Voya Floating Rate Fund

An Attractive Income Option for a Strategic Allocation

Strategy overview

Actively managed, ultra-short duration floating-rate income strategy that invests primarily in privately syndicated, below investment grade senior secured corporate loans.

Key takeaways

- For the quarter, the Morningstar® LSTA ® US Leveraged Loan Index (the Index) returned 2.46%.
- On a net asset value (NAV) basis, Class I shares of the Fund outperformed the Index.
- Looking ahead, we expect the technical backdrop to remain supportive in the loan market, as collateralized loan obligations (CLO) issuance continues at a strong clip, while retail demand has firmed recently given attractive yields offered by the asset class.

Portfolio review

Despite market volatility during 1Q24, the loan market remained resilient and outperformed both the high yield (HY) and investment grade bond markets. For the quarter, the Index returned 2.46%. The average bid price increased by 50 basis points (bp), finishing out the quarter at 96.73. Turning to the secondary market, lower-rated loans outperformed this quarter, as CCC rated loans posted strong gains of 5.17%, while single-B and double-B rated loans returned 2.45% and 2.00%, respectively.

Supply in the primary market surged, driven by a rally in secondary market prices and limited new issuance in the primary market, which created favorable conditions for opportunistic deals to launch. 1Q24 saw a robust repricing wave amounting to $151 billion. In addition, Leveraged commentary and data tracked $32.7 billion of extensions on outstanding loans in 1Q24. Overall, total institutional volume, excluding repricing and amendment activity, stood at $141 billion, with 61% tied to refinancings, totaling $86.1 billion.

CLO liability spread tightening in 1Q24 provided a much-needed boost to CLO issuance. This continues to be driven by further compression in AAA levels and continued demand from large money center banks in the United States and Japanese investors. The market continued to benefit from a significant number of CLO issuance, as the current year-to-date pace has surpassed expectations and is now tracking $48.8 billion across 106 new deals (up 45% from last year's volume). There was a notable increase in inflows into retail loan funds, as $2.9 billion entered the retail fund space during the quarter.

There were six defaults in the Index during the quarter as the trailing 12-month default rate by principal amount decreased to 1.14% (from 1.53% in December).

On a NAV basis, Class I shares of the Fund outperformed the Index. The Fund's primary relative contribution stemmed from the increased value of an existing equity position in Yak Mat (received as a result of a restructuring), as the company was acquired during the period. By ratings, selection in CCC rated loans contributed to the Fund's performance. This was mainly driven by the overweight allocation to 24 Hour Fitness Worldwide, Inc., which posted improved financial performance for the full year 2023 and gave a positive outlook for 2024. From an industry perspective, the main drivers were hotels, restaurants and leisure, media, and IT services. Conversely, selection in health care providers and services dragged performance. Away from loan-level performance, the Fund's modest exposure to HY bonds slightly impacted performance, as the HY bond market underperformed loans in 1Q24 (1.53% return for the Bloomberg U.S. Corporate High Yield Index).

Portfolio and positioning changes were both mostly minimal during the period. The number of individual names in the portfolio decreased from 394 to 350.

Current strategy and outlook

The macro outlook remains supportive, as U.S. growth is currently above trend coupled with a strong job market and rising real wages providing additional support to consumer spending. In addition, corporate balance sheets are generally in good shape, helping cushion any potential deceleration in growth. The markets will continue to monitor U.S. Federal Reserve policy, especially in light of the recently higher-than-expected inflation prints. While the timing of the first rate cut remains uncertain, the Fed's data-dependent stance should provide some flexibility in adjusting policy measures in response to evolving economic conditions.

Looking ahead, we expect the technical backdrop to remain supportive in the loan market, as CLO issuance continues at a strong clip, while retail demand has firmed recently given attractive yields offered by the asset class. Fundamental factors have held up better than expected (mainly among stronger rated issuers) with generally stable demand and improving margins. Sectoral themes and sub sector secular developments remain prominent and worth paying close attention to. Although default activity remains muted, we expect trailing averages to gradually increase through the balance of the year, as higher rates further weigh on the weaker issuers with the stressed pockets of the market exhibiting increased activity in liability management exercises and distressed exchanges. Therefore, we generally maintain previously held cautious sectoral views and up-in-quality positioning.

Holdings detail

Companies mentioned in this report-percentage of Fund investments, as of 3/31/2024: Yak Mat 1% and 24 Hour Fitness Worldwide 0.31%. 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subjected to change on a daily basis.

Disclaimer

The **Morningstar® LSTA ® US 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.**

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. **Past performance is no guarantee of future results.**

The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

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.

Performance Attribution: During the period from January 1, 2017 to July 31, 2020, an unaffiliated data provider, which is used by the Funds to identify individual senior loans and groups of senior loans that detracted from or contributed to portfolio performance on an absolute or relative basis (commonly known as “attribution analysis”), provided the Funds with inaccurate data. As a result, the attribution analysis used to explain and analyze a portfolio’s performance against a particular benchmark was inaccurate in some instances during the period. Importantly, the Funds’ actual performance information and performance comparison to their respective benchmark which appeared in various Fund commentaries during this period were correct and were not impacted by the inaccurate data. The data provider has identified and corrected the issue that caused the transmission of inaccurate information, and correct information is reflected in attribution analysis used in commentaries prepared after September 30, 2020.performance. Please call your benefits office for more information.

The Standard & Poor’s rating scale is as follows, from excellent (high grade) to poor (including default): AAA to D, with intermediate ratings offered at each level between AA and CCC. Anything lower than a BBB- rating is considered a non-investment grade or junk bond. Any security that is not rated by Standard & Poor’s is placed in the NR (Not Rated) category.

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