

# Voya Senior Loan Group

## Clipping Along

- Despite strong market demand, an increase in primary market activity kept Index returns in check. The S&P/LSTA Leveraged Loan Index (the "Index") was flat for the week with a gain of 0.03%, based solely on interest carry, as the average bid slipped 3 basis points to end the week at 98.30.
- Volume in the primary market increased this week, with a welcome slate of M&A deals and relatively little in the way of refinancing activity. The overall gross new-issue volume in the market increased to \$17 billion, compared to just shy of \$6 billion last week. Additionally, net of all expected repayments, the amount of net new supply on the forward calendar doubled to \$20.6 billion from the \$10.4 billion reported last week's figure.
- Retail loan funds reported an inflow of \$435 million for the week (per Lipper weekly reporters only). CLO issuance picked back up with four new deals totaling \$2.2 billion.
- Returns by ratings cohorts were mixed, with no standouts for the week as bid prices in most cases have run out of room to advance. BBs fell in line with the Index with a return of 0.03%, while single Bs gained 0.08%, and CCCs posted only a 0.01% increase.
- With demand continuing, trading in the secondary market was firm. Positive financial results led to gains for a handful of issuers in the recently challenged retail sector. Additionally, four BWICS (portfolios put out for sale on the secondary market) provided additional activity for investors.
- There was one default in the Index this week. The default rate by amount outstanding is 1.37%.

### Portfolio Managers



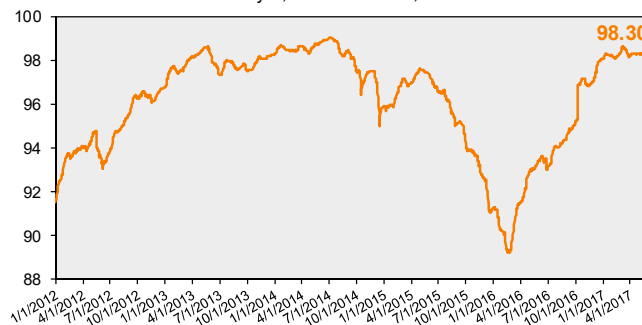
**Dan Norman**  
Group Head



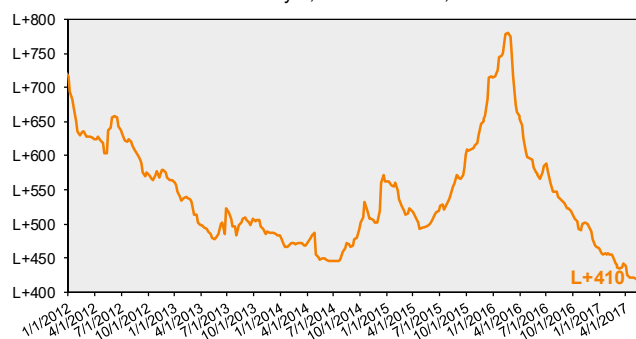
**Jeff Bakalar**  
Group Head

INVESTMENT MANAGEMENT

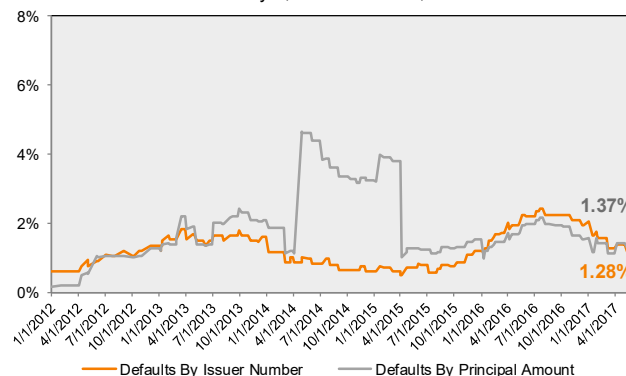
**Average Bid**  
**S&P/LSTA Leveraged Loan Index**  
January 1, 2012 to June 8, 2017



**Average Three Year Call Secondary Spreads**  
**S&P/LSTA Leveraged Loan Index** <sup>1,2</sup>  
January 1, 2012 to June 2, 2017



**Lagging 12 Month Default Rate**<sup>3</sup>  
**S&P/LSTA Leveraged Loan Index**  
January 1, 2012 to June 8, 2017



### 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.



## May in Review

The Index returned 0.37% in May, bringing the number of consecutive months of positive performance for the asset class to 15. With the upside for market values reaching its apex, May's return reflects interest carry only, as the market value return of the Index was -0.03% for the month. In 2016, the average monthly market value return was 40 bps, but with the vast majority of loans now at or near par, market value increases have contributed very little to the 2017 YTD coupon-clipping return of 1.96%.

May balked the 2017 trend of a demand bias in market technicals, finally reaching a sense of equilibrium with an estimated supply shortage, based on a comparison of the month's net change in loan outstanding versus the visible inflows of loan funds and CLO issuance, of only \$170 million. Further, repayments driven by refinancing activity dropped to \$9 billion, a six-month low. M&A activity, meanwhile, continued apace with \$21 billion in May following \$21.6 billion in April and \$17 billion in June.

\$9.8 billion of CLO issuance was posted in May, bringing the YTD figure to just over \$37 billion. While demand from loan funds remained positive for the month, the average inflow based on Lipper weekly reporters was under \$250 million per week, compared to an average of over \$400 million per week in April.

Returns remained a function of interest carry again this month, with distinctions between ratings reflective of only the higher coupons of the riskier cohorts. BBs and Single Bs returned 0.33% and 0.42%, while CCCs returned 0.96% for May.

Despite two defaults in the Index during the month, the Index's default rate by amount outstanding decreased to 1.29% by month's end versus 1.43% in April, remaining well below the long-term average default experience of 3.05%.

**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 June 2, 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 IM0609-35106-0618

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