Voya Senior Loan Group

Solid Gains

- Bank loans in the S&P/LSTA Leveraged Loan Index (the "Index") returned 0.26% in a week that delivered a boost in the forward pipeline and an uptick in refinancing activity. The average bid for loans was 98.46, which marked an 18 bps bump.

- After contracting to a level at which repayments outstripped supply by $10.61 billion, net new issue volume increased again, to $303 million, when factoring in anticipated repayments not associated with the forward calendar. Refinancing was up by 36%, to $5.5 billion, while the $3.9 billion of merger and acquisition transactions was lighter than last week's $7.7 billion. Yields to maturity are still moving up despite two months of active repricings. Some M&A deals have seen yields in the 7% range, while the Single B average increased from 5.05% to 5.23%.

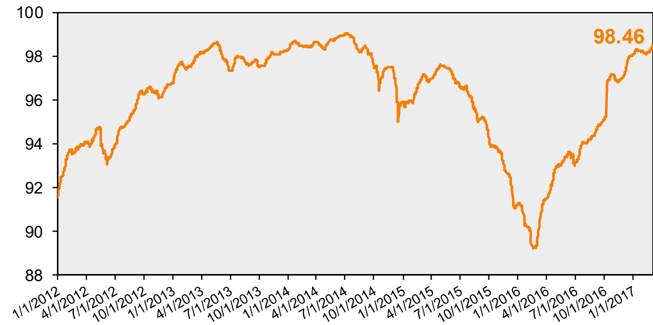
- Traders in the secondary market noted a better selection of buyers for loans this week, while earnings news made headlines for several prominent issuers, including Valeant and Weight Watchers. The average break price for first lien institutional issuances stands at 100.29% of par, which is a slight decrease from January's 100.49%. While the average break price has retreated from its start of year highs, it is still the third highest reading since January 2014.

- BBs gained 0.23% this week, and their average bid increased by 16 bps, to 100.39. Single Bs' bid average got a 14 bps bump, to 98.95, while the cohort itself returned 0.25%. CCCs gained 0.72%, and their 87.49 bid average was a 44 bps jump.

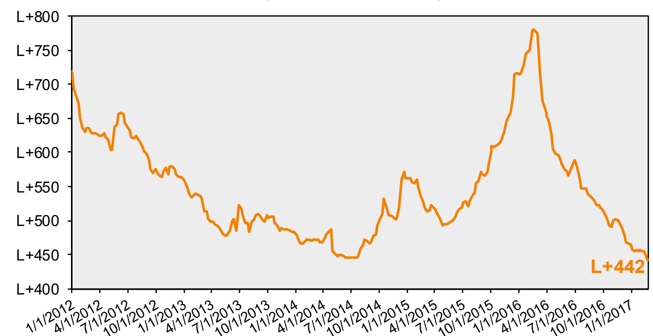
- Five CLOs priced this week, bringing 2017 issuance to $9.1 billion. Retail loan funds in the Lipper FMI universe received $1.14 billion of inflows, which caps a 16 week inflow streak for the space.

- There were no defaults in the Index this week. The default rate by amount outstanding is 1.41%.

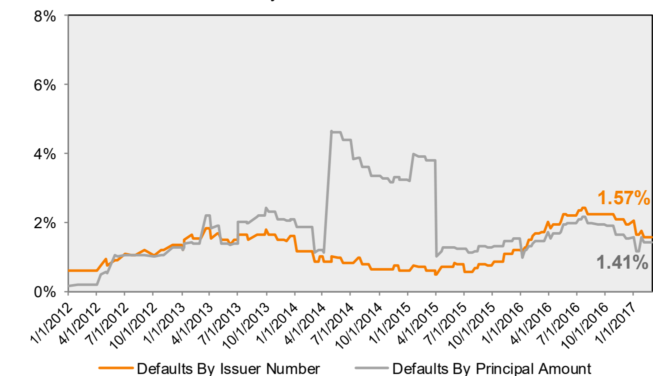
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to March 2, 2017



Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to February 24, 2017



Lagging 12 Month Default Rate[3]
S&P/LSTA Leveraged Loan Index
January 1, 2012 to March 2, 2017



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 32 investment professionals and 23 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.

February in Review

The Index gained 0.50% in February, bringing the YTD return for loans to 1.06%. The gain was down slightly from January's 0.56% and the 0.81% average monthly return over the past year. Nonetheless, U.S. loans have now enjoyed positive performance for twelve straight months, which is the longest run in the black since the year ending May 2013. This month's return was the third lowest after last June and November.

The recent shift into a lower gear was not unexpected. The surge of refinancing activity was bound to pull back, though opportunistic prints remained the most popular use of proceeds for the month. Issuance YTD is an impressive comparison against the same period last year: 2017's $112 billion volume is up 372% from 2016.

Since October, loan prices had been forecasted to hit a relative ceiling considering the high percentage of names trading close to par. At March's start, 72% of the Index's performing loans were trading at par or above, which is the highest percentage since January 2014. A leveling out of prices following a sustained upswing is in line with historical loan price trends. Still, the weighted average bid for the Index at month's end grew to 98.38, the highest such reading since September 2014.

Other than D-rated names, which sank into the red after a 3.80% return in January, loans across the below-investment grade spectrum performed well in February. BBs returned 0.39% and their average bid for the month was 100.33. Single Bs gained 0.44% and had an average bid of 98.85. CCCs' average bid was 87.30, and the cohort returned 2.09%. As compared to prior months, higher quality paper performed better than higher risk credit, which lagged from their late 2016 highs.

Demand for loans remains higher than current supply, with an imbalance of $8.1 billion, down from January's $14.1 billion but about on par with December's $7.6 billion. Healthy inflows to retail loan funds continued, while the CLO space, which saw a quiet start to the year with only two deals pricing in January, revved up again in February with 13 transactions pricing for a total of $7.1 billion (which is higher than the trailing twelve month average of $6.4 billion).

The loan market enters March with a strong positive bias. With the expectation of additional Fed rate hikes in 2017, including the potential for a March rate hike, investors are likely to continue allocating to loans based on their current relative value proposition.

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 February 24, 2017.]*

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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Voya Compliance Approval ID IM0303-31613-0318

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