.58% (from a very low base), despite still being in the red YTD, at -0.02%. Single Bs fared better but moved less dramatically, increasing 3.42%, thereby bumping YTD performance to 1.79%. BBs were up 2.13% for the month, with YTD returns now at 1.82%. From an industry perspective, the relatively small but bloodied Energy and Metals & Mining sectors both made notable gains for the month, up 11.01% and 7.65% on the month, respectively. Whether a sector-specific bear market rally, or wounded cat bounce, only time will tell.

To no one's surprise, default activity did pick up during March, but most of the action happened in the still-problematic industrial commodity related sectors. Further, despite this month's uptick, the trailing ratios remain comfortably below the long-term averages and the general consensus continues to reflect a low ex-energy default rate environment over the coming year.

CLO issuance remained light in March, resulting in a 2016 first quarter total of $6.6 billion, well below 2015's average monthly rate of $8.2 billion. As loan prices have started to recover, all eyes are on the CLO market to see if new issue flow starts to meet tempered expectations on the year

On the other side of the ledger, loan mutual funds experienced their first inflows since July 2015, a bit of a tailwind to the market after months of redemption-related selling pressure. The third "leg" of the demand stool, institutions, continue to strategically allocate to the loan asset class, also providing a level of bid side support to the market.

As we shift into the second quarter of the year, there appears to is a growing consensus in market that the March move was more than just head-fake after the lengthy bear run between June 2015 and February 2016. From a technical perspective, few would argue that loan prices have become attractive relative to broad non-investment grade credit alternatives on a risk-adjusted basis, while fundamental credit expectations remain reasonably in check, at least at this juncture.

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 April 1, 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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