Voya Senior Loan Group

Quiet But Constructive

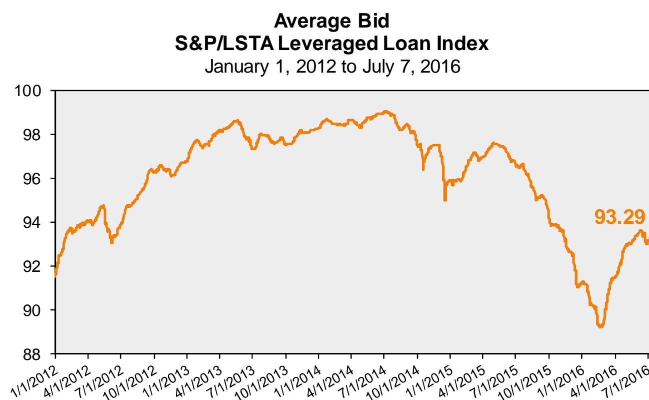
- An auspicious "Brexit exit" (thus far, at least) and a continued lull in the forward pipeline combined for a strong but subdued holiday week for the U.S. loan market. The S&P/LSTA Leveraged Loan Index (the "Index") returned 0.28%, while the average Index bid increased eight bps, to 93.29.

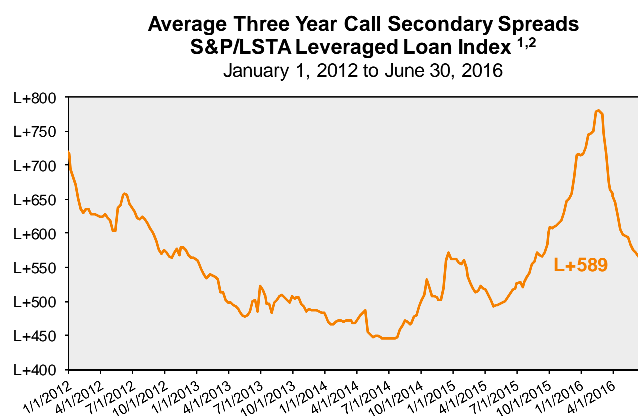
- On the new issue side, a few protracted second quarter deals were pulled across the finish line. Still, organic new issue transactions remain sparse. Net of the approximately $18.8 billion of anticipated repayments unassociated with the forward calendar, the amount of pending repayments exceeds visible supply by $5.3 billion. Assuming no major flaring of macro volatility, this net deficit could again spur a wave of opportunistic refinancing. Average new issue yields declined slightly, with BBs slipping two bps to 3.96%, and Single Bs moving down from 5.54% to 5.45%.

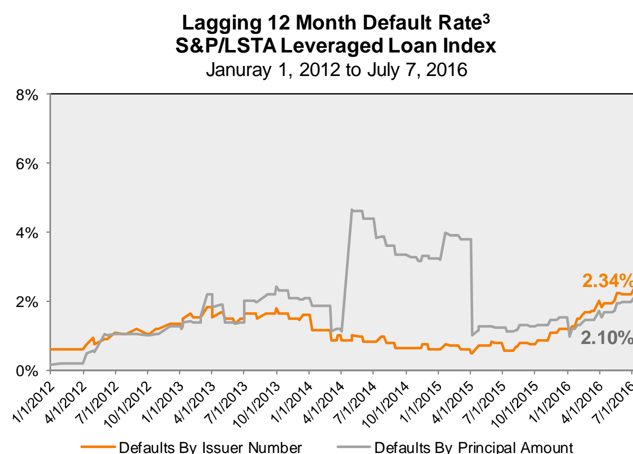
- Existing loan prices remained generally firm as investors were forced into the secondary market to put cash to work. As a result, many par loans are now back to their pre-Brexit levels. Steady if not stellar new CLO volume ($800 million this week), in addition to quarter-end amortizations and other sizeable pay-downs, spurred demand that offset the moderate pickup in retail loan fund outflows experienced since the news in the U.K. hit ($887 million this week, per FMI Lipper).

- Ratings cohorts were positive across the spectrum. CCCs rose 0.38% with average bids up 16 bps, to 77.54. Single Bs increased 0.32% their average bid up 15 bps to end the week at 94.92. BBs gained 0.24% on the back of a 14 bps increase in average bid, to 98.95.

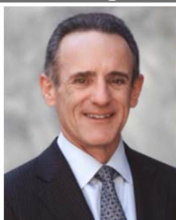
- There was one default during the week: C&J Energy. The default rate by amount outstanding now stands at 2.10%, up from 1.97% at the end of June.







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.

June in Review

Several themes were at work throughout June, and despite the headline-dominating Brexit vote, the loan market stayed fundamentally on course, albeit with caution and an eye toward the macro state of play. Despite heavy capital markets volatility, loans stayed in the black for the month, returning 0.02%. YTD Index returns of 4.51% are slightly above May month-end, but are a significant increase from the 2.83% return realized by this time last year.

While the issuer-friendly terrain that marked the end of May continued through early June, anticipation of the U.K. referendum slowed the market's opportunistic bent, and the surprise result further impacted activity despite the technical landscape remaining fundamentally the same. European borrowers and U.S. borrowers with sizeable European exposure felt the greatest impact of the vote, while CCCs generally, as is typical in times of notable volatility, underperformed the broader market (this was a change of pace after earlier in the spring when par bids were leveling off and the market looked to more risky names for higher yields and potential returns).

The light forward calendar continues to present a variety of issues, and pending repayments net of the anticipated repayments not associated with the forward calendar outpaced visible supply across the second half of June.

Total new issue activity during the first half of 2016 came in at $344 billion, down 16% from the same period a year ago. On a quarterly basis, $214 billion was brought to market in the second quarter, a 64% increase from the prior quarter. Close to two-thirds of institutional issuance ($91 billion) this year is from new deal flow. Though refinancing activity did pick up in the second quarter, refinancing overall in the first half of the year was down 38%, to $55 billion, from the same period last year.

U.S. CLO issuance increased to $6.6 billion (15 deals) in June from $5.4 billion (13 deals) in May. This brought YTD issuance to just above $26 billion (62 deals), down sharply from approximately $60 billion (115 deals) in the same period last year.

For the first month since October 2015, the Index went without a single default in June. Thus, the default rate by both principal amount and number of issuers were essentially unchanged from the end of May, at 1.97% and 2.22%, respectively.

We expect the near term to be dominated by the continued unfolding of the situation in Europe and the consequent market reactions to those developments, while the focus on technicals that marked the second quarter will likely take a back seat to macro concerns. Through this most recent bout of global market turmoil, loans - as expected - have remained relatively stable and have provided attractive risk adjusted returns.

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 June 30, 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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