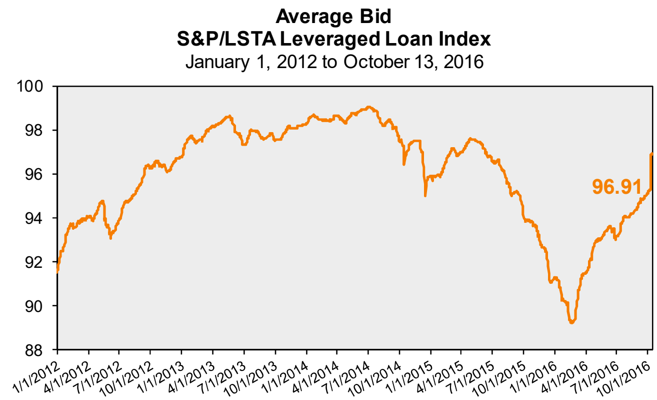
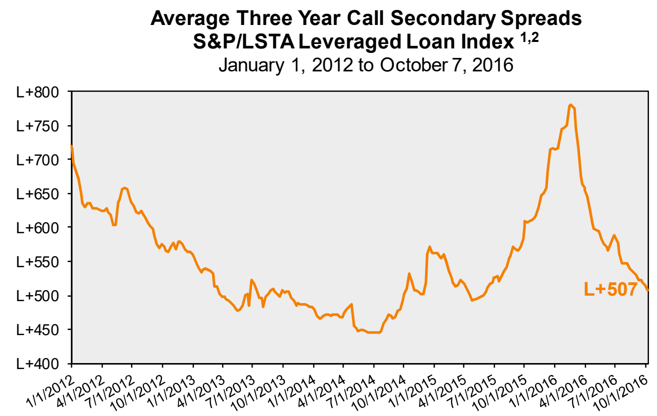
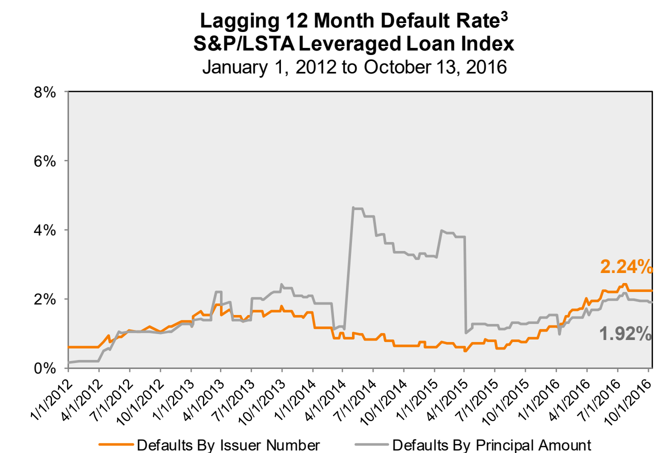
Voya Senior Loan Group

Taking a Breather

- On the week, the S&P/LSTA Leveraged Loan Index (the "Index") returned 0.18%. The average Index bid jumped 161 bps, to 96.91; however, the bulk of the increase was due to an Index rebalancing that removed three Texas Competitive Electric Holdings loan facilities following the parent company's exit from bankruptcy. The YTD total return for the Index climbed through 8.00% this week, to 8.09%.
- After the busiest September on record for new issuance, October's MTD volume of $18 billion represents a noted deceleration of the post-Labor Day push. Nonetheless, new issue business is essentially on par with the 2016 monthly average of $26 billion. The blend of transactions this month has been dominated by recapitalizations and refinancings, which marks a change of complexion from the year so far. Recaps have constituted a full 49% of new October volumes, which is a departure from the YTD share of 13%. Acquisition-related issuance, which represented 45% of September deals and 49% YTD, has made up only 21% of October deal flow.
- Looking at the forward pipeline, factoring in the $7.82 billion of anticipated repayments not related to the new issue calendar, the net new supply expected to come to market is slightly lower on the week, having moved from $19.90 billion to $18.45 billion.
- Trading activity in the secondary market was relatively light, and nearly all transactions allocating debuted at or above their issue price. BWIC and OWIC activity continues to make up a sizeable amount of secondary trading volume. Retail loan funds in the Lipper FMI universe had $365 million of inflows, while $1.5 billion in CLO paper priced, bringing the October issuance total to $2.2 billion and YTD total to $48.3 billion.
- Lower rated credits continued to achieve the biggest gains, with CCCs returning 0.79% and increasing their average bid to 82.61, a 68 bps jump. Single Bs gained 0.18% and BBs gained 0.10%, with their respective average bids of 98.88 and 99.98 remaining roughly at last week's levels.
- There were no defaults in the Index this week. The default rate by amount outstanding declined from 1.95% to 1.92%.







Portfolio Managers

Dan Norman
Group Head

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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.

September in Review

Loans enjoyed their seventh straight month of positive returns in September, as the asset class gained 0.87%, bringing the YTD return to 7.72%, a significant improvement over 2015's 1.44% return for the same period.

While skewed towards refinancings and repricings, the primary market roared to life this month with more than $58 billion of issuance, resulting in the highest monthly institutional deal flow in three years. After two consecutive months of decline in the loan universe, the wave of new loan issuance more than offset loan repayments, creating a welcome increase in the overall size of the Index.

September returns topped August data across the ratings spectrum, though lower-rated, second lien, and distressed credits once again performed best in the risk-on atmosphere that dominated the month. CCCs gained 1.98%, Single Bs gained 0.97%, and BBs gained 0.61%. The upward tick in the price of crude oil helped the energy sector gain 4.27%, which marked its best performance in over a quarter (the YTD return for the sector is 26.89%, outperforming all other industries except steel, at 32.21%).

September was another positive month in terms of retail loan fund investment, marking the ninth straight week of net inflow, the longest such period since the Spring of 2014. CLO issuance was likewise up in September, with $8.24 billion of new transactions pricing.

The default rate by amount outstanding was 1.95%. Already well below the historical average, if the energy sector is excluded, the default rate for the remainder of the Index is notably lower at just 0.9%.

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 October 7, 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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