

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.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Funds' prospectus, or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read the prospectus carefully before investing.

Key Takeaways

- The S&P/LSTA Leveraged Loan index (the "index") returned 0.75% during the period, cementing an above-coupon full-year return of 5.20% in 2021
- The favorable technical factors that have underpinned the loan market for much of 2021 persisted in 4Q21, as record-breaking collateralized loan obligation (CLO) issuance continued against robust new issue origination
- For the quarter, the Fund return underperformed the index

Current Strategy and Outlook

The favorable technical factors that underpinned the loan market for much of 2021 persisted in 4Q21, as record-breaking CLO issuance continued against robust new issue origination. The index returned 0.75% during the period, cementing an above-coupon, full-year return of 5.20% in 2021. For the quarter, returns were a function of interest carry, i.e., yield; the market value component declined 26 basis points (bp) as a result of broad-based volatility in November due to the Covid-19 Omicron variant. The average index bid closed out the quarter at 98.64, up 2 bp from 3Q21 levels, and 244 bp from the start of 2021. Digging into 4Q21 ratings performance, the uptick in volatility led to some de-risking across ratings cohorts. As a result, CCC-rated loans trailed higher quality with a return of just 12 bp, as compared to single-B- and BB-rated loan returns of 0.85% and 0.68%, respectively. The full-year picture tells a different story, however, with a clear bias for risk evident amid the broad economic recovery. Total returns for CCC-, B- and BB-rated loans were 12.45%, 5.22% and 3.12%, respectively, over the year. Full-year sector performance also reflected a tilt towards higher-beta industries and Covid-19-impacted sectors, while the more defensive sectors generally lagged the index.

Institutional loan issuance remained robust, although with seasonal slowing during December. Full-year 2021 was marked by record-breaking new issue volume, driven by strong merger and acquisition (M&A) and leveraged buyout (LBO)-related activity. In fact, many volume records were set including the likes of M&A, sponsored deals and dividend re-capitalizations. In aggregate, loan arrangers syndicated roughly \$615 billion of new paper, 22% above the previous high of \$503 billion from 2017. The robust pace of new issue activity expanded the total size of the loan market to roughly \$1.34 trillion by index outstandings, a new milestone for the asset class. Propelling the strong appetite for new paper was robust demand from CLO managers, the dominant loan buyer base. Total volume of \$56.4 billion in 4Q21 set a new quarterly record, on the heels of sequential high-water marks set in 2Q21 and 3Q21. For the year, total CLO issuance amounted to \$187 billion, far exceeding the former record of \$129 billion from 2018. On the retail investor side, resilient interest in loans persisted all year with more than \$47 billion added to retail loan funds during the period, a notable reversal from 2020's net outflow of \$27 billion.

The loan market's default rate continued to fall in 4Q21, reaching 0.29% by principal amount. Two new issuer defaults were present during the quarter, bringing the full-year tally to just five defaulted loans. As a result, the current reading is only 15 bp off the all-time low for the asset class, as a healthy macro backdrop helped underpin credit fundamentals. We expect the low-default environment to continue in 2022, barring any exogenous shock. Factored into our expectation is an assumed base case of continued strong gross domestic product (GDP) growth, healthy credit fundamentals and a relatively small universe of existing distressed credits.

While relative to the beginning of 2021, the upside embedded within the macro environment is somewhat less constructive going into 2022, we believe it should still provide a supportive backdrop for risk assets. U.S. GDP growth is expected to remain above trend due to pent-up consumer demand for services, deployment of excess savings and the easing of pandemic-related effects on global supply chains. We think that inflation will understandably remain an overhang on markets, but is expected by many to moderate over the course of the year as supply chain issues abate. On the flip side, if the inflation baseline worsens significantly, central banks may be forced to accelerate tightening of monetary policy beyond what the markets can digest, which could negatively impact credit fundamentals, to a degree, via higher corporate borrowing costs. We believe that such a scenario would likely lead to bouts of volatility, particularity in longer-duration asset classes. We think that specific to floating-rate loans, the hawkish Federal Reserve (the "Fed") turn should provide a tailwind for the asset class with multiple Fed funds hikes currently messaged for the coming year.

Portfolio Review

The class I shares of the Fund underperformed the index, which reflects no cash allocation or fee expenses. The Fund's primary relative detractor resulted from an overweight to Diamond Sports Group, LLC within the radio and television sector. The market price of the loan came under pressure during the quarter after Diamond Sports Group reduced its full-year guidance, and parent company Sinclair Broadcast Group indicated that there was still no agreement with regards to the Dish TV relationship with the regional sports networks housed within Diamond Sports Group. On the other hand, the Fund's relative performance was boosted by selection among single-B-rated loans, and to a lesser extent, selection in BB- and CCC-rated loans. From an industry perspective, relative contributors included selection in electronics and electrical and forest products. An overweight to Yak Mat was the top issuer-level contributor. The company disclosed a potential sponsor equity injection to bolster near-term liquidity.

The Fund experienced two defaults during the quarter (GTT Communications, Inc. and Riverbed Technology, Inc.), as did the index (interest remains current on both loans). Diversification measures in the portfolio remain robust with 38 industries and 409 individual issuers represented at the end of the period.

Holdings Detail

Companies mentioned in this report – percentage of Fund investments, as of 12/31/21: Diamond Sports Group, LLC 0.43%, Yak Mat 0.53%, GTT Communications, Inc. 0.04% and Riverbed Technology, Inc. 0.15%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to change on a daily basis.

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 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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