

# Voya Senior Loan Group

## August Rush

- Rather than settling into an end of summer respite as August often typifies, the loan market furthered its strong run of plentiful activity and healthy technicals through a set of predictable opportunistic and risk-on transactions. The S&P/LSTA Leveraged Loan Index (the "Index") returned 0.06%, while the average bid declined a slight three bps to 94.03.
- With 22 new deal introductions this week, investors had their pick of a litter of transactions, though M&A undertakings offered in size certainly received the most interest. Accelerations, refinancings, and other market-prudent deals were also in the mix. On the whole, yields are trending tighter, with ten transactions negotiating lower and more expected in the coming weeks.
- The forward pipeline is looking detectably better: Net of the approximately \$21.9 billion of anticipated repayments unassociated with the forward calendar, the amount of net new supply expected in market is about \$3.8 billion, versus a negative \$1.79 billion the week prior. This is the first time since June that new supply has outpaced repayments.
- Central to secondary market activity were earnings reports that came out on a variety of issuers. Traders additionally focused on larger new issues green lighted to trade, as well as a few BWICs. Loan prices remained largely unmoved save for those soaking up earnings news. Some loans toward the higher end of the bidding spectrum eased off their previous highs as focus on the new issue transactions generated the most summer heat.
- \$411 million in CLO issuance has occurred so far this month, while YTD there has been \$32 billion in new deals. Retail outflows totaled \$647 million (Lipper FMI Universe).
- Returns by rating cohorts were mixed but generally unchanged. CCCs moved down -0.11% and their average bid declined 25 bps, to 79.09. Single Bs gained 0.07% but the average bid lowered to 95.78, a nine bps decrease. BBs were up 0.03%, and their average bid increased by three bps, to 99.55.
- There were no defaults in the Index this week. The default rate by amount outstanding declined from 2.17% to 1.98%.

### Portfolio Managers

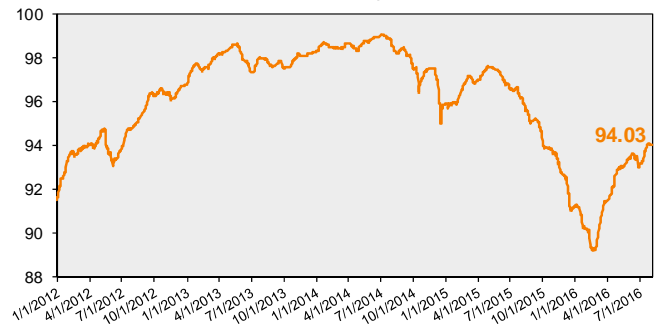


**Dan Norman**  
Group Head

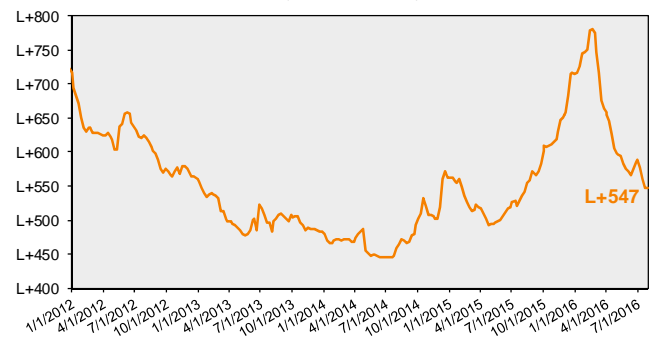


**Jeff Bakalar**  
Group Head

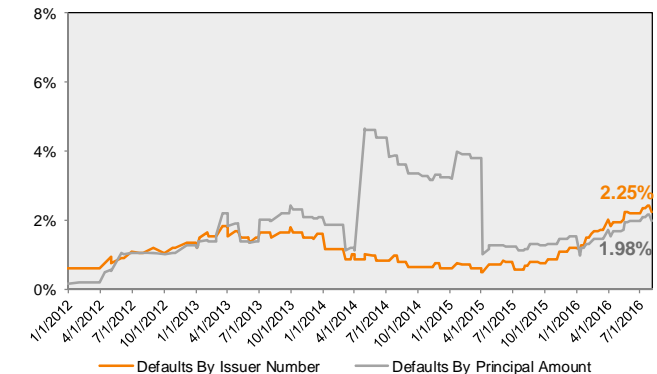
**Average Bid  
S&P/LSTA Leveraged Loan Index**  
January 1, 2012 to August 4, 2016



**Average Three Year Call Secondary Spreads  
S&P/LSTA Leveraged Loan Index<sup>1,2</sup>**  
January 1, 2012 to July 29, 2016



**Lagging 12 Month Default Rate<sup>3</sup>  
S&P/LSTA Leveraged Loan Index**  
January 1, 2012 to August 4, 2016



### 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.

## July in Review

Robust technical conditions resulting from strong investor demand and a relatively slow forward pipeline spelled a good July return month. While uncertainty surrounding the Brexit referendum dominated the end of June and the early part of last month, market fears quickly faded and loan marks were back to pre-vote levels less than two weeks after the United Kingdom elected to leave the European Union. The Index returned 1.43% in July, the fifth consecutive month of gains for the asset class (though the slight 0.02% return in June was due to market value declines being offset by interest income). Year to date, the Index has gained 6.00%, which is the strongest return for the first seven months of the year since 2009.

Sentiment in the loan market remained positive throughout the month, boosted by a healthy June non-farm payrolls report. The secondary market recovered its June losses and pushed further upward from there, setting the YTD highest average bid for the Index before leveling off as the month came to a close. In a sign of the strong market conditions, second lien and lower rated credits performed best in July, marking a volte-face from June's preference for higher quality that stemmed from that month's more volatile market outlook. In July, CCCs gained 3.24% (which tops off a whopping 13.29% YTD return), while Single Bs rose by 1.62%, and BBs returned 1.14%. Performing loans bid at par or higher constituted 37.3% of the Index, up notably from 9.1% at the end of June.

**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.

### Group Heads

#### Dan Norman

Telephone - 480-477-2112  
[dan.norman@voya.com](mailto:dan.norman@voya.com)

#### Jeff Bakalar

Telephone - 480-477-2210  
[jeff.bakalar@voya.com](mailto:jeff.bakalar@voya.com)

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) changes in laws and regulations and (4) changes in the policies of governments and/or regulatory authorities. The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

Voya Investment Management Co. LLC ("Voya") is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) ("Act") in respect of the financial services it provides in Australia. Voya is regulated by the SEC under US laws, which differ from Australian laws. This document or communication is being provided to you on the basis of your representation that you are a wholesale client (within the meaning of section 761G of the Act), and must not be provided to any other person without the written consent of Voya, which may be withheld in its absolute discretion.

Voya Compliance Approval ID IM-0805-26643-0817

Past performance is no guarantee of future results.  
 Approved for client/investor use.

The new issue pipeline continues to be roundly outstripped by demand, though the secondary market rebound and borrower-friendly atmosphere set off a wave of opportunistic transactions that dominated the month, culminating in Broadcom's \$6.6 billion repricing that stands as the largest such transaction of the post-crisis period. The heady appetite for paper buoyed CLO issuance and retail flows, and concerns over negative movements in those spheres in Brexit's wake ended up being for naught: CLOs had their third best month of the year with \$5.76 billion in issuance, while net flows to loan retail funds were positive by \$127 million.

In the near term, we expect opportunistic activity to continue to dominate the primary market while organic new deal flow is likely to remain relatively scarce. Further, the high percentage of par and par plus bids in the secondary might put a cap on returns even as market technicals remain strong. We will be keeping an eye on the economy and Federal Reserve policy, along with the rest of the market, as three-month LIBOR rates rose above 75 bps for the first time since 2009.

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 July 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.