Voya Senior Loan Group

Right Back At It

- Wasting no time after the Labor Day lull, the loan market was essentially back to full speed this week as the new issue pipeline quickly filled and strong demand prevailed. The S&P/LSTA Leveraged Loan Index (the "Index") gained 0.24% and the average bid for loans rose 25 bps, to 94.75.

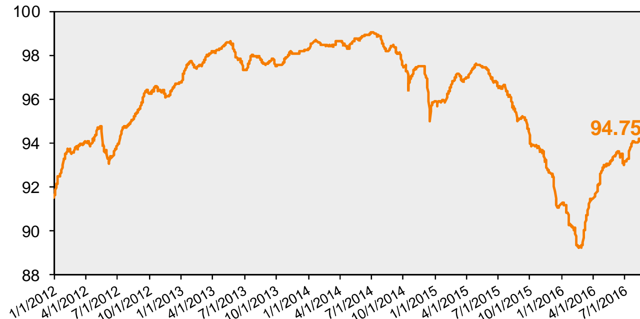
- Twenty-five new deals launched in the primary this week, meeting widely held expectations that August's healthy atmosphere would continue at a faster pace through the unofficial start to the fall. These transactions, coupled with announcements for upcoming offerings, totaled over $18 billion, the majority of which backed M&A and LBO deals. As a result of the flurry of primary activity, net of anticipated repayments unassociated with the forward calendar, the amount of new net supply expected in market is now approximately $10.21 billion, versus a net repayment of $65 million last week. On the yield front, new issue BBs widened from 4.12% to 4.18%, and Bs moved from 5.77% to 6.09%.

- Despite the busier than usual August, things did slow near month-end to match the typical end of summer pace, and the secondary market consequently remained relatively quiet. Nonetheless, a steady increase in activity during this short week resulted in a firm market with healthy sentiment. Only one deal allocated, and quickly traded above its break price. Retail loan funds enjoyed $112 million of inflows (Lipper FMI universe), and there was $361 million of CLO issuance, bringing the YTD total to $38.2 billion.

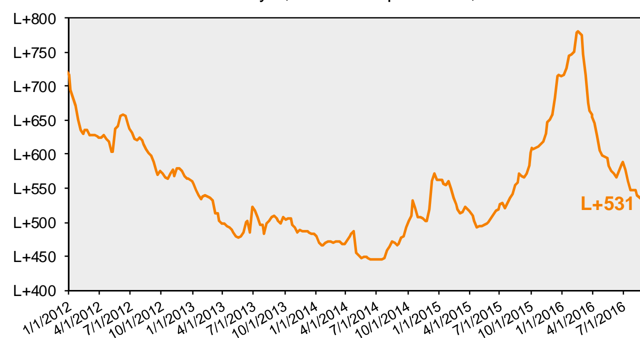
- Gains across ratings cohorts were strongest among lower rated credits, with CCCs returning 0.66% on the week and increasing their average bid by 54 bps, to 81.22. Single Bs bumped up 0.31% and their average bid rose 24 bps, to 96.44. BBs increased 0.17%, and their average bid of 99.82 was a nine bps improvement.

- There were no defaults in the Index this week. The default rate by amount outstanding is 1.95%, down from 1.98% last month.

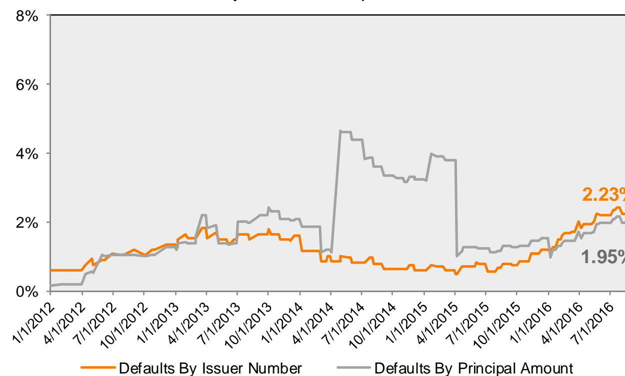
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to September 8, 2016



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



Lagging 12 Month Default Rate[3]
S&P/LSTA Leveraged Loan Index
January 1, 2012 to September 8, 2016



Portfolio Managers

Dan Norman
Group Head

Jeff Bakalar
Group Head

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 26 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.

August in Review

The month of August was relatively strong and unseasonably busy, boosted by healthy technicals resulting from a light new issue calendar and pervasive investor demand. The primary remained issuer-friendly territory, while the secondary trended upward in tow. The Index gained 0.75% for the month after a more robust 1.43% July return. YTD, the asset class has returned 6.80%, a major uptick from 2015's 2.10% return for the same period, and the best such YTD gain since 2012.

With loan returns generally trending lower after an unexpectedly strong July, lower rated and second-lien credits demonstrated the greatest upside move, while higher rated credits generally underperformed. A rebound in the oil market and talks of a potential upcoming OPEC production freeze resulted in a 3.30% return for the energy sector alone, up from 1.76% last month. The sector has outperformed all other industries in 2016, returning 21.69% YTD.

On a ratings cohort basis, BBs gained 0.49%, and their average bid was 99.71. Single Bs rose 0.80%, and their average bid was 96.17. CCCs fared best, returning 2.66% and nabbing an 80.74 average bid.

Thirteen CLOs priced last month, totaling $5.9 billion of issuance, which was on par with July. Eighty-seven deals have been priced and/or closed YTD, which remains a notable slump from the 139 transactions issued last year for the same period. In addition to fewer CLOs year over year, the average CLO deal size has decreased from $539 million to $437 million. Amortization and redemption of older vintages resulted in a slight decline in U.S. CLO AUM, to $431 billion, while European CLO AUM remained steady at $65 billion.

As September picks up, we continue to expect an upcoming ceiling-effect for loans. With performing loans bid at par or higher now constituting 41.6% of the Index, and bids 99 or above comprising 68.4%, additional market price upside appears limited. That said, risk premiums remain quite wide relative to historical standards, which means the asset class needs neither additional market value upside nor any actual increase in short-term interest rates to be considered attractive. The historical correlation between the pace of repayments and loan prices is in play once again with par plus prices partially responsible for the increased rate of repayments. Generally, we believe September will continue to favor issuers.

General Risks for Floating Rate Senior Loans: Floating rate senior 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 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 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 September 2, 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.

Group Heads

Dan Norman
Telephone - 480-477-2112
dan.norman@voya.com

Jeff Bakalar
Telephone - 480-477-2210
jeff.bakalar@voya.com

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