Voya Senior Loan Group

Politically Independent

- The loan market shrugged off the surprise news of Donald Trump's victory on Tuesday. After a reflexive dip in trading Wednesday morning in concert with other asset classes, the market had fully recovered by afternoon and finished the week on a solid note. The S&P/LSTA Leveraged Loan Index (the "Index") returned 0.02%, while the average bid for loans declined by 11 bps, 96.82.

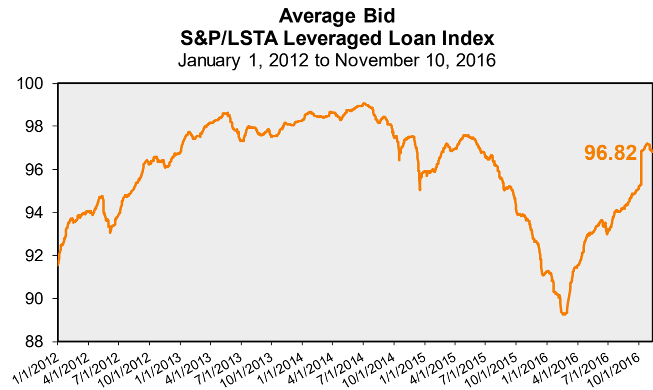
- Arrangers set back to work immediately after the election-related drama settled. Net of the approximately $12.3 billion of anticipated repayments unassociated with the forward calendar, the level of net new supply poised to hit the market totals approximately $20.9 billion, up notably from last week's $14.2 billion. Nonetheless, we expect a slow paring down of the forward pipeline as the holidays begin to near, especially after a strong September and October that brought a combined $108 billion to market.

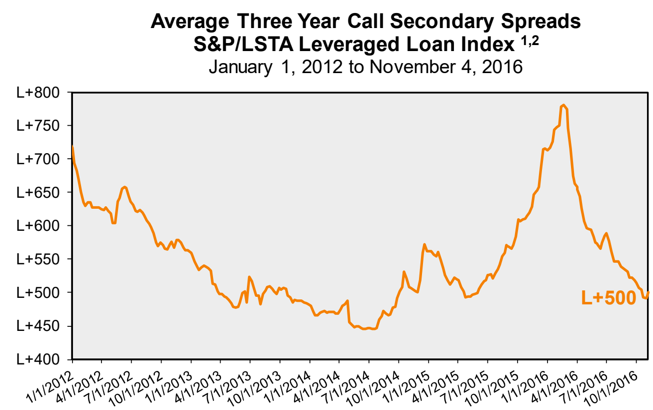
- The secondary market's activity this week largely mirrored the electoral calendar, with light movements on Monday and Tuesday and a non-reactive stance upon Wednesday morning's news. Quotes widened slightly in the immediate aftermath, but reverted to pre-outcome levels soon thereafter. Most Healthcare names did slip some, however, due to potential policy changes in that area. Separately, earnings news affected several credits early in the week, causing isolated price changes both up and down.

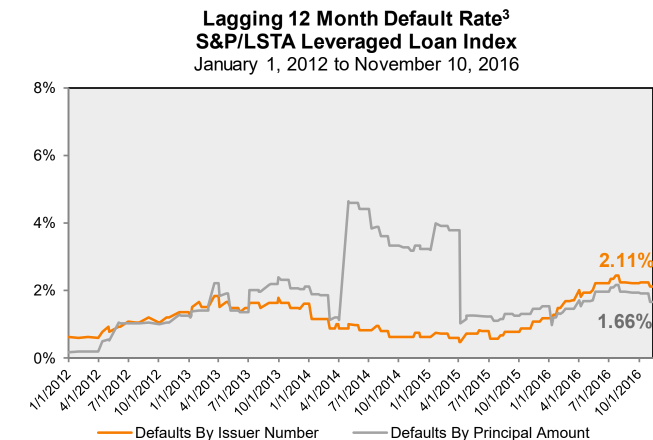
- Approximately $2.3 billion of CLO paper priced this week, bringing November and YTD issuance to $2.7 billion and $57.2 billion, respectively. Retail loan funds within the Lipper FMI universe experienced $114 million of inflows.

- Among ratings cohorts, CCCs gained 0.30%, though their average bid dropped by 67 bps, to 80.71. Single Bs were up 0.01%, and their bid declined to 97.28, a five bps move. BBs lost -0.04%, and their average bid decreased by 11 bps, to 96.82.

- There were no defaults in the Index this week. The default rate moved down to 1.66% by amount outstanding.







Portfolio Managers

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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.

October in Review

After a bustling fall debut the month prior, October demonstrated ongoing high activity for the U.S. loan market. The Index gained 0.83% in October after gaining 0.86% in September. Through October, the Index has returned 8.61% YTD, a striking comparison to the 1.25% YTD return at the same time in 2015 and the best gain for the first nine months of a year since 2009, when the Index was up 46.91%.

Returns for the month were primarily a function of a strong technical bid in the market, as demand outstripped primary issuance and pushed secondary loan prices higher. Although they still lag high yield bonds on a YTD basis, loans led the pack for the month relative to high yields (0.31%), corporates (-0.83%), equities (-1.82%) and Treasuries (-1.90%). Not surprisingly, credit quality was a primary determinant in the scope of gains last month, and lower-rated cohorts continued to outperform in the risk-on environment. BBs gained 0.30%, Single Bs gained 0.85%, CCCs reached a five month high at 3.43% (a majority of October's most sizeable gainers were names with this rating), and defaulted loans returned a whopping 4.90%, the biggest jump in more than six months. However, we note that while D-rated returns are consistently volatile, they now represent a mere 1% of the Index's total market value amount outstanding. With the removal of Texas Competitive Electric Holdings' pre-petition debt facilities from the Index, the amount of defaulted assets in the Index retreated from $35 billion to $13.3 billion.

October did see some moderate pick-up in new issuance with $42.1 billion of loans priced in the primary market, but with strong demand lifting bids, repayments also rose over the month to $33 billion, a four-month high. On a net basis, overall loan issuance remains slim, primarily due to a lack of significant M&A and LBO activity.

Demand for loans bested supply in October to the tune of $6.7 billion. October CLO issuance climbed to $8.4 billion, or 17 deals, which is the highest monthly figure since June 2015. This brings YTD issuance to $57.2 billion (120 deals), down from $86.6 billion (165 deals) in the same period last year. CLO refinancings and resets surged ahead of the upcoming risk retention effective date in late December. Refinancing volume excluding resets jumped to $4.8 billion in October, and resets alone constituted $3.6 billion, which was a record month for the combined volume. Although not enough to overtake the YTD net outflow of approximately $1.9 billion, retail loan funds posted their fourth straight month of inflows, adding approximately $2.1 billion in October.

Given the technically-driven rally, a little over one half of the performing Index is now bid at par or higher, which is the highest level since April 2015 and a 41% increase over this summer's post-Brexit lows. Further, 76% is bid at 99.00 or higher, which is a 22% increase over the end of June. As such, we continue to believe that the market value upside for the asset class remains limited in the near term; however the overall coupon remains reasonably attractive, driven by average credit spreads that – while compressing a bit due to repricing activity – remain comfortably above the long-term average, and more than sufficient to offset the reasonably limited default activity that appears to be on the horizon.

Although one default in October ended the two-month default free streak, increasing the default rate by issuer count slightly to 2.35%, the Index default rate by principal amount moved to a five-month low of 1.95%.

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 November 4, 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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