Voya Senior Loan Group

No April Fool

- The loan market moved up in the first week of April, as the S&P/LSTA Leveraged Loan Index (the “Index”) returned 0.21%, and the average bid for loans increased by 12 bps to 98.28.

- Loan investors happily welcomed fresh supply in the primary market, as the combination of new LBO and corporate acquisition deals totaled $8.2 billion for the week. The net forward calendar – which represents all institutional loans in the pipeline minus any visible repayments associated with that pipeline – increased to nearly $17 billion, versus just under $15 billion last week. Once additional anticipated repayments not associated with the pipeline are deducted, the final figure of net new supply headed to the primary market drops off sharply, to $1.52 billion, but is notably up from last week’s negative net number of $1.72 billion. Importantly, the net figure is increasing, and the improvement in the number of LBO and acquisition deals in the mix is a positive sign.

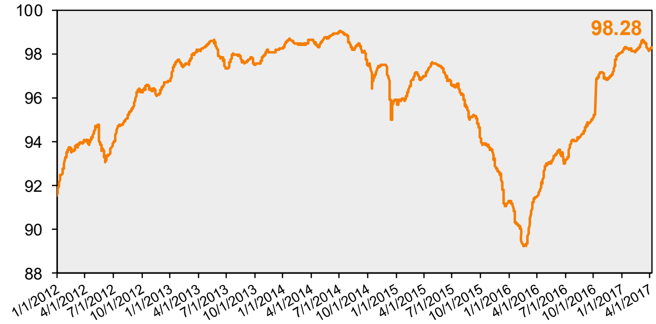
- Issuance in the CLO market continues apace, with another five CLOs totaling approximately $1.5 billion issued in the week ended April 5. This brings the YTD total to $19 billion. Additionally, weekly reporting loan mutual funds brought in an estimated $390 million in flows for the five business days ended April 5 (Lipper FMI).

- The secondary market also breathed some relief, as it moved away from the choppiness of recent weeks and market bids moved higher. The average bid of LCD’s flow name composite gained seven basis points over the week, finishing at 99.78%. Included in the week’s activity were a number of refinancing, repricing, M&A and Chapter 11 exit financing loans that broke to the secondary market this week.

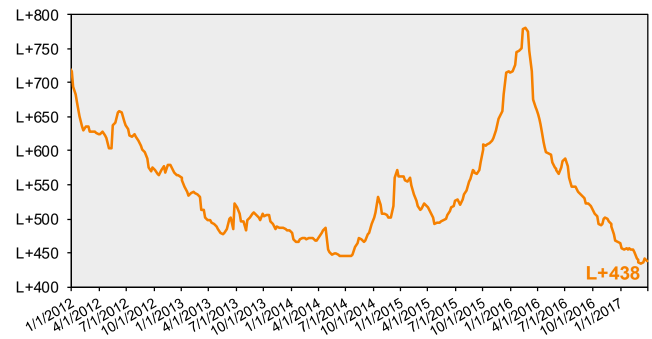
- The riskier loans in the Index climbed back on top, as CCCs posted a total return of 0.66%, driven by an 80 bps increase in the average bid price. Meanwhile, higher-rated credits hovered around the Index mark, with returns of 0.20% and 0.14% for single B and BB loans, respectively.

- There were two defaults in the Index this week (one of which resides within the embittered oil & gas subsector). The default rate by amount outstanding stands at 1.43%.

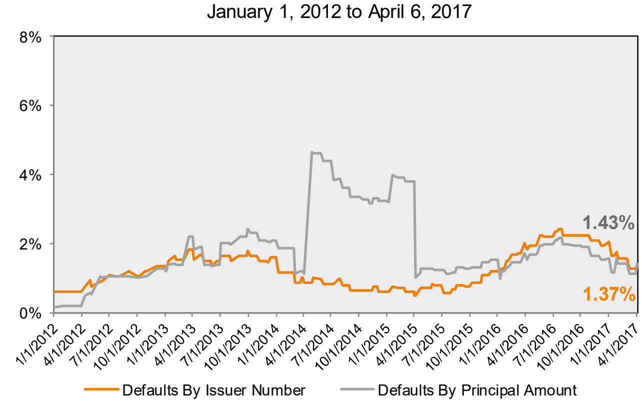
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to April 6, 2017



Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to March 31, 2017



Lagging 12 Month Default Rate[3]
S&P/LSTA Leveraged Loan Index
January 1, 2012 to April 6, 2017



Portfolio Managers

Dan Norman
Group Head

Jeff Bakalar
Group Head

INVESTMENT MANAGEMENT

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.

VOYA

March in Review

Running out of natural market value headroom, loan price returns were unsurprisingly tempered in the last month of the quarter, resulting in a 0.08% total return. This marks a 13-month positive return streak for the Index.

Returns across the below-investment grade rating spectrum were a bit muted in March. The leaderboard by ratings cohort shifted, with CCC loan market values cooling as risk appetite (and the stock market in general) dipped in the aftermath of investor uncertainty around the Trump Administration's agenda. Single B and BB loans were neck and neck with returns of 0.16% and 0.12%, respectively, while CCCs returned -0.43% after a nearly 150 bps decline in average bid price month-over-month.

After approximately $54 billion/87 transactions (the majority of them repricing in nature) broke to the secondary market this month, the percentage of performing loans in the Index bid at par or higher slipped a bit, to 67%. This is now just below where the figure stood at the end of the year after peaking at 72% in February.

Digging deeper into the market technicals, loan demand continues to outpace issuance, but the institutional supply shortage was down to $7 billion in March. This follows deficits in January and February of approximately $11 billion and $14 billion, respectively, per LCD's calculation of loan fund inflows and CLO issuance netted against the net change in outstandings tracked by the Index.

Finding its footing in the new Risk Retention regime, CLO issuance chugged along with $7.9 billion in new vehicles, slightly down from the prior month but still above the trailing 12-month average of $6.5 billion. Additionally, LCD's estimate of flows in March for loan funds stood at $4.6 billion.

The Index's default rate by amount outstanding ended March at 1.49%, up from February's 1.41%, after two issuers filed for bankruptcy protection.

Generally speaking, we believe that market value returns will continue to vacillate between flat and slightly negative in the near term, as refinancing activity continues to be a noticeable – albeit slowing – catalyst for spread compression and adjusted pricing. With investor demand not expected to retreat in the new rising rate environment, and with no material new issuance ramp up in the forecast, we believe the asset class as a whole should continue to provide positive, if not dramatically so, total returns. More importantly, we think that gross yields should hold steady until the next anticipated Fed rate lift.

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 March 31, 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.

Group Heads

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

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