Voya Senior Loan Group

Gearing Up For Summer

- Summer is off to a good start for the US loan market. The short post-Memorial Day week experienced tightened pricing for a series of successful new issue transactions due to high demand stemming from strong technicals and a continued light forward calendar. The S&P/LSTA Leveraged Loan Index (the "Index") was up 0.19% on the week, with a bid average of 93.44 that was a nine bps improvement.

- The primary market demonstrated its demand bias with Single B average institutional yields falling from 5.69% to 5.56%. BBs, which had less wiggle room to move, compressed by three bps to 3.90%. The forward calendar remains fairly sparse, which has continued to persuade investors to take advantage of the current market. Net of the approximately $15.65 billion of anticipated repayments unassociated with the forward calendar, the net new supply expected in market is $4.89 billion, up slightly from last week.

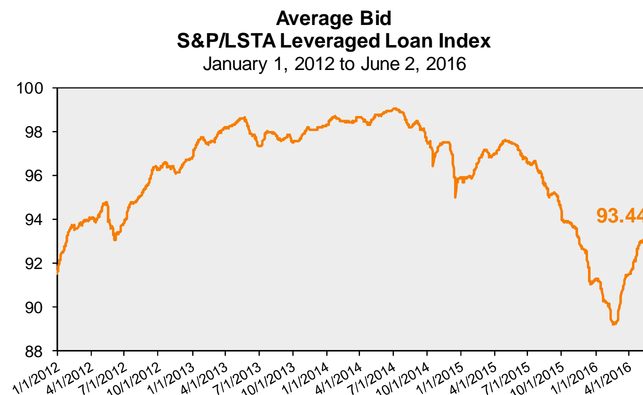
- Across the secondary, par loans continue to trade in a tight range. The average price at which first-lien institutional loans entered the secondary reached a ten-month peak at 99.82%. The wider market generally remains well bid. This is perhaps most clear in the larger than expected number of recent repricings currently trading at par or higher (which is also a commentary on the shallow forward pipeline).

- Retail loan funds experienced modest inflows of $127 million (Lipper FMI universe), while CLO issuance continued to increase as $1.17 billion was priced on Tuesday and Wednesday. May issuance totaled $5.4 billion, while YTD issuance is $19.6 billion.

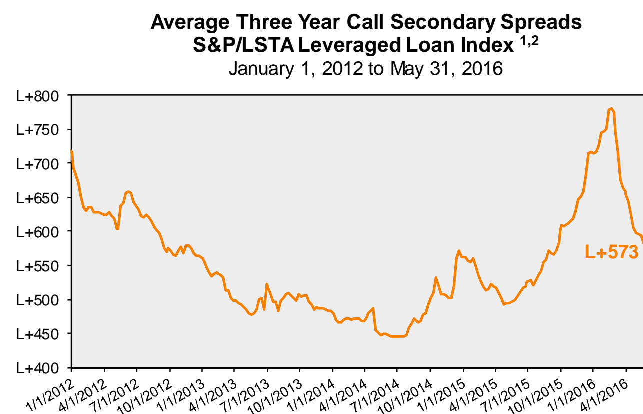
- Ratings cohorts performed well. CCCs were up 0.57% on the week, and the average bid rose 14 bps to 80.08. YTD, CCCs have now posted a 10.24% gain. Single Bs moved up 0.22% and the average bid stands 95.24, a 14 bps increase. BBs gained 0.14%, with average bids up eight bps to 99.31.

- There were no defaults in the Index this week. The default rate by amount outstanding increased by one bp to 1.97%.

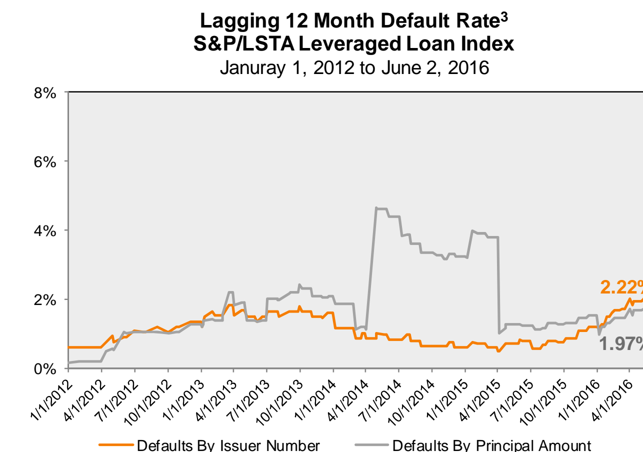
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to June 2, 2016



Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to May 31, 2016



Lagging 12 Month Default Rate[3]
S&P/LSTA Leveraged Loan Index
Januray 1, 2012 to June 2, 2016



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 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.

May in Review

The month of May built upon the generally improving strength of the loan market, resulting from strong technicals based primarily on increased demand for the asset class. While improvements were more modest than the large gains experienced in March and April, the Index nonetheless gained 0.89%, and YTD returns are now 4.49%.

With oil prices improving and the steel sector recovering off its lows, the most notorious commodity sector laggards continued to post positive month-over-month returns. CCCs and second liens benefitted from investors seeking higher yields despite the risk profiles of those credits, and those loans outperformed higher rated credits that had less room to post additional gains near or above par. CCCs gained 3.57% in May, while Single Bs rose 0.95%. BBs improved 0.60%.

There was a flurry of activity in the primary this month, as new loans and opportunistic transactions were in high demand ahead of a quiet forward calendar. While the primary market remained active, many of the offerings were the result of an increase in repricing and refinancing transactions.

CLO issuance continues to grow at an increased pace, but remains well below historical averages and with notable headwinds that include asset sourcing and the looming risk retention effective date. Retail has found itself breaking even, though demand appears to be growing and generally offsetting redemption flow.

Looking ahead, we expect the summer to look much like the spring. In the secondary market, loans trading at par or above (now a full 32% of the Index) have little room for additional upside, while the 64% trading at 99 or higher are likewise nearing their apex bids. While loans at the low end of the credit spectrum continue to rally, they have a higher risk profile and remain prone to volatility from macro and sector-specific events. The pipeline is likely to slowly build over the summer, and opportunistic deals will continue to be part of the new issue landscape as market participants take advantage of the healthier near-term technical outlook.

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 May 31, 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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