Commentary | 1Q23

Voya Credit Income Fund

Access to a Broad Range of Credit Sectors through Closed-End Interval Fund

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

- Despite the uncertain environment, both the leveraged loan and the high yield (HY) bond markets performed strongly, although HY outperformed given the strong decline in government bond yields.
- Class I shares of the Fund outperformed the benchmark, the 50% Bloomberg High Yield Bond—2% Issuer Constrained Composite Index/ 50% Morningstar LSTA US Leveraged Loan Index (benchmark) on a net asset value (NAV) basis during the quarter.
- In the short term, we expect leveraged finance markets to remain impacted by myriad of macro developments, evolving Fed policy, inflation and payroll data, fallout from regional banks and tighter financial conditions, and most importantly — corporate fundamental factors, 1Q23 earnings and forward guidance.

Portfolio review

The financial markets were positive in the first quarter, but volatile as concerns over inflation and interest rates tugged asset prices up and down. Early in 1Q23, investor optimism regarding US Federal Reserve policy was underpinned by signs of falling inflation and weaker economic data. However, resilient economic data released in February diminished any hopes of a potential pause in a rate hikes, causing a sell-off in rates. In the final month of the quarter, financial markets came under pressure due to the failure of three regional US banks, with two being taken into receivership by the Federal Deposit Insurance Corporation (FDIC). The banking crisis had spread across the Atlantic, as Credit Suisse was acquired by UBS in a government-backed deal. These developments heightened recession concerns and worsened the outlook for lending, as rates rallied to end the quarter lower.

Despite the uncertain environment, both the leveraged loan and the high yield bond markets performed strongly, although high yield outperformed given the strong decline in government bond yields. Starting with the loan market, the Morningstar® LSTA ® US Leveraged Loan Index (loan index) returned 3.23% during the quarter. The average loan Index bid price increased by 94 bp to 93.38, primarily attributable to strong performance in the first two months of the quarter. By ratings, lower-rated loans outperformed higher quality in 1Q23, as BB, B and CCC rated loans returned 2.08%, 3.81% and 3.92%, respectively. In HY, the Bloomberg U.S. High Yield 2% Issuer Constrained Index (high yield Index) returned 3.57% for the period. Credit spreads for high yield bonds tightened meaningfully to start the quarter, widened post banking crisis, and remained inside of 4Q22 levels at the end of the quarter. On an option-adjusted spread (OAS) basis, spreads finished the period 14 bp tighter at 455 bp. The HY market produced positive returns across the credit stack, with BB rated bonds returning 3.44%, B-rated bonds returning 3.47% and CCC rated bonds returning 4.96%, represented by securities within the Index.

New-issue supply was relatively light in both markets given the difficult backdrop for new issuance, while investor demand was stronger in the loan market given persistent CLO bid. LCD reported institutional loan volume of roughly $50 billion during the quarter, while HY bond issuance was modestly lower at about $41 billion in aggregate across both secured and unsecured volumes. CLO issuance totaled a robust $33.6 billion in 1Q23, while measurable retail fund flows were negative in both markets.

Class I shares of the Fund outperformed the benchmark on a NAV basis. The Fund's allocation to loans and high yield bonds ended the quarter roughly evenly split across the two asset classes. Within the individual allocations, the loan allocation benefited selection in software and telecommunications. In the HY allocation, our positioning in the wireline space led performance, as an underweight in the sector coupled with credit selection contributed. Credit selection in media and entertainment and pharmaceuticals were also strong contributors, while the underweight in leisure and credit selection in cable and satellite both detracted from performance. Away from investment-level performance, the Fund's use of leverage helped boost returns given the increase in average loan and bond prices experienced during the period.

Current strategy and outlook

In the short term, we expect leveraged finance markets to remain impacted by myriad of macro developments, evolving Fed policy, inflation and payroll data, fallout from regional banks and tighter financial conditions, and most importantly — corporate fundamental factors, 1Q23 earnings and forward guidance. On the flip side, valuations appear reasonable and fundamental health of leveraged borrowers remains generally adequate. Nonetheless, we expect dispersion in performance among borrowers to continue and pockets of stress to emerge as the cycle matures. As a result, careful credit selection and monitoring continues to be warranted, as risks remain skewed to the downside.

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.**

Bloomberg U.S. High Yield 2% Issuer Constrained Index is an unmanaged index that covers U.S. corporate, fixed-rate, non-investment grade debt with at least one year to maturity and at least $150 million in par outstanding. Index weights for each issuer are capped at 2%.

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.

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.

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