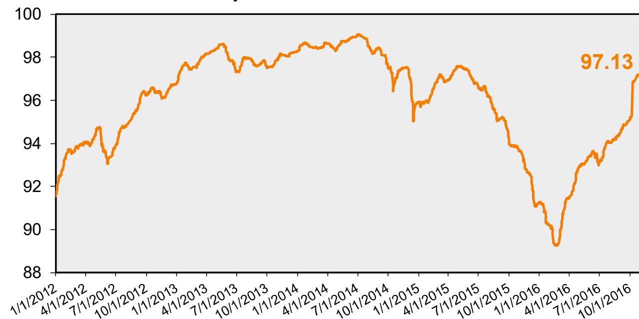
Voya Senior Loan Group

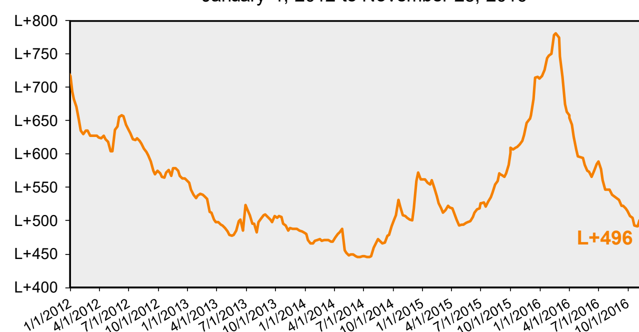
From Turkeys To Tinsel…With A Little Fed In Between

- The S&P/LSTA Leveraged Loan Index (the "Index") returned 0.22% this week, as the market sprung back to life after the U.S. Thanksgiving holiday lull. The average Index bid rose 13 bps on the week, to close at 97.13.
- The primary market closed out November and opened December with a mix of transactions, including several repricings and a few dividend recapitalizations. A respectable number of M&A-related deals also hit the wire, as issuers continue to take advantage of robust demand for loans in the face of pronounced bond market weakness.
- The secondary market trended upward with the support of block portfolio activity. This week, that activity was sizable, with OWICs (Offers Wanted In Competition, or a portfolio purchase) totaling over $1 billion and BWICs (Bids Wanted In Competition, or a portfolio sale) totaling just under $900 million. Additionally, there was no shortage of interest in energy-related loans following OPEC's decision to cut oil production, notwithstanding restructuring risk in this sector that remains, in general, quite elevated.
- As noted, demand remains healthy. This week saw nearly $4.5 billion in new CLO issuance, while S&P/LCD estimated (for the five business days ended Nov. 29) retail loan fund inflows of $464 million (Lipper FMI universe).
- Not surprisingly, given the late November surge in risk appetite, CCCs led the ratings cohorts, gaining 0.87%, followed by single B loans with a return of 0.23%. BBs modestly trailed the broad Index with a return of 0.15%.
- There were no defaults in the Index this week. The default rate remains unchanged at 1.66% by amount outstanding.
- As the calendar slips into the final stages of the year, and with the major holidays directly ahead, we do expect the typical seasonal patterns to develop; i.e., a flurry of activity giving way to a "silent night." In the middle, however, is the December FOMC meeting, the outcome of which could have material implications for capital markets globally, including loans.

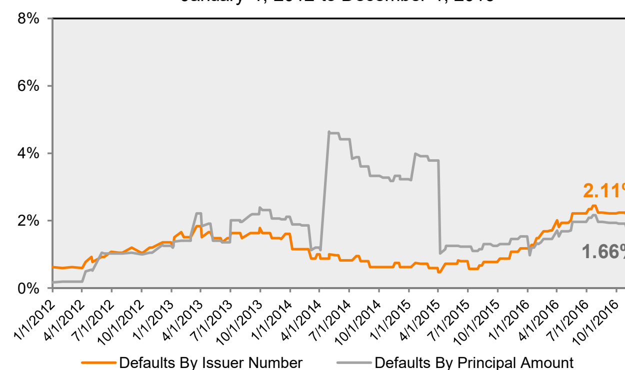
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to December 1, 2016



Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to November 25, 2016



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



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.

November in Review

Though more subdued in relative terms than September and October, and below the YTD monthly average Index return of 0.63%, November's 0.26% return marked another positive month and brought the YTD return to a strong 8.90%.

After a shaky start to the month heading into the November 8 U.S. Presidential election, and a loss of 0.18% over the week ended November 4th, the loan market stabilized, posting gains for the rest of the month. As the market shook off some of the election uncertainty and turned up its risk appetite, lower rated loans and second liens outperformed better quality for the month. Second lien and CCC loans returned 0.85% and 0.58%, respectively, for the month, compared to first lien, single B and BB loans at 0.25%, 0.23% and 0.22%, respectively.

While still somewhat one-sided, market technicals moved toward a better balance as new issue supply increased, indicated by the growth in par amount outstanding for the Index of $11.6 billion over the month. On the demand side, retail loan funds recorded an inflow of $1.89 billion in November (per Lipper weekly reporters) and CLO issuance was a sizable $10.3 billion. Even with the very healthy inflows, demand only outpaced supply by a modest $1.3 billion, a notable decrease from October and September's respective $6 and $9 billion. In fact, November's new issuance volume placed fourth largest for the year, even with the hurdles of the election and the slowdown for the Thanksgiving holiday.

With respect to defaults, the loan market remained pretty quiet for the month. The default rate for the Index by principal amount eased to a nine-month low of 1.66% and to 2.11% by number of issuers.

Of course, what most investors are wondering, as we move into the final month of 2016, is how loans will fair longer-term under President-elect Trump's administration. Some optimism now seems to be building about the chance for stronger economic growth under a new government unimpaired by gridlock, given the Republican trifecta (White House, Senate and House of Representatives). We can still expect some volatility in the coming days as the President-elect provides detailed information about the new administration's priorities and policies on a variety of topics, including taxes, infrastructure spending, trade, energy, healthcare, etc. We believe the structural aspects of loans (position in the capital structure, ability to repay at par) in combination with a closing gap between LIBOR and the weighted average LIBOR floor (now under 10 bps) are all positive catalysts to support demand and help smooth some of the volatility other asset classes, such as HY, might experience in 2017 as economic, monetary and fiscal policies emerge.

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 25, 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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