Senior Loan Access through Closed-End Interval Fund

Key Takeaways

- In 3Q20, investor sentiment was buoyed by further improvement in macro and economic conditions, which led to another rally in broad risk markets. In turn, the U.S. loan market, as represented by the S&P/LSTA Leveraged Loan index (the “index”), returned a strong 4.14% for the quarter.
- Loan market technical factors were buoyed by a notable uptick in new loan supply.
- For the quarter, the Fund return outperformed the benchmark.

Current Strategy and Outlook

In 3Q20, investor sentiment was buoyed by further improvement in macro and economic conditions, which led to another rally in broad risk markets. In turn, the U.S. loan market, as represented by the index, returned a strong 4.14% for the quarter. The average bid price of the index finished the quarter at 93.18, up 331 basis points (bp) from the end of 2Q20. The upward movement in secondary prices had a disproportionate benefit to lower-rated segments of the market, as many of these loans, particularly those rated CCC, staged a strong technical recovery as overall downgrade activity slowed and the bear case COVID-19 outcome did not materialize.

As we head into the final stretch of the year, the primary focus will be centered around coronavirus and vaccine news and U.S. election results, both of which will have likely have strong influence over financial markets. As it pertains to the loan market, there will remain a heightened focus on credit selection amid the pandemic fallout, and loan investors will continue to assess the future ramifications of the coronavirus-related disruption and what the long-lasting impacts will be on the most-exposed industries and issuers.

Portfolio Review

Class I shares of the Fund outperformed the index return after deducting fees and operating expenses. The relative outperformance is largely attributable to the Fund’s use of leverage during a period of materially stronger loan bids (note that leverage typically magnifies returns, both to the downside and upside; additionally, the index does not include the use of leverage).

At the portfolio level, relative loan portfolio detractors slightly outweighed loan portfolio contributors. The primary relative detraction stemmed from the Fund’s selection in single-B loans. From an industry perspective, relative returns were weighed down by selection in the following sectors: business equipment and services, health care, leisure goods/activities/movies and building and development. The most notable loan laggard was an overweight to iQor (second lien facility), which defaulted during the period; other laggards included 24 Hour Fitness Worldwide, Inc. and American Airlines, Inc.

Conversely, the Fund benefited from price improvement in four of the Fund's defaulted issuers, namely, Tailored Brands (formerly known as Men's Wearhouse), Save-A-Lot, iQor...
(first lien facility; note the second lien was a significant detractor as mentioned above) and Covia Holdings Corporation (formerly known as Unimin Corporation). Other notable contributors included selection in the food and drug retailers and electronics and electrical sectors, selection and overweight to retailers (except food and drug) and selection and underweight to utilities.

The Fund experienced two defaults during the quarter (Tailored Brands and iQor), compared to 12 new defaults for the index. Diversification measures remain robust, with 32 industries and 298 individual issuers represented.

### Holdings Detail

Companies mentioned in this report – percentage of portfolio investments, as of 9/30/20: iQor (second lien facility) 0.03%, 24 Hour Fitness 0.20%, American Airlines 0.32%, Tailored Brands (formerly known as Men’s Wearhouse) 0.11%, Save-A-Lot 0.37%, Iqor (first lien facility) 0% and Covia Holdings Corporation (formerly known as Unimin Corporation) 0.34%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.
The S&P/LSTA Leveraged Loan Index is an unmanaged total return index that captures accrued interest, repayments, and market value changes. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. Investment Risks: The Fund invests primarily in below investment grade, floating rate senior loans (also known as “high yield” or “junk” instruments), which are subject to greater levels of liquidity, credit, and other risks than are investment grade instruments. There is a limited secondary market for floating rate loans, which may limit the Fund’s ability to sell a loan in a timely fashion or at a favorable price. If a loan is illiquid, the value of the loan may be negatively impacted and the manager may not be able to sell the loan in order to meet redemption needs or other portfolio cash requirements. The value of loans in the Fund could be negatively impacted by adverse economic or market conditions and by the failure of borrowers to repay principal or interest. A decrease in demand for loans may adversely affect the value of the Fund’s investments, causing the Fund’s net asset value to fall. Because of the limited market for floating rate senior loans, it may be difficult to value loans in the Fund on a daily basis. The actual price the Fund receives upon the sale of a loan could differ significantly from the value assigned to it in the Fund. The Fund may invest in foreign instruments, which may present increased market, liquidity, currency, interest rate, political, information, and other risks. These risks may be greater in the case of emerging market loans. Although interest rates for floating rate senior loans typically reset periodically, changes in market interest rates may impact the valuation of loans in the portfolio. In the case of early prepayment of loans in the Fund, the Fund may realize proceeds from the repayment that are less than the valuation assigned to the loan by the Fund. In the case of extensions of payment periods by borrowers on loans in the Fund, the valuation of the loans may be reduced. The Fund may also invest in other investment companies and will pay a proportional share of the expenses of the other investment company. Derivative Instruments: Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect which may increase the volatility of the Fund and reduce its returns. Other investment risks of the Fund include, but are not limited to: Equity Securities, Foreign Investments, High-Yield Securities, Leverage, Liquidity, Prepayment and Extension. Investors should consult the Fund’s prospectus and statement of additional information for a more detailed discussion of the Fund’s risks. An investment in the Fund is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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