Voya Perspectives Series | Talking Points | August 3, 2017

Voya Senior Loan Group

Anticipating an Active August

- The U.S. loan market this week had a busy and solid run amid a rush of new transactions representing both new money and opportunistic deals. The S&P/LSTA Leveraged Loan Index (the "Index") gained 0.13% as the average Index bid rose by six bps to end the week at 98.30.

- $23 billion of institutional volume brought plenty of activity to a primary market that remains eager for paper. Approximately 60% of that paper supported buyouts and other acquisitions, and the 14 repricing launches was double the number of similar deals from last week. Despite August's typically slower pace of issuance, the forward calendar continued to grow this week, with the amount of net new supply (net of all anticipated repayments) totaling about $22.15 billion, which was up from last week's net new supply of $19.33 billion.

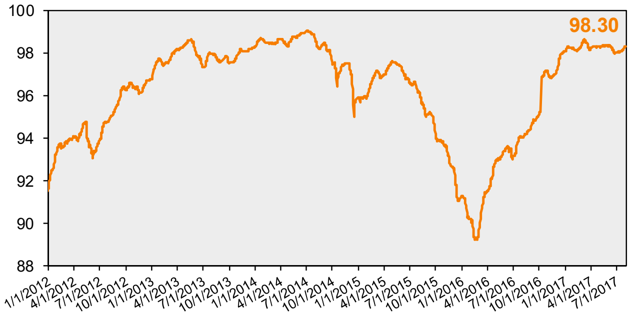
- Secondary trading remained reasonably robust as investors prepared for coming allocations springing from the late summer new issue push. Repayments in July were at a three-month high, signaling that market participants will have cash to put to work for loan purchases.

- The CLO space churned out deals at a healthy pace this week, with seven transactions pricing. August and YTD issuance presently stand at $1.6 billion and $62.0 billion, respectively. Retail loan funds experienced $309 million of outflows (Lipper FMI universe).

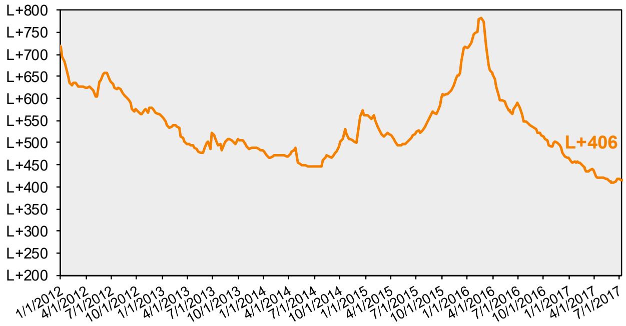
- Distressed credits continued their course correction and provided the highest returns during the week. CCCs were up 0.51%, and their average bid increased by 41 bps, to 85.25. Single Bs gained 0.14%, and their average bid of 99.11 saw a four bps increase. BBs returned 0.09%, and their average bid rose six bps, to 98.30.

- There were no defaults in the Index this week. The default rate by amount outstanding is 1.36%.

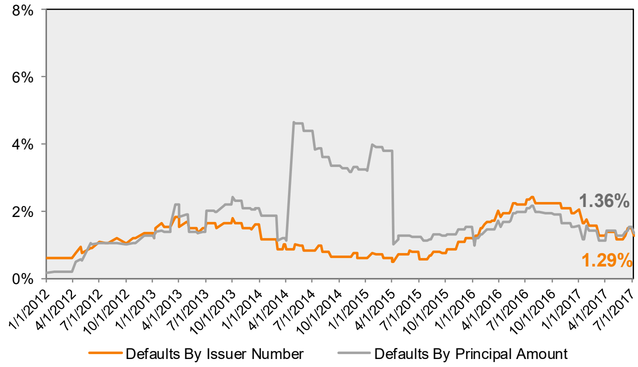
Average Bid
S&P/LSTA Leveraged Loan Index
January 1, 2012 to August 3, 2017



Average Three Year Call Secondary Spreads
S&P/LSTA Leveraged Loan Index [1,2]
January 1, 2012 to July 28, 2017



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



Portfolio Managers

Dan Norman
Group Head

Jeff Bakalar
Group Head

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 24 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.

INVESTMENT MANAGEMENT

VOYA

July in Review

The Index gained 0.69% for the month of July, representing the strongest monthly return of 2017 to date. Though June's 4 bps setback broke a 15-month streak of positive gains, the asset class returned an average of 0.32% per month in the first half of the year. Stronger trading in the secondary market advanced July's turnaround thanks to a moderation in new primary volume.

On average, bids maintained their upward trajectory during the month, advancing 27 bps, to 98.30. While that is down from 2017's high of 98.62 back in March, it is nonetheless 22 bps ahead of the closing mark for 2016. At July's end, 71% of performing loans in the Index were priced at par or above, which was up 12% from June. Loans trading at 101.00 or above constituted 7% of the Index, which was a 3% increase over the preceding month.

Monthly performance among non-investment grade rating cohorts improved across the board as compared to June. BBs gained 0.65% in July, which was up from June's 0.06%. Single Bs returned 0.72%, which was a 0.61% improvement from the month prior. CCCs, always the most idiosyncratic of the bunch, made quite a turnaround from a -1.46% return in June to 1.09% in July.

Despite the current fast pace of issuance, late August is a traditionally slower period for the asset class. A quieter market would probably encourage some arrangers from launching more new money transactions, with longer periods for syndication, until after the Labor Day holiday in the U.S. in early September. If so, the remainder of this month is likely to be dominated by opportunistic deals that could take advantage of expiring call protections on loans syndicated early in the year. But history has its outliers, and 2016's record-setting August volume may be instructive: MTD issuance this year is already $9.7 billion. On the whole, we anticipate market technicals to remain largely similar to July.

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 July 28, 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

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